CT/18/65
Investment & Pension Fund Committee
14 September 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 2018/19 Treasury Management Strategy.**

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 **30 June 2018**.

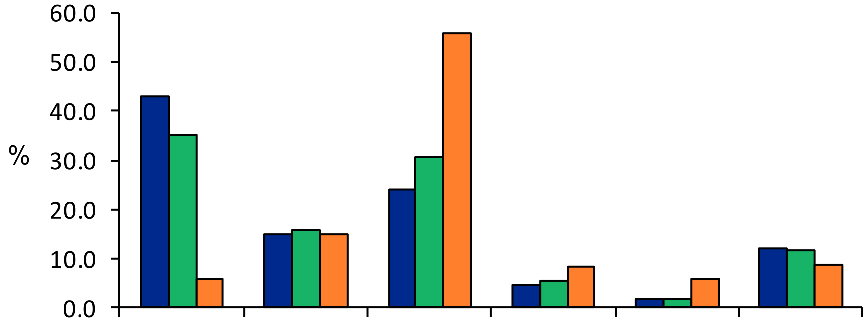
Fund Value and Asset Allocation

	Fund Value as at 30.6.18	Target allocation 2017/18	Fund asset allocation at 30.6.18	Variation from Target
	£m	%	%	%
Fixed Interest				
Global Bonds	226.4	6.0	5.3	
Multi-Sector Credit	219.8	6.0	5.2	
Cash	62.9	1.0	1.4	
	509.1	**13.0**	**11.9**	**-1.1**
Equities				
Passive Equities	1,893.6	43.0	44.7	
Active Global Equities	454.2	10.0	10.8	
Active Emerging Markets	176.6	5.0	4.2	
	2,524.4	**58.0**	**59.7**	**+1.7**
Alternatives/Other				
Diversified Growth Funds	609.4	13.0	14.4	
Property	396.1	10.0	9.3	
Infrastructure	157.1	4.0	3.7	
Private Debt	43.4	2.0	1.0	
	1,206.0	**29.0**	**28.4**	**-0.6**
Total Fund	**4,239.6**	**100.0**	**100.0**	

- The Fund value as at 30th June 2018 stood at £4,239.6 million, an increase of around £153m over the quarter.

- 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.

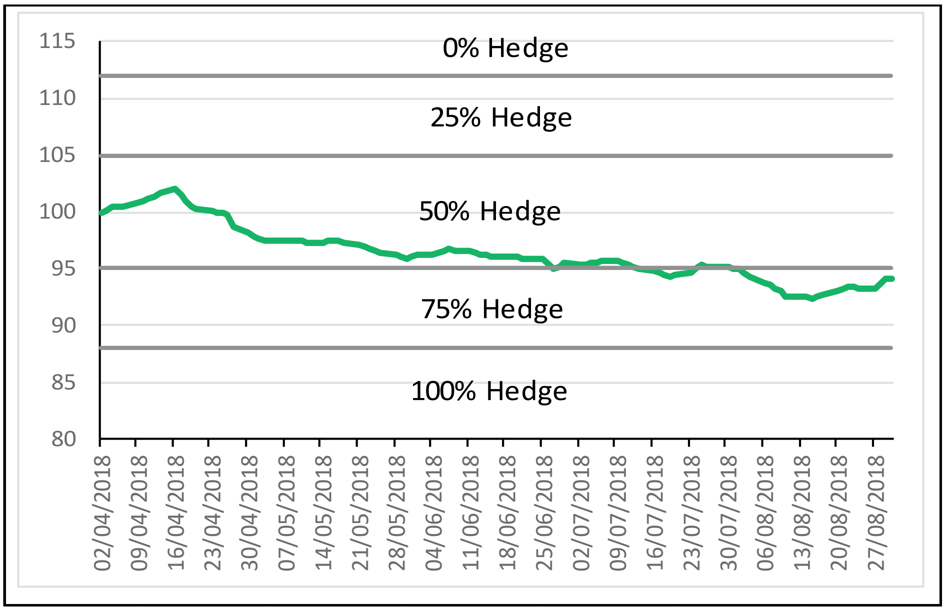
Geographical Split of Equity Allocation compared to the FTSE All World Index



	UK	Europe Ex UK	North America	Japan	Asia/Pacific (ex Japan)	Emerging Markets
Fund as at March 2017	42.8	15.0	23.9	4.6	1.7	12.0
Fund as at June 2018	35.1	15.7	30.5	5.6	1.6	11.5
FTSE All World	6.1	14.9	55.8	8.5	5.9	8.8

- 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. A total of £146 million had been moved by the end of June 2018, comprising the minimum monthly sum agreed, plus additional amounts transferred when the agreed trigger points were hit.
- No further amounts were transferred over the period when the passive assets were being transitioned from UBS/State Street to Brunel/LGIM, but a further £20 million was transferred from the Brunel UK passive equity portfolio to the Brunel developed world passive equity portfolio on 4th September.
- As agreed by the Committee the allocation to Brunel's passive developed world equity portfolio was initially 50% hedged to Sterling. However, in accordance with the currency hedging policy agreed at the last meeting of the Committee, as a result of further weakness in the value of the pound the trigger was hit to increase the hedge ratio to 75%. This is illustrated in the following chart which shows the value of Sterling against a weighted average of the US Dollar, Euro and Yen since 1st April 2018. The value of Sterling reduced from $1.40 against the pound at the beginning of April to $1.30 at the end of August. The increase in the hedge ratio was also implemented on 4th September.

