

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 the Strategic Asset Allocation for 2018/19 be amended as set out in the report and the Investment Strategy Statement be revised accordingly.

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 December 2017**.

Fund Value and Asset Allocation

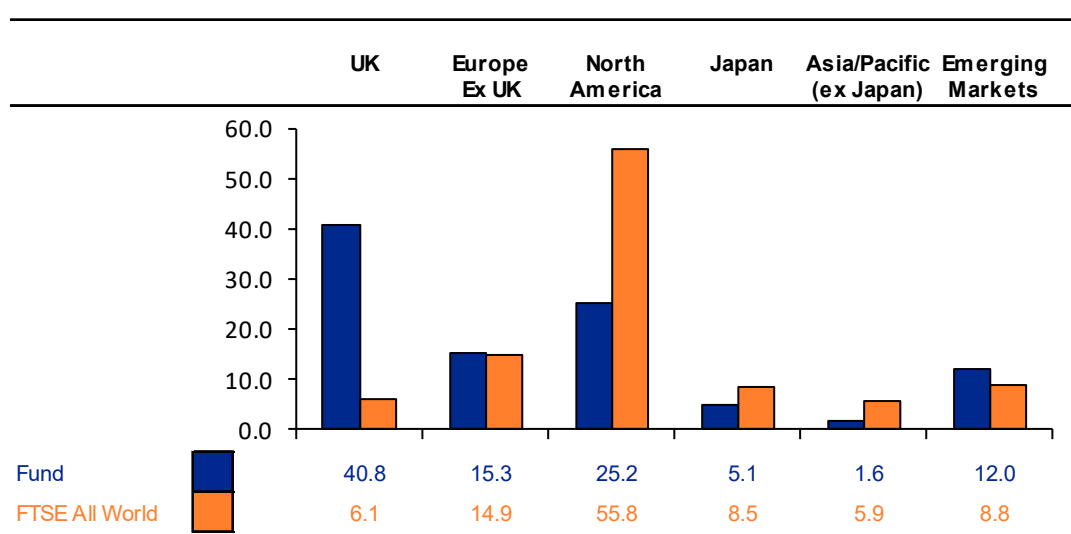
	Fund Value as at 31.12.17	Target allocation 2017/18	Fund asset allocation at 31.12.17	Variation from Target
	£m	%	%	%
Fixed Interest				
Global Bonds	215.0	6.0	5.1	
Multi-Sector Credit	222.6	6.0	5.3	
Cash	99.6	1.0	2.3	
	537.2	13.0	12.7	-0.3
Equities				
Passive Equities	1,873.4	43.0	44.4	
Active Global Equities	440.4	10.0	10.5	
Active Emerging Markets	191.2	5.0	4.5	
	2,505.0	58.0	59.4	+1.4
Alternatives/Other				
Diversified Growth Funds	613.4	15.0 *	14.5	
Property	382.1	10.0	9.1	
Infrastructure	153.0	4.0	3.6	
Private Debt	28.0	0.0 *	0.7	
	1,176.5	29.0	27.9	-1.1
Total Fund	4,218.7	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 December 2017 stood at £4,218.7 million, an increase of around £140m over the quarter, and £290 million since 31st March.

- 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.
- It is proposed that the strategic asset allocation for 2018/19 be 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 Investment Strategy Statement will then be revised to reflect the 2018/19 strategic asset allocation, with the medium term target allocation remaining the same.
- 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

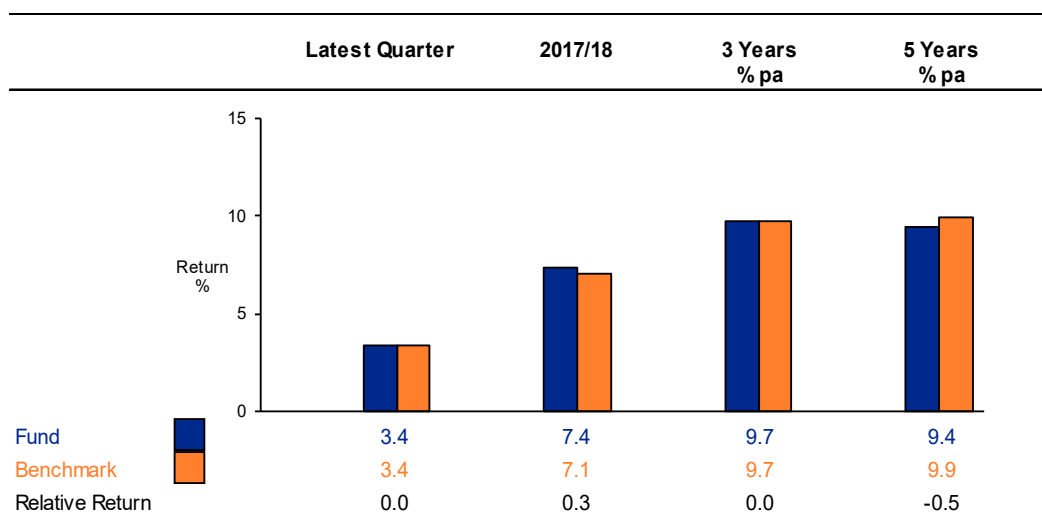


- The table shows that the Fund has an over-exposure to the UK and a significant under-exposure to North America compared to the world market. There is also a smaller under-exposure to Japan, while the exposure to Europe and the combined exposure to Asia/Pacific (ex Japan) and Emerging Markets is about 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 £51m has been moved to date, representing the minimum monthly sum agreed at the last meeting of the Committee. The trigger points that would prompt additional reallocations have not been hit.

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 to date has seen a return 0.3% above benchmark. The total absolute return was +7.4%, ahead of the Fund benchmark of +7.1%. The three year return is in line with the benchmark, but the longer term five year return remains below benchmark.

A breakdown of the performance of the Total Fund for the quarter **to 31 December 2017** and the comparative Index returns are shown in the following table:

Performance for the quarter to 31 December 2017

Sector	Fund Return	Benchmark	Benchmark Description
	%	%	
Global Bonds	0.0	-0.4	BarCap Global Bonds
Multi-Sector Credit	4.9	4.1	MSC Bespoke *
Cash	0.3	0.1	GBP 7 Day LIBID
Passive Equities	9.3	9.3	Devon Bespoke Passive Index
Active Global Equities	9.9	7.6	FTSE World
Active Emerging Markets	6.7	13.9	MSCI Emerging Markets
Diversified Growth Funds	5.4	3.0	Devon Multi Asset Benchmark
Property	8.9	8.0	IPD UK PPF All Balanced Funds
Infrastructure	3.3	3.9	GBP 7 Day LIBID+5%
Private Debt	-1.4	2.6	GBP 7 Day LIBID+5%

Total Fund	7.4	7.1	Devon Bespoke Index
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*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:

- The active global equity and fixed interest returns are above benchmark for the year to date, but the emerging markets equities mandate has significantly underperformed.

- Currency issues have again had an impact, with a weakening dollar reducing the value of the Fund's unhedged US exposure. This has had an adverse impact on the infrastructure return, and on the dynamic currency hedged passive US exposure. However the increase in the static hedged portion of the passive portfolio from 50% to 100% has protected the Fund to some extent. Conversely 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 diversified growth funds (DGFs) have outperformed their cash plus benchmarks at a time of modest positive returns in equity and 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. The private debt investments have only been made over the last six months, and returns will improve as income distributions are received.

3) BUDGET FORECAST MONITORING AND CASH MANAGEMENT

- Appendix 1 shows the actual to date and revised forecast for 2017/18 against the original budget forecast. There was a difference of **£12.3m** between contributions received and pension benefits paid out over the year to date. Deficit contributions due to be received over the last quarter should mean that the gap will not grow further over the remainder of the financial year.
- 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 the gap between pension benefits payments paid and the contributions received over the year to date. The remaining income is from the Fund's segregated equity and bond mandates and is reinvested by the fund managers.
- There is a small projected overspend on oversight and accounting as a result of the costs of the actuarial contract procurement. However, there will be an underspend on the costs of the Brunel pooling project, as it has now been agreed that a significant proportion of the costs incurred on the project will be met by the Brunel company as development costs and not be charged directly to clients. The high expenditure on actuarial services reflects costs over the quarter that will be recharged to employers, which will then reduce the net expenditure.
- At 31 January 2018 the unallocated cash on deposit amounted to **£46.9m**. This is summarised in the following table. 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 31/03/17	Average Interest Rate	Current as at 31/01/18	Average Interest Rate
		£m	%	£m	%
Call and Notice Accounts	Immediate	10.1	0.29	46.9	0.38
	6 Month Notice	10.0	0.80	0.0	
Term Deposits	<30 Days	10.0	0.45	0.0	
	>30 Days	20.0	0.60	0.0	
TOTAL		50.1	0.55	46.9	0.38

- (e) The weighted average rate being earned on cash deposits, as at 31 January 2018, was **0.38%**. 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.
- (f) The deposits in place during the year to date have fully complied with the Fund's Treasury Management and Investment Strategy for 2017/18.