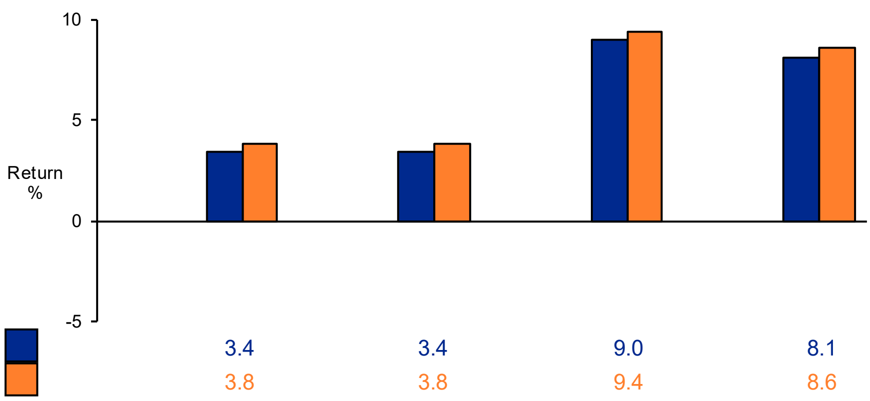
Value of Sterling v. Weighted Average of US Dollar, Euro and Yen



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



	Latest Quarter	2018/19	3 Years % pa	5 Years % pa
Fund	3.4	3.4	9.0	8.1
Benchmark	3.8	3.8	9.4	8.6
Relative Return	-0.4	-0.4	-0.4	-0.5

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 of 3.4%, which was 0.4% below benchmark. A breakdown of the performance of the Total Fund for the quarter **to 30 June 2018** and the comparative Index returns are shown in the following table:

Performance for the quarter to 30 June 2018

Sector	Fund Return	Benchmark	Benchmark Description
	%	%	
Global Bonds	1.0	1.0	BarCap Global Bonds
Multi-Sector Credit	-0.8	-1.5	MSC Bespoke *
Cash	1.2	0.1	GBP 7 Day LIBID
Passive Equities	6.3	6.6	Devon Bespoke Passive Index
Active Global Equities	5.1	7.2	FTSE World
Active Emerging Markets	-5.2	-2.1	MSCI Emerging Markets
Diversified Growth Funds	0.0	1.1	Devon Multi Asset Benchmark
Property	1.2	2.0	IPD UK PPF All Balanced Funds
Infrastructure	4.2	1.3	GBP 7 Day LIBID+5%
Private Debt	5.3	1.3	GBP 7 Day LIBID+5%
Total Fund	**3.4**	**3.8**	**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 quarter include:

- The active global and emerging markets equities mandates underperformed their benchmarks. This was again the major contributor to the below benchmark performance over the quarter.
- Global bonds produced a positive 1% return in line with the benchmark, while the multi-sector credit suffered a negative return, albeit above the reference benchmark.
- The diversified growth funds (DGFs) collectively performed below their cash plus benchmarks, while property also under-performed.
- The private debt returns were boosted by income distributions from both funds, and by currency gains on the US investment.

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 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, and estimated an updated funding level of 92%. The Actuary has done a further re-assessment of the position as at 30 June 2018. While it is not possible to assess the accuracy of the estimated liability as at 30 June 2018 without completing a full valuation, the results will be indicative of the underlying position.

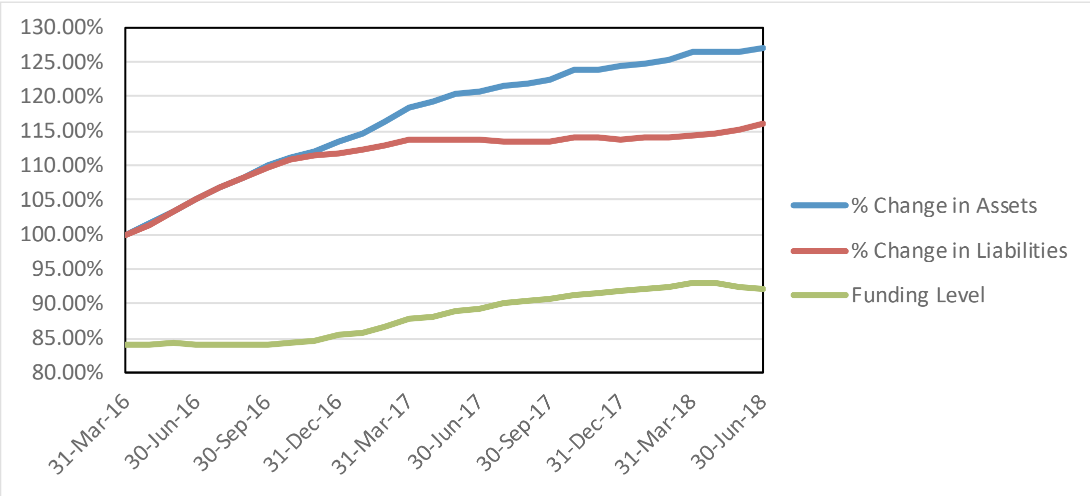
- Over the period since the 2016 Triennial Valuation, returns have been ahead of the required rate as shown in the following table:

Investment Returns since 2016 Triennial Actuarial Valuation

	Actuarial Assumption	Actual Return
2016/17	5.5%	18.0%
2017/18	5.5%	4.3%
2018/19 to date	1.4%	3.4%
Return since 31/3/16 (annualised)	**5.5%**	**11.3%**

- 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 June 2018



- The Actuary has estimated a funding level of **92%** as at 30 June 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 2018/19 against the original budget forecast.

(b) There was a difference of **£2.9m** between contributions received and pension benefits paid out over the quarter. This is broadly in line with the forecast for the year.

(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 quarter. The remaining income is from the Fund's segregated equity and bond mandates and is reinvested by the fund managers.

(d) There are no significant variances from the forecast for 2018/19 over the first quarter of the year.

(e) The following table shows that the unallocated cash on deposit at the quarter end was **£30.4m**, plus **$13.2m** held in US Dollars. As at 31 August 2018, the unallocated cash stood at **£34.0m**, plus **$15.1m** 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 30/06/18	Average Interest Rate	Current as at 31/08/18	Average Interest Rate
GBP Deposits		**£m**	**%**	**£m**	**%**
Call and Notice Accounts	Immediate	20.4	0.53	24.0	0.64
	6 Month Notice	10.0	0.97	10.0	0.97
Term Deposits	<30 Days	0.0		0.0	
	>30 Days	0.0		0.0	
TOTAL GBP		**30.4**	**0.67**	**34.0**	**0.74**
USD Deposits		**$m**	**%**	**$m**	**%**
Call and Notice Accounts	Immediate	13.2	1.9	15.1	2.04

(f) The weighted average rate being earned on GBP cash deposits, as at 30 June 2018, was **0.67%** and as at 31 August 2018 was **0.74%.** 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. There has been an increase in the rates achievable from money market funds following the Bank of England’s decision to raise the base rate to 0.75%. A higher rate is achievable on the US Dollars investment, but the return will also be impacted by changes in the exchange rate.

(g) The deposits in place during 2018/19 to date have 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 30 June 2018

Manager	Number of Meetings	Number of Resolutions	Votes against managemt recommnd'n
UBS	383	4,009	355
State Street Global Advisors	290	3,706	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) Appendix 2 details the voting alerts issued by LAPFF over the quarter to 30 June 2018, together with how the Fund's principal equity managers voted on the resolutions concerned. The Shell resolution highlights that engagement is often more effective in promoting change than voting. In not supporting the shareholder resolution, fund managers took into account extensive discussions with Shell, where the company demonstrated genuine commitment to the energy transition and to shifting its business over time towards a model that has a markedly lower carbon footprint. However, the hard and specific requirements of the shareholder resolution seemed not to allow the company to respond appropriately to commercial requirements, and our fund managers considered it was more appropriate to allow greater flexibility to enable the company to make the transition at a speed that retains value for shareholders. In contrast, a similar resolution at the Andarko AGM was supported by UBS and State Street, and by the majority of shareholders.

(d) The latest LAPFF quarterly engagement report is attached at Appendix 3 to this report.

Mary Davis

<u>Local Government Act 1972</u>
List of Background Papers Nil
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Tel No: (01392) 383621 Room G97

Appendix 1

Devon County Council Pension Fund Budget / Forecast 2018/19

	Actual 2017/18 £'000	Original Forecast 2018/19 £'000	Actual to Jun 18 £'000	Revised Forecast 2018/19 £'000	Variance from Original Forecast £'000
Contributions					
Employers	(131,149)	(134,000)	(34,424)	(134,000)	0
Members	(37,659)	(37,000)	(9,589)	(37,000)	0
Transfers in from other pension funds:	(6,481)	(6,000)	(2,134)	(6,000)	0
	(175,289)	(177,000)	(46,147)	(177,000)	0
Benefits					
Pensions	142,191	148,000	36,872	148,000	0
Commutation and lump sum retirement benefits	28,225	30,000	7,677	30,000	0
Lump sum death benefits	3,357	4,000	1,606	4,000	0
Payments to and on account of leavers	445	500	101	500	0
Payments for members joining state scheme	5,410	6,000	2,750	6,000	0
	179,628	188,500	49,006	188,500	0
Net Withdrawals from dealings with fund members	**4,339**	**11,500**	**2,859**	**11,500**	**0**
Investment Income					
Received as Cash	(28,441)	(29,000)	(4,701)	(29,000)	0
Reinvested by Fund Manager	(16,137)	(17,000)	(4,973)	(17,000)	0
	(44,578)	**(46,000)**	**(9,674)**	**(46,000)**	**0**
Administrative costs					
Peninsula Pensions	2,037	2,241	665	2,241	0
	2,037	**2,241**	**665**	**2,241**	**0**
Investment management expenses					
External investment management fees - invoiced	7,698	8,800	1,030	8,800	0
External investment management fees - not invoiced	6,242	5,500	1,303	5,500	0
Custody fees	160	160	7	160	0
Transaction costs	1,510	1,500	1,086	1,500	0
Reversal of accrual	0	0	0	0	0
Stock lending income & commission recapture	(77)	(100)	(54)	(100)	0
Other investment management expenses	30	50	0	50	0
	15,563	**15,910**	**3,372**	**15,910**	**0**
Oversight and governance costs					
Investment & Pension Fund Committee Support	93	100	41	100	0
Pension Board	29	31	6	31	0
Investment Oversight and Accounting	280	300	53	300	0
Brunel Pension Partnership	(94)	0	26	0	0
Legal Support	30	30	1	30	0
Actuarial Services	28	30	21	30	0
Investment Performance Measurement	60	60	0	60	0
Subscriptions	23	25	9	25	0
Internal Audit fees	13	24	0	24	0
External Audit fees	24	30	0	30	0
	486	**630**	**156**	**630**	**0**
Total Management Expenses	**18,086**	**18,781**	**4,193**	**18,781**	**0**