4) 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 December 2017

Manager	Number of Meetings	Number of Resolutions	Votes against management recommendation
UBS	310	2,960	206
State Street Global Advisors	188	2,094	168
Aberdeen Asset Management	2	42	5
Specialist Funds (combined)	29	360	11

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) Appendix 2 details the voting alerts issued by LAPFF over the financial year to date, together with how the Fund's principal equity managers voted on the resolutions concerned. This demonstrates a general reluctance by fund managers and many asset owners to vote against any pay policies that have the potential not to deliver pay for performance. While companies have made changes to performance periods, setting acceptable minimum and maximum thresholds, or providing more disclosure, that have satisfied fund managers, LAPFF's view is that more fundamental changes are required to provide full realignment with financial performance and shareowner interests. However there has been more success in persuading the fund managers to support shareholder resolutions calling for more action to assess the risks associated with climate change. Further details of the rationale for the individual voting alerts can be supplied to members of the committee on request.
- (d) The latest LAPFF quarterly engagement report is attached at Appendix 3 to this report.

Mary Davis

Local Government Act 1972

List of Background Papers Nil

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Devon County Council Pension Fund Budget / Forecast 2017/18

	Actual 2016/17 £'000	Original Forecast 2017/18 £'000	Actual to Dec 17 £'000	Revised Forecast 2017/18 £'000	Variance from Original Forecast £'000
Contributions					
Employers	(123,163)	(127,000)	(91,362)	(127,000)	0
Members	(36,709)	(37,000)	(27,478)	(37,000)	0
Transfers in from other pension funds:	(8,205)	(6,000)	(4,550)	(6,000)	0
	(168,077)	(170,000)	(123,390)	(170,000)	0
Benefits					
Pensions	136,549	142,000	106,210	142,000	0
Commutation and lump sum retirement benefits	27,716	30,000	22,610	30,000	0
Lump sum death benefits	3,751	4,000	2,723	4,000	0
Payments to and on account of leavers	719	500	303	500	0
Payments for members joining state scheme	5,684	6,000	3,861	6,000	0
	174,419	182,500	135,707	182,500	0
Net Withdrawals from dealings with fund members	6,342	12,500	12,317	12,500	0
Investment Income					
Received as Cash	(23,276)	(24,000)	(16,840)	(24,000)	0
Reinvested by Fund Manager	(16,576)	(17,000)	(12,614)	(17,000)	0
	(39,852)	(41,000)	(29,454)	(41,000)	0
Administrative costs					
Peninsula Pensions	2,059	2,000	1,552	2,000	0
	2,059	2,000	1,552	2,000	0
Investment management expenses					
External investment management fees - invoiced	6,182	6,900	4,606	6,900	0
External investment management fees - not invoiced	4,343	4,400	2,603	4,400	0
Custody fees	107	115	72	115	0
Transaction costs	1,370	1,500	1,086	1,500	0
Reversal of accrual	(2,471)	0	0	0	0
Stock lending income & commission recapture	(109)	(100)	(54)	(100)	0
Other investment management expenses	50	50	0	50	0
	9,472	12,865	8,313	12,865	0
Oversight and governance costs					
Investment & Pension Fund Committee Support	92	95	58	95	0
Pension Board	26	27	22	27	0
Investment Oversight and Accounting	281	285	263	294	9
Brunel Pension Partnership	146	440	126	240	(200)
Legal Support	34	30	36	30	0
Actuarial Services	69	40	156	40	0
Investment Performance Measurement	38	0	0	0	0
Subscriptions	19	20	16	20	0
Internal Audit fees	22	14	0	14	0
External Audit fees	29	29	14	29	0
	755	980	692	789	(191)
Total Management Expenses	12,286	15,845	10,557	15,654	(191)