Appendix 2

LAPFF Voting Alerts

Company	AGM Date	Target Resolution	LAPFF Recommendation	Voting Record			Outcome
				UBS	SSgA	Aberdeen	
Rio Tinto	02-May-18	Special Resolution to amend our company's constitution	For	Against	Against	For	Not Approved (89.3% votes against)
		Ordinary Resolution on public policy advocacy and energy by relevant industry associations	Abstain	Abstain	Against	For	Not Approved (82.0% votes against)
Andarko Petroleum Corporation	15-May-18	Stockholder Proposal - Climate Change Risk Analysis	For	For	For	N/A	Approved (52.5% votes for)
Royal Dutch Shell	22-May-18	Special Resolution requesting Shell to set and publish targets aligned with the Paris Climate Agreement goal to limit global warming to well below 2°C.	Abstain	Abstain	Against	Against	Not Approved (94.5% votes against)
Chevron Corporation	30-May-18	Stockholder Proposal - Report on Transition to a Low Carbon Business Model	For	For	Against	N/A	Not Approved (91.9% votes against)
Tesla	05-Jun-18	Stockholder Proposal - Require that the Chair of the Board of Directors be an independent director	For	For	For	N/A	Not Approved (83.3% votes against)
		Stockholder Proposal - Proxy Access	For	For	For	N/A	Not Approved (74.3% votes against)
General Motors	12-Jun-18	Shareholder proposal regarding a report on greenhouse gas emissions and CAFE standards	For	For	Against	N/A	Not Approved (73.3% votes against)
WPP	13-Jun-18	Approve the Remuneration Report	Oppose	For	Abstain	N/A	Approved (72.8% votes for)

Appendix 3

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 76 public sector pension funds in the UK with combined assets of over £230 billion.

QUARTERLY ENGAGEMENT REPORT

APRIL TO JUNE 2018

Continuing concerns over board composition, performance targets and human capital management at Tesla Inc.

Climate-related voting alerts issued ahead of company AGMs, Anadarko resolution garners more than 50% support.

Growing criticism of the Financial Reporting Council and the announcement of the Kingman Review

Executive Summary

During the last quarter, LAPFF has engaged with 17 companies on issues ranging from climate change reporting to poor human capital management and board composition.

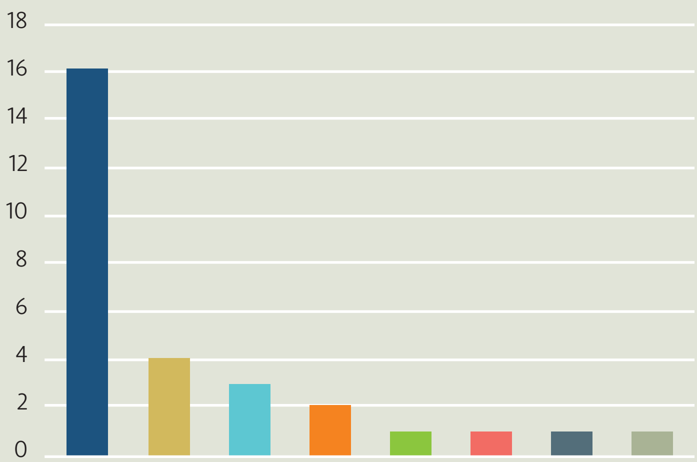
In this busy AGM season, the Forum has issued several climate related voting alerts at a range of oil and gas, mining and transport companies. These related to climate change risk analysis, alignment with the Paris Agreement goals, disclosure of public policy advocacy on energy and climate change and fuel efficiency standards. Other voting alerts covered remuneration, proxy access and support for appointing an independent Chairman.

Concerned over reports of poor human capital management, LAPFF engaged with Banco Santander on practices at its US subsidiary, as well as progressing engagement with Tesla Inc. A LAPFF executive member had a call with a Tesla representative to discuss a range of governance issues, including board composition, health and safety and employment standards. In addition, the Forum also organised a webinar to discuss the Company's most pivotal problems and issued voting advice to members.

LAPFF has substantially contributed to the debate on the future of the Financial Reporting Council (FRC). Following the announcement of the Kingman Review the LAPFF chair met with Sir John Kingman in May and put its view that the FRC should be disbanded. In June, the Kingman Inquiry issued a call for evidence, including an option that would result in the break-up of the FRC's functions and asking for structural solutions.