LAPFF Voting Alerts 2017-18 to 31 December 2017

Company	AGM Date	Target Resolution	LAPFF Recommendation	Voting Record			Outcome
				UBS	SSgA	Aberdeen	
Smith & Nephew plc	06-Apr-17	Approve the Remuneration Policy	Oppose	For	For	N/A	Approved (98.3% votes for)
Carillion plc	03-May-17	Approve the Remuneration Policy	Oppose	For	For	N/A	Approved (98.8% votes for)
GlaxoSmithKline plc	04-May-17	Approve the 2017 Remuneration Policy	Oppose	For	For	N/A	Approved (95.2% votes for)
BP plc	17-May-17	Approve the Remuneration Policy	For	For	For	N/A	Approved (97.3% votes for)
PPL	17-May-17	Climate change: 2 degree scenario analysis	For	For	Abstain	N/A	Approved (52.9% votes for)
Royal Dutch Shell plc	23-May-17	Approve the Remuneration Policy	For	For	For	For	Approved (93.2% votes for)
Enquest plc	25-May-17	To re-elect Mr Jock Lennox (Chair of the Nomination Committee) as a director of the company	Oppose	For	For	N/A	Approved (89.8% votes for)
ExxonMobil	31-May-17	Report on Impacts of Climate Change Policies	For	For	For	N/A	Approved (62.1% votes for)
WPP plc	07-Jun-17	Approve the Remuneration Policy	Oppose	For	For	N/A	Approved (79.2% votes for)
Babcock International Group plc	13-Jul-17	Approve the Remuneration Policy	Oppose	For	For	N/A	Approved (96.5% votes for)
Sports Direct International	06-Sep-17	1. Receive the Annual Report	Oppose	For	For	N/A	Approved (98.4% votes for)
		2. Approve the Remuneration Report	For	For	For	N/A	Approved (99.9% votes for)
		3. Re-elect Keith Hellawell	Oppose	For	Against	N/A	Approved (87.6% votes for)
		4. Re-elect Mike Ashley	Oppose	For	Against	N/A	Approved (94.4% votes for)
		5. Re-elect Simon Bentley	Oppose	Against	Against	N/A	Approved (87.8% votes for)
JD Wetherspoon plc	09-Nov-17	Approve the director's remuneration policy	For	For	For	N/A	Approved (95.1% votes for)
Sports Direct International EGM	13-Dec-17	1. To approve the extension of the guaranteed minimum value for eligible employees participating in the Company's share schemes to Karen Byers and Sean Nevitt	Oppose	Against	For	N/A	Not approved (65.9% votes against)
		2. To approve a proposed payment to John Ashley	Oppose	Against	Against	N/A	Not approved (70.7% votes against)

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

OCTOBER TO DECEMBER 2017



Management of
cybersecurity risk
explored with several
company chairs

LAPFF focusses on climate
risk during company
engagements

Employment and
remuneration practices
at Sports Direct raise
serious concern

Councillor Kieran Quinn



It is with great sadness that we relay the death of the LAPFF Chair, Councillor Kieran Quinn on Christmas day, 2017.

Kieran joined the LAPFF Executive Committee in 2012 when he became Chair of the Greater Manchester Pension Fund and chaired the Forum from the beginning of 2013.

During his time as chair, membership grew from 55 member funds to the current 72, many joining after a personal visit from Kieran. He was most recently working with the Executive Committee to take the Forum to its next level by incorporating asset pools into the LAPFF structure.

Kieran was involved in company engagement from the beginning of his time with LAPFF. Of the Forum's engagement approach, he told the FT in 2015 "there are no questions we are afraid to ask". He certainly put this into practice in all the company engagement meetings in which he participated. He was a prominent advocate of strong and active stewardship across the range of companies in which LAPFF member funds have holdings.

Always open to debate and honest and frank communication, Kieran met not only the chairs and directors of engagement companies, but regulators, union representatives, stakeholder bodies, investor groupings, member and pool representatives alike, and was equally skilled at negotiating positive outcomes with all.

He was instrumental in helping to establish the All Party Parliamentary Group on local authority pension funds, alongside progressing meetings with MPs and instigating regular party conference fringe meetings, all giving LAPFF a stronger voice at Westminster and in Whitehall.

Kieran was also an influential voice on the Local Government Pension Scheme (LGPS) Advisory Board where he represented the Metropolitan funds and chaired the Investment and Engagement Committee. On the Board he was a tireless advocate of the rights and responsibilities of Administering Authorities (Councils) and Councillors in their member roles on pensions committees and in the new asset pooling structures that began emerging in 2016. He contributed significantly to the development of changes to the LGPS, particularly on responsible investment strategies, and was widely respected across its community.