Company Engagement

ENGAGEMENT TOPICS



Climate change	16
Governance (general)	4
Employment standards	3
Environmental risk	2
Human rights	1
Other	1
Remuneration	1
Finance and accounting	1

GOVERNANCE RISK

In May, the Forum hosted a webinar *'What Next for Tesla? Human Capital Management and Sustainability'*, to discuss some of the more pressing concerns relating to the **Tesla** motor vehicle range and current production challenges. LAPFF Executive member Cllr Barney Crockett of North East Scotland Pension Fund chaired a panel consisting of a former Administrator of the Occupational Safety and Health Administration at Tesla, a current Tesla employee and representatives from Baillie Gifford and CtW Investment Group. A number of LAPFF members participated as well as UK and US-based asset owners and fund managers. The Webinar recording and presentations can be accessed here.

LAPFF attended a morning investor session with Rick Haythornthwaite, the Chair of **Centrica**, which set out the Board's approach to governance. The Senior Independent Director and Chair's of the Remuneration, Audit Committee and Health, Environment, Security and Ethics Committee also gave short presentations. In the question and answer session, LAPFF asked about the company's approach to employee-input at board level, and it was noted that despite pushback, employee engagement has been included as a performance indicator for remuneration.

The Forum has co-signed a letter to the **US Securities and Exchange Commission** (SEC) over new regulations that make it more difficult to file shareholder resolutions in the US. The letter sets out concerns, including that their staff's new analytical approach increases uncertainty and inefficiency, a new interpretation of micromanagement undermines investor engagement and a new approach to the applications of the rules encourages gamesmanship. A meeting is being sought to explore these concerns further.

Voting Alerts

The Forum has issued several voting alerts throughout the quarter on issues ranging from remuneration and board structure, to climate change reporting.

LAPFF advised a vote in favour of a shareholder proposal requesting **General Motors** to publish a report on greenhouse gas emissions and corporate average fuel economy standards. The Forum considers that the proposal would enable shareholders to more clearly understand how the company's fleet emissions will change as well as the company's approach to emissions reduction.

An alert was also issued recommending a vote in favour of a request for **Chevron Corporation** to publish a report on how it would transition to a low carbon business model. The vote was set in the context of the growing pressure for companies and economies to decrease carbon dependency and investors increasingly wanting to understand how Companies are planning to transition to a low carbon business model. The resolution garnered 8% support.

Similarly, ahead of the **Anadarko Petroleum Corporation** AGM, LAPFF recommended members to support a shareholder proposal seeking a climate change risk analysis and advised members to pre-declare voting intentions. The Forum considered that the current disclosure is insufficient as shareholders have very little information to assess the degree of carbon asset risk to the company and how it can address or reduce this risk. The resolution was supported by over 50% of shareholders.

A shareholder resolution was filed at the **Royal Dutch Shell** AGM requesting the Company to set and publish targets aligned with the goal to limit global warming. The resolution was filed prior to Shell's announcement of its Net Carbon Footprint Ambition which sets a marker for the oil and gas sector as a whole. However, considering that there is merit in a sharper focus on targets associated with implementation of the Paris Agreement, LAPFF advised members to abstain. For more information on this recommendation, please see the LAPFF position paper. The vote outcome was 5.54% in support.

A voting alert was also drafted for the **RioTinto Group** recommending members support an amendment to the company's constitution to allow for the filing of advisory shareholder resolutions at the Australian listed entity, and to abstain on a resolution seeking a review of the company's direct and indirect public policy advocacy on energy and climate change. The former received 10.7% support and the latter, 18%. LAPFF had communicated with the chairs of both Royal Dutch Shell and Rio Tinto prior to issuing the voting recommendations.

A voting alert was drafted ahead of **WPP**'s AGM recommending members oppose the remuneration report, owing to concerns over the quantum of pay to the former

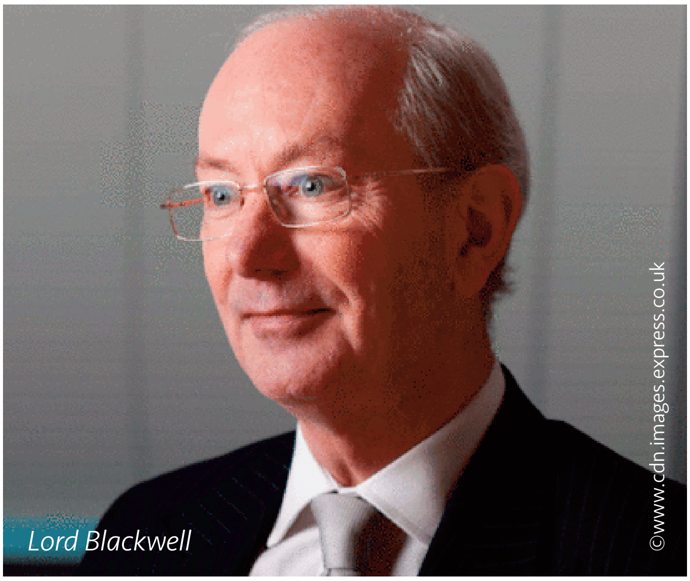
CEO, Martin Sorrell. Sir Martin is set to receive almost £20 million in pay-outs after stepping down as CEO in April 2018. The Forum also questioned whether Sir Martin's pay-out was reasonable in light of the allegations of breach. Nearly 30% of shareholders voted against the remuneration report.

The Forum also recommended voting in favour of two shareholder proposals at the **Tesla** AGM, on appointing an independent Chair and for proxy access. In LAPFF's view, the role of the Chair is distinct from that of the Chief Executive Officer and the two should not be held by the same person. Moreover, the combined role at Tesla is more problematic owing to the lack of independence across the Board and continuing concerns about performance targets and human capital management. The Forum considered that separating the current role of CEO and Chairman was in the best interest of shareholders. LAPFF also recommended voting in favour of proxy access as this improves shareholders' ability to nominate directors; an important consideration for Tesla, given the current Board classification does not allow for annual election of Directors.

Cllr McMurdo of the LAPFF executive committee had a call with a **Tesla** representative to seek assurance about governance practices mainly related to board composition, but also on health and safety and labour concerns. A request was made to meet the Senior Independent Director.

Finance and Accounting

LAPFF Acting Chair Cllr Ian Greenwood met with **Lloyds Banking Group**'s Chairman, Lord Blackwell, to discuss the International Financial Reporting Standards and the ongoing response to the HBOS Reading fraud issues. The meeting also covered cyber risk management, following the 2017 cyberattack that affected Lloyd's customers. The Chair stated that cyberattacks were a top priority and outlined in detail how the risk was being managed.



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Lord Blackwell

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ENVIRONMENTAL AND CARBON RISK

Through the 50 50 initiative, the Forum continued dialogue with **ExxonMobil Corporation** on succession planning and directors' qualifications, raising concerns that future directors may not be required to have climate-related knowledge. Clarification was also sought in relation to incorporating metrics of climate resiliency into executive compensation.

Correspondence was exchanged with the **Southern Company** around the company's recently issued climate change report, *'Planning for a Low-Carbon Future'*. The Board has committed to examining carbon reduction goals as an element of incentive compensation.

LAPFF also signed an Investor Statement on High Risk Drilling in Arctic Refuge flagging up concerns over financial, reputational and human rights risks to companies proposing to initiate oil and gas development in the region. Cllr Toby Simon continued engagement with **Anglo-American** by attending the AGM to ask whether the Company's 2030 carbon emissions goal is science-based, and, if not, whether the company would set a science-based target in the coming year. The Chair noted that Company's targets were science based for direct (scope 1 and 2) emissions and that they expect it to be shortly for indirect(scope 3) emissions. Other investor members of the Climate Action 100+ initiative also attended to ask questions, including a request for further disclosure on the Company's public policy advocacy.

LAPFF Executive member, Rodney Barton, met with Sir Peter Gershon, the chair of **National Grid** to ascertain the Board's climate resilience plans and overall approach to sustainability in light of the 'energy revolution'. Discussions ranged from the Company's gas and electricity business restructuring to adoption of the Task Force on Climate-related Financial Disclosure guidance. The Head of UK Regulation provided further information on stakeholder consultation and consumer preferences.

In a phone call with **BMW**, Jane Firth of the LAPFF Executive explored how the Company was reducing exposure to climate-related risk. This was seen largely through the prism of regulation driving reductions in emissions levels with the company developing an approach predicated on a tightening regulatory and tax environment. The Forum also probed BMW's strategy to manage risks related to disruptive technology, including electric and autonomous cars. There was a strong emphasis on protecting the Company's reputation by putting safety and driving experience ahead of being first to market.

LAPFF also participated in collaborative calls with Directors of Sustainability at **Ford Motor** and **General Motors** with one objective being to ensure that both companies take action to preserve the current US fuel economy and emissions standards which may be weakened and to disassociate themselves from the lobby group Alliance of Automobile Manufacturers' position on the standards and comments they have made on climate change.

At a meeting with Ian Davies, the chair of **Rolls-Royce**, Cllr Ian Greenwood, LAPFF's acting chair, discussed scope 3 emissions disclosure and climate-related scenario planning. The Company provided information on how they were planning to increase fuel efficiency and reduce carbon emissions of their products, including through technological advances and use of alternative fuels. The meeting also covered the Company's recently-announced reorganisation and historic bribery issues.

Cllr Doug McMurdo of the LAPFF Executive attended the **Unilever** AGM in May. He asked about the company's strategy for reduction of single use plastic, whether targets are set and what needs to be done at an industry level. The CEO, Paul Polman, noted that the aim was for products to be 100% to be reusable, recyclable or compostable and that they were in discussions on this with the UK government. Unilever has reduced packaging by 37% and have taken microbeads out of their packaging. Mr Polman noted that the challenge over the next 15-20 years was taking plastic reduction to a global scale and moving to a world without plastic packaging.

Cllr Greenwood also met with Rosalyn Schofield, a member of the **Adaptation Sub-Committee** (ASC) of the Committee on Climate Change. The ASC reports to Parliament every other year with an independent assessment of the plans and policies in place to manage the risks, and realise the opportunities, of the changing climate. The meeting discussed the ASC's latest report on the Government's National Adaptation Programme and what could be done to promote disclosure of climate risk by business.