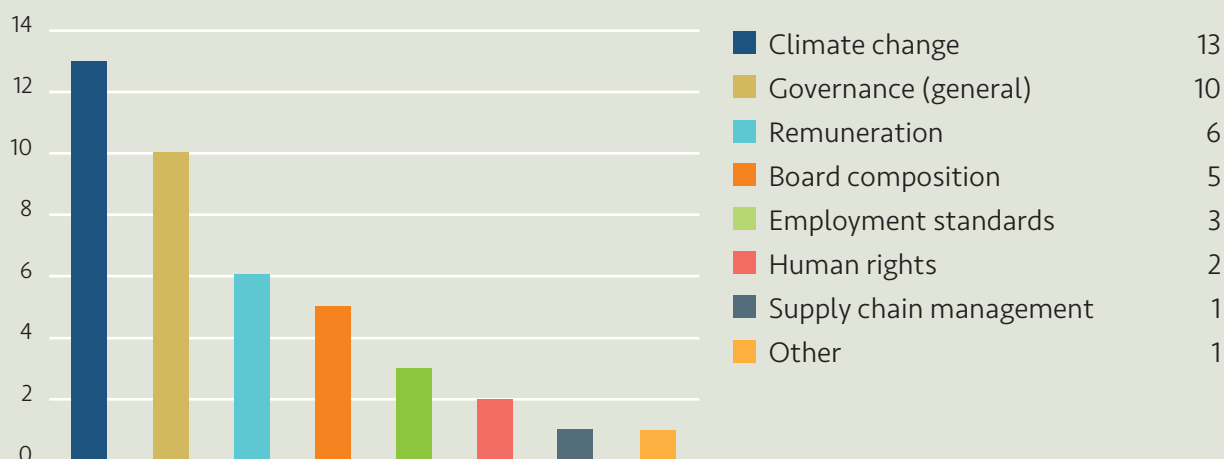
A shining star in the LGPS has gone out but what Kieran shaped and created will continue to burn in our hearts and minds and in the legacy he has left in LAPFF. He was a decent, thoughtful and principled man and will be sorely missed as a good friend and colleague. Our thoughts are with his wife Susan and their two boys.

Ian Greenwood
Vice Chair, LAPFF

Denise Le Gal
Vice Chair, LAPFF

Company Engagement

ENGAGEMENT TOPICS



GOVERNANCE RISK

Voting Alerts

LAPFF's engagement with **Sports Direct International** continued through correspondence over voting recommendations for an extra-ordinary general meeting in December. The Forum recommended a vote against a resolution to approve the extension of the guaranteed minimum value for eligible employees participating in the Company's share scheme to Karen Byers (Global Head of Operations) and Sean Nevitt (Global Head of Commercial) and a resolution to approve a proposed payment to John Ashley, Mike Ashley's brother.

The Forum was of the opinion that the Company's share scheme terms were not appropriate in the first place and therefore should not be extended to any further participants. The terms allow the potential for Executives to receive large awards concurrent with shareholders making a loss. Regarding John Ashley's proposed payment, LAPFF did not consider that sufficient evidence was provided as to why the payment should be approved, and the family relationship raised potential conflicts of interest, which were recognised by the Company itself ten years ago.

At the general meeting, Cllr Greening asked why the payment to John Ashley was being processed after a considerable amount of time had passed and enquired about the financial cost to the company of extending a guaranteed minimum payment to the two executives. At **Sport Direct's** half year financial review the following day, Cllr Greening noted the Company had proposed to repurchase £130m worth of shares and wondered why the money was not used for something else, stressing that back-pay was still owed to agency staff. Mr Ashley stopped Cllr Greening in the middle of his sentence and repeatedly



Mike Ashley

told him to stop talking. Cllr Greening attempted to ask his question again, but both Mr Ashley and Keith Hellawell refused engage in conversation about the payments.

The Forum also issued a voting alert in support of **JD Wetherspoon's** remuneration policy. During 2017, LAPFF identified companies with highest and lowest oppose votes on their remuneration reports in 2016 that held policy votes in 2017. JD Wetherspoon has had very strong support for both its remuneration report in 2016 (88%) and its remuneration policy in 2014 (99.7%).

The Forum supported the Company's decision not to introduce a long-term incentive plan, which is widely used by other UK companies, as well as the Company's policy not to allow for excessive pay-outs. Directors' annual bonus is capped at 45% of base salary, and an additional 5% can be awarded for carrying out a set number of calls to the Company's pubs. The Forum was pleased to see this unique performance metric being used as it is a good

example of stakeholder engagement that could help the Company to achieve operational efficiencies and good human capital management. While there were some concerns over special pension provisions for executive directors, upon engagement, the Company explained that such payments can only be realised after 25 years of service.



Remuneration

A successful meeting took place between Executive Rewards Director at **Diageo**, Leonie Clarke, and LAPFF Executive member, Cllr Paul Doughty. The Forum met with Diageo to gain further understanding of the Company's pay policy, in particular the stakeholder consultation process and how pay rates are determined. Cllr Doughty also asked about the Company's gender pay disclosure. The Company was welcoming and open to future meetings with LAPFF.

LAPFF attended the **Hargreaves Lansdown** AGM, and asked the Board about remuneration for the CEO, specifically awards given when he joined the Company. Faith Ward, who attended the AGM on behalf of LAPFF, also asked about the Company's plans to implement the findings of the Taskforce for Climate-Related Financial Disclosure (TCFD). The Company was receptive to LAPFF's views and is open to a follow up meeting on the TCFD.