SOCIAL RISK

Employment Standards
Owing to claims about poor workforce and lending practices in the US, the Forum followed up with **Banco Santander** to determine whether practices at the US subsidiary, Santander Consumer US, meet the standards across the group. The Forum continues to engage with the company on this matter.

Human Rights
Following an announcement about a 'blacklist' compiled by the UN Human Rights Council, LAPFF communicated with a number of companies that allegedly do business with, or operate 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. LAPFF met with the Group Corporate Affairs Director and other representatives of **G4S**, which has previously operated and retains at least one financial connection to the region to explore how risks are mitigated and whether an adequate human rights diligence process is in place. G4S considers human rights when assessing new investments and conducts specific inquiries into allegations. It was also noted that some contracts would not be renewed due to them being high risk.

Rachel Reeves MP

RELIABLE ACCOUNTS/CONSULTATION RESPONSES

LAPFF has been a substantial contributor to the debate on the future of the **Financial Reporting Council** (FRC). In April 2018 the Secretary of State announced that Sir John Kingman would be heading an independent review into the future of the FRC. LAPFF's acting chair met Sir John on 9 May, making the point that the FRC problems have reached the stage where it needs to be disbanded. Since the announcement, Baroness Bowles has tabled additional Parliamentary questions, bringing the total to 70, which covers subjects such as; how the FRC procured legal advice, the funding levy, the irregularities over its status as a public body and its not conforming to standards in public life, non-compliance with company law, conflicts of interest, issues regarding the inquiries into KPMG and HBOS, as well as issues with Carillion.

On 6 June, the Kingman Inquiry issued a call for evidence that now includes options that would result in the break-up of the FRC's functions and asks for structural solutions. There are some questions dealing with the more specific issue of the accounting standards regime (IFRS and UK-GAAP).

The LAPFF response to the FRC's Governance Code consultation earlier in the year, which referred to companies' culture, commented on issues with the FRC's own culture. The FRC Chair, Sir Win Bischoff, made public a letter critical of the LAPFF response. The report of the Joint Parliamentary Committee into the failure of Carillion has also raised the matter of the FRC's culture. On 22 May, the Co-Chairs of that Committee, Rachel Reeves MP and Frank Field MP wrote to Sir Win as follows.

"You will be aware that the Work and Pensions and Business, Energy and Industrial Strategy Committees published our joint report into Carillion on Wednesday 16 May. The report highlighted multiple serious concerns about the performance of the FRC. We stressed that, though additional powers would be useful, the FRC needed a "significant shift in culture" to perform as it should. We are therefore pleased that your review will encompass the culture of the FRC. Culture in an organisation is largely defined at the top. Can you therefore confirm that your review will consider whether the leadership of the FRC is equipped to effect the necessary change?"

LAPFF wrote to three FRC non-executive directors in June 2017 expressing concern about the FRC which led to a meeting with a number of them in November 2017. A written reply was finally received in April 2018 but with no movement of consequence in the FRC position. Some of the response is inconsistent with the position that the government has set out in answers to some of Baroness Bowles questions. A final reply to wind up the engagement has been sent.

MEDIA COVERAGE

West Midlands to divest from arms manufacturer – Pension Expert, 29 March 2018

Amid criticism, can trust in U.K. FRC be restored? – Compliance Week, 16 April 2018

Review of accounting watchdog to consider its closure – Financial Times, 6 June 2018

Former MEP says 'fatally flawed' FRC should be shut down – IPE, 15 June 2018

Financial Reporting Council unveils upsized investor advisory group – IPE, 26 June 2018

NETWORKS AND EVENTS

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

Climate Action 100+ Calls – The Forum participated in a number of conference calls on co-ordination of this initiative and ahead of AGMs including Arcellor-Mittal, Anglo-American, ExxonMobil, La-Farge Holcim and Rio Tinto where participants gave updates on engagement and on progress each Company has made.

30% Club Investor group meeting – The group initiative, of which LAPFF is a member, met to discuss how they can further support greater gender diversity on Company Boards, including targeting specific sectors and companies with poor records.

The Investor Agenda – LAPFF co-signed a statement on climate change, calling on governments to achieve the Paris Agreement's goals, accelerate private sector investment into low carbon transition and commit to improve climate-related financial reporting.