Mergers & Acquisitions

LAPFF participated in a call with the Chairman of **AstraZeneca**, Leif Johansson to better understand the Company's approach to M&A. M&A is a common practice in the pharmaceutical industry, so it was helpful to hear AstraZeneca's approach and to compare its approach to the LAPFF Trustee Guide on M&A issued in 2016.

Cybersecurity

Reflecting growing member concerns on cybersecurity and data content, LAPFF has had a number of meetings with companies to probe their governance and risk management procedures on this issue.

At a meeting with the **WPP** chairman, Roberto Quarta, Deputy Chair Ian Greenwood asked about WPP's recent cyber-attack and the circumstances around it, the Company's position towards internet content problems,

such as inappropriate content and fake news, and how advertisers and their clients act to mitigate associated risks.

Ian Greenwood also met with **Prudential** Chair, Paul Manduca, to determine the likelihood of a cyberattack and understand the range of impacts a potential attack might have. As an insurance company, Prudential is at high risk of an attack and there is substantial threat to customer data. Mr Manduca provided further information on the Company's recent scenario analysis and Board training.

A number of issues were discussed with **IAG's** Chairman Antonio Vazquez Romero including a computer crash at British Airways which affected 75,000 passengers. Although the crash was not deemed to be related to a cyberattack, it exposed the Company's vulnerability to a possible cyber attack and possible fallout should such an attack take place.

Cllr Doug McMurdo of the LAPFF Executive member also discussed cybersecurity management with the Head of Data Governance at **Sainsbury**.



In order to underpin engagement, LAPFF has co-signed a letter to the UK National Cyber Security Centre (NCSC) from Prof Hoepner in support of targeted research on 'Supporting the Board: Managing Cyber Risks' to understand how directors make decisions about cyber security; how board responsibility is designated and what information and metrics board members use to assess risk and make judgements on the worth of security measures.

ENVIRONMENTAL AND CARBON RISK

LAPFF issued its [Climate Change Investment Policy Framework](#) in November, to help member funds in their policy approach to current and future investment risks and opportunities that result from the impacts of climate change. The framework provides guidance in terms of Governance, Investment Strategy, Risk Management and Metrics and Goals. A companion [document](#) provides practical guidance for considering climate risk in investment strategy for funds.

Continuing collaborative engagement, now with the IIGCC resolution sub-group, Cllr Toby Simon participated in the regular 'eight on eight' meeting with **BP**, where large shareholders and senior company executives explored progress on metrics and targets, both operational and strategic, and within the context of the Taskforce on Climate Related Financial Disclosure and the new remuneration policy.

A follow-up collaborative meeting with Matthew Bateson, the Global Practice Leader for Energy, Environment and Climate Change at **Rio Tinto**, had been proposed with a similar set-up. The company felt this would be more relevant in early 2018 and the meeting discussed progress with the scenarios and working on these possibilities with the businesses within the group.

BHP recently announced its intention to withdraw from the World Coal Association, an international lobbying group, by March 2018, due to its support for cleaner coal over renewables. The company also announced that it would review its membership of the Minerals Council of Australia (MCA). At the 2015 BHP AGM, LAPFF had asked whether the company would withdraw from the MCA and another trade association due to their negative stance on climate change.

Executive Member Cllr Toby Simon met with **OMV** Chief Executive, Rainer Seele, to discuss the board's approach to ensuring strategic resilience to climate change. Cllr Simon asked about the company's oil and gas planning assumptions and whether they included a downside scenario for prices. It is LAPFF's view based on the discussion that the Company is taking a prudent approach.

A collaborative conference call took place with the chair of the Governance committee of the **Southern Company**, organised by the 50 50 initiative. Jane Firth asked about the financial implications of having adequate Board climate competency.

SOCIAL RISK

Employment Standards

Although mergers and acquisitions were the main focus of a call with **AstraZeneca** Chair, Leif Johansson, employment standards were also raised in the context of the Company's global supply chain. LAPFF further discussed clinical trials with Mr Johansson.

Human Rights

LAPFF Executive member Jane Firth attended the **BHP Billiton** AGM in October, where she asked the Board about operational risks of joint ventures, specifically in relation to Samarco and Cerrejon projects. LAPFF was told that lessons had been learned from the Samarco tragedy. The Chairman also stated that more resources were added to the team to deal with the projects and emphasised that BHP will be complying with the ICMM Framework. However, the Board expressed their belief that the Samarco situation would have not been different were there a different approach to joint ventures and non-operated projects.