COMPANY PROGRESS REPORT

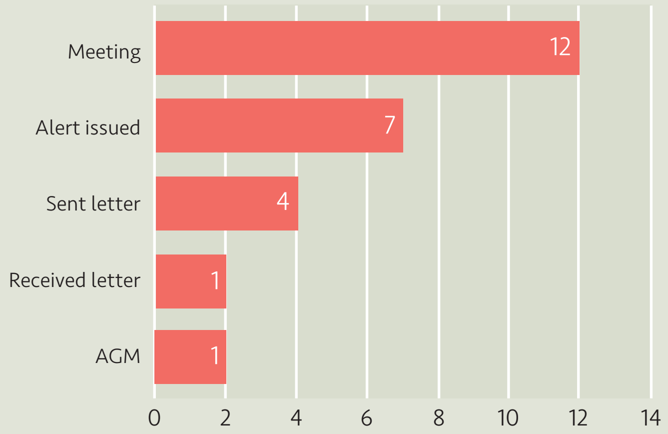
19 companies engaged over the quarter

Q1 2018 ENGAGEMENT DATA

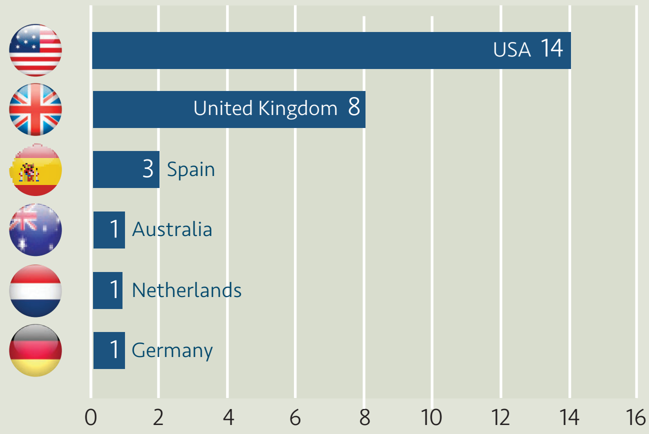
Company	Activity	Topic	Outcome
Anadarko Petroleum Corporation	Alert Issued	Climate Change	Substantial Improvement
Anglo American plc	AGM	Climate Change	Moderate Improvement
Banco Santander SA	Meeting	Employment Standards	Dialogue
Bayerische Motoren Werke AG	Meeting	Environmental Risk	Change in Process
Centrica plc	Meeting	Governance	Dialogue
Chevron Corporation	Alert Issued	Climate Change	Dialogue
Exxon Mobil Corporation	Letter	Climate Change	Dialogue
Ford Motor Company	Letter/Meeting	Climate Change	Dialogue
G4S plc	Meeting	Human Rights	Moderate Improvement
General Motors Company	Letter/Meeting/Alert Issued	Climate Change	Dialogue
Lloyds Banking Group plc	Meeting	Finance and Accounting	Moderate Improvement
National Grid plc	Meeting	Climate Change	Moderate Improvement
Rio Tinto Group (AUS)	Alert Issued	Climate Change	Dialogue
Rolls-Royce Holdings plc	Meeting	Climate Change	Satisfactory Response
Royal Dutch Shell plc	Alert Issued	Climate Change	Dialogue
Southern Company	Letter	Climate Change	Substantial Improvement
Tesla Inc.	Alert Issued/Meeting	Governance/ Employment Standards	Dialogue
Unilever plc	AGM	Environmental Risk	Satisfactory Response
WPP plc	Alert Issued	Remuneration	Dialogue

COMPANY ENGAGEMENT ACTIVITIES

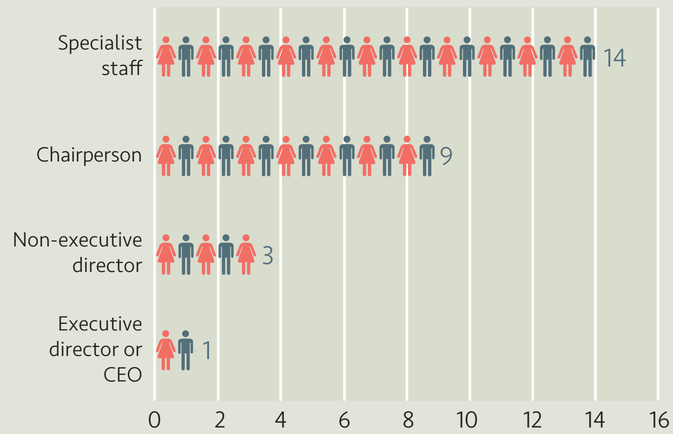
Company engagement activities



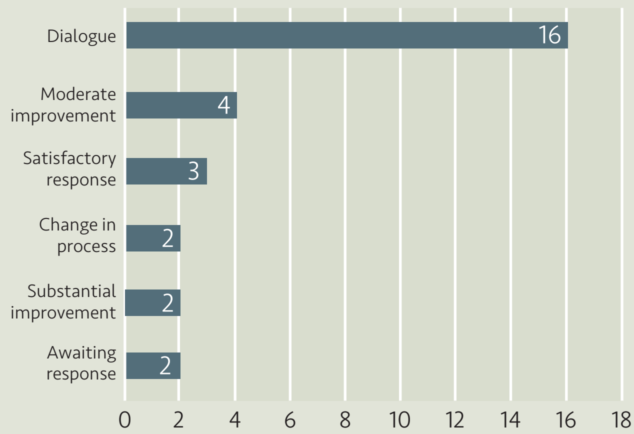
Company domiciles



Position engaged



Outcomes



LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

- Avon Pension Fund
- Barking and Dagenham LB
- Bedfordshire Pension Fund
- Border to Coast Pension Partnership
- Cambridgeshire Pension Fund
- Camden LB
- Cardiff and Vale of Glamorgan Pension Fund
- Cheshire Pension Fund
- City and County of Swansea Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Cornwall 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
- Hammersmith and Fulham 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 CIV
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Merton LB
- Newham LB
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire CC Pension Fund
- Northamptonshire CC
- Northern Pool
- Northumberland CC
- Nottinghamshire CC
- Oxfordshire Pension Fund
- Powys County Council Pension Fund
- Redbridge LB
- Rhondda Cynon Taf
- Shropshire Council
- Somerset CC
- 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 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