Ms Firth later spoke with the Vice President of Corporate Governance and Asset President of Joint Ventures to discuss the Company's process for entering and running joint ventures, as well as the Company's accountability structure. The Forum welcomed the company's openness in explaining how the joint ventures are structured and governed.



Diversity

LAPFF has engaged with a number of companies to promote greater board gender diversity including on a collaborative basis. Together with other members of the 30% Club Investor Group, LAPFF met with companies in the real estate sector to determine companies' initiatives to increase female representation. The Group is considering whether to publish a note about the engagements with the sector.

RELIABLE ACCOUNTS

LAPFF has continued to pursue problems in the setting of accounting standards, and has identified governance anomalies with the status of the regulator the Financial Reporting Council (FRC). Matters have now reached the attention of prominent Parliamentarians. At the December 2017 LAPFF Annual Conference, Baroness Bowles (Sharon Bowles) former MEP and chair of the European Parliament Economic Affairs Committee spoke at length and detail on some of the problems. During December 2017 LAPFF also became aware of further problems as a result of investigative journalist activity in this area, including Freedom of Information requests.

LAPFF has also engaged with the Department of Business, Enterprise and Industrial Strategy (BEIS) and has asked to be involved in the development of pre- and post-Brexit regulatory strategy and reform. Matters have reached a stage where more detail should be available to report later in 2018.

MEDIA COVERAGE

[Danish, UK pension funds tell corporates to improve tax reporting](#) – IPE, 1 November 2017

[News Roundup: climate change guidance](#) – Room 151, 16 November 2017

[EAPF leads climate-change push](#) – Top 1000 funds, 6 December 2017

[EU Parliament approves plan to dilute asset valuation rules](#) – IPE, 6 December

[Sports Direct shares yo-yo as profit plunge offset by Nike deal](#) – Telegraph, 14 December 2017



NETWORKS AND EVENTS

The following lists some of the events and meetings attended by LAPFF representatives during the quarter:

- Cllr Quinn, the LAPFF Chair, spoke on LAPFF engagement and promoted collaboration at a meeting with ShareAction.
- LAPFF Executive, Cllr Toby Simon, spoke at CDP's 201 UK results event and presented awards to leading companies in CDP's first UK company award ceremony.
- Attendance at CDP's Global Forest report launch to discuss engaging on deforestation-free supply chains and how financial institutions can enable the transition.
- Attendance at the Sports Direct Investors Roundtable to discuss the Company's half-year financial results.
- Participation in a Union Tesla meeting to receive update on the Tesla campaign and LAPFF's potential role.



CONSULTATION RESPONSES

LAPFF responded to the UK Listing Authority's consultation on creating a new premium listing category for sovereign controlled companies, detailing why the Forum considers that the Premium Listing category should not be modified to accommodate such issuers.

The Forum also responded to the FRC consultation on draft amendments to Guidance on the Strategic Report Non-financial reporting. The response emphasised that as an investor forum, LAPFF believes that robust rules, application and practice on accounting and financial reporting are essential to safeguard the interests of pension fund beneficiaries.



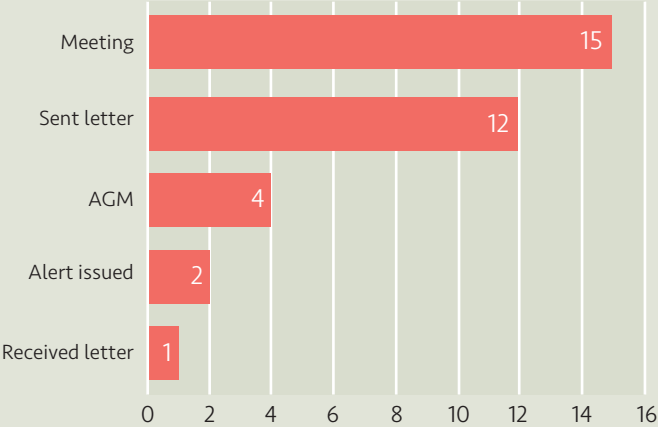
COMPANY PROGRESS REPORT

24 companies engaged over the quarter

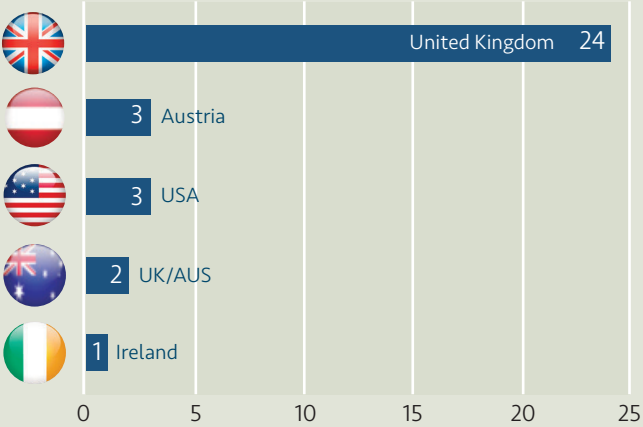
Q4 2017 ENGAGEMENT DATA			
Company	Topics	Activity	Outcome
Astrazeneca Plc	Remuneration/Supply Chain	Meeting	Dialogue
BP Plc	Climate Change	Meeting	Moderate Improvement
BHP Billiton Group (GBR) Plc	Governance (Accountability in joint ventures)/Climate Change/Human Rights	Meeting/AGM/Letter	Moderate Improvement
Cairn Energy Plc	Climate Change	Sent Letter	Awaiting Response
Diageo Plc	Remuneration/ Governance (diversity)	Meeting/ Letter	Small Improvement
General Motors Company Plc	Climate Change	Sent Letter	Dialogue
Hargreaves Lansdown Plc	Remuneration/Climate Change	AGM	Dialogue
International Consolidated Airline Group SA	Governance (Cybersecurity)/ Climate Change	Meeting	Satisfactory Response
JD Wetherspoon Plc	Remuneration	Alert Issued	Satisfactory Response
National Express Group Plc	Employment Standards	Sent Letter	Dialogue
OMV AG	Climate Change	Meeting/Letter	Moderate Improvement
Provident Financial Plc	Governance (Cybersecurity)	Letter/Letter Received	Dialogue
Prudential Plc	Governance (Cybersecurity)/ Board Composition	Meeting	Satisfactory Response
Rio Tinto Plc	Climate Change	Meeting	Change in Process
Ryanair Holdings Plc	Employment Standards	Sent Letter	Awaiting Response
Sainsbury Plc	Governance (Cybersecurity)	Meeting	Dialogue
SKY Plc	Audit Practices	AGM	Dialogue
Southern Company	Climate Change	Meeting	Small Improvement
Sports Direct International Plc	Employment Practices/ Remuneration	Meeting/AGM/ Alert Issued	No Improvement
Tesla Motors Inc	Climate Change	Sent Letter	Awaiting Response
Transco (National Grid)	Climate Change	Sent Letter	Dialogue
WPP Plc	Governance (Cybersecurity)	Meeting	Satisfactory Response

COMPANY ENGAGEMENT ACTIVITIES

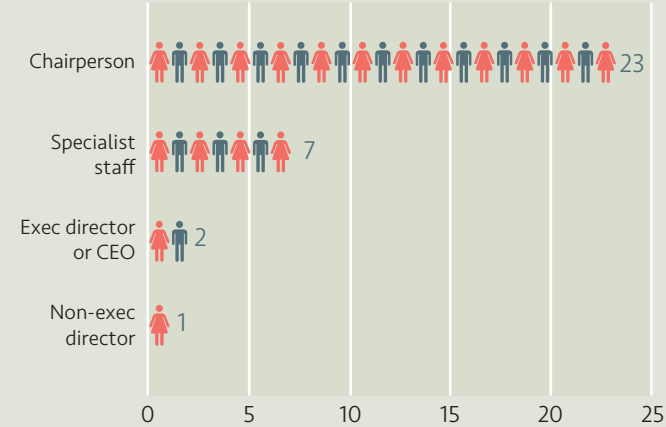
Company engagement activities



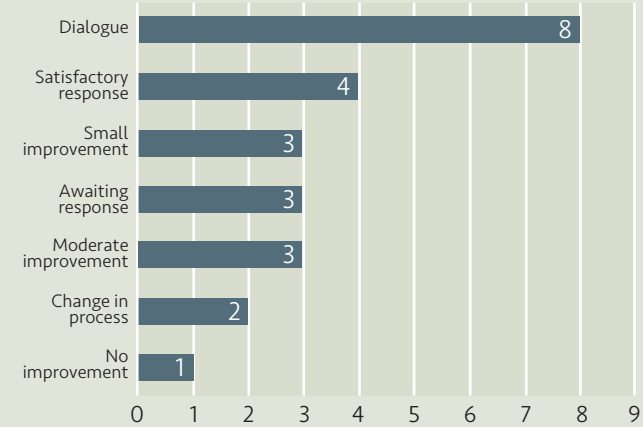
Company domiciles



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
- 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