

## 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 minimum amount transferred from UK Passive to Global Passive be reduced to £10 million over the next quarter, with further sums to be transferred if the trigger points are hit, as agreed by the Committee in February 2018.
- (iii) 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 September 2018**.

#### Fund Value and Asset Allocation

	Fund Value as at 30.9.18	Target allocation 2018/19	Fund asset allocation at 30.9.18	Variation from Target
	£m	%	%	%
<b>Fixed Interest</b>				
Global Bonds	218.4	6.0	5.0	
Multi-Sector Credit	222.5	6.0	5.1	
Cash	84.8	1.0	2.0	
	<b>525.7</b>	<b>13.0</b>	<b>12.1</b>	<b>-0.9</b>
<b>Equities</b>				
Passive Equities	1,954.8	43.0	45.1	
Active Global Equities	463.3	10.0	10.7	
Active Emerging Markets	178.8	5.0	4.2	
	<b>2,596.9</b>	<b>58.0</b>	<b>60.0</b>	<b>+2.0</b>
<b>Alternatives/Other</b>				
Diversified Growth Funds	615.5	13.0	14.2	
Property	398.0	10.0	9.2	
Infrastructure	152.6	4.0	3.5	
Private Debt	43.9	2.0	1.0	
	<b>1,210.0</b>	<b>29.0</b>	<b>27.9</b>	<b>-1.1</b>
<b>Total Fund</b>	<b>4,332.6</b>	<b>100.0</b>	<b>100.0</b>	

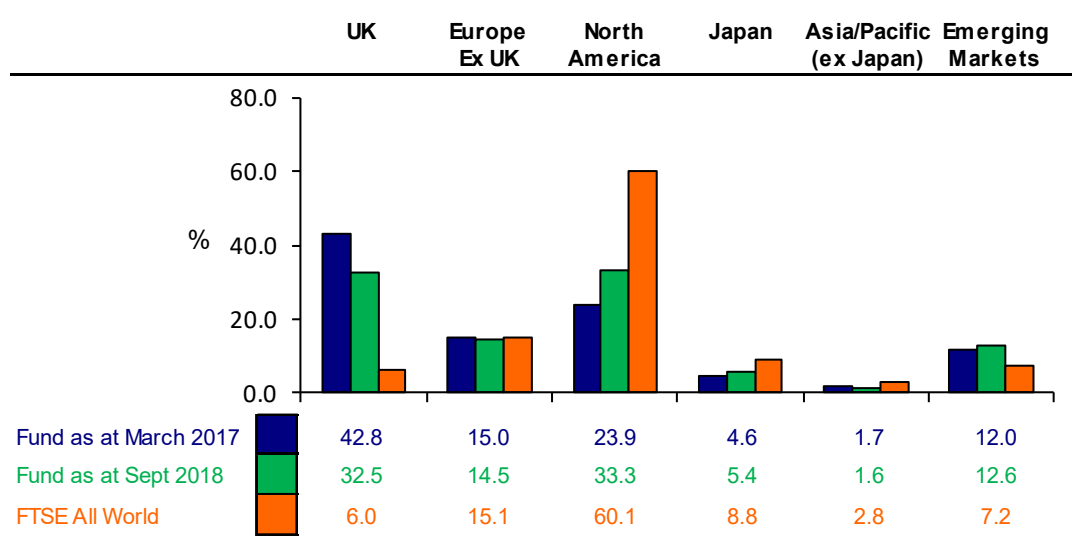
- The Fund value as at 30<sup>th</sup> September 2018 stood at £4,332.6 million, an increase of £93m over the quarter, and around £246 million since 31<sup>st</sup> March 2018.

- 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.
- All asset classes were within the 2.5% threshold from their target weight as at 30<sup>th</sup> September. The allocation to passive equities was 2.1% above the target weight, but no action is proposed to re-balance, particularly as equity markets have fallen during October.

#### Geographical Weighting of Equity Allocation

- The following graph 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**

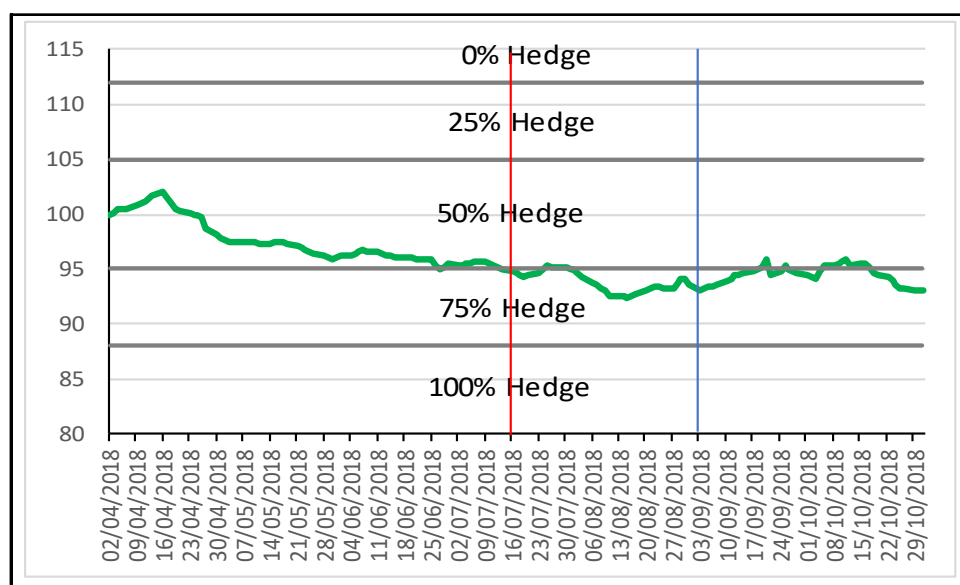


- The table shows that the Fund has an over-exposure to the UK and a significant under-exposure to North America compared to the world market. There is also a smaller under-exposure to Japan, while the exposure to Europe is about right. There is also an over-exposure to Emerging Markets.
- The Committee 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 £186 million had been moved by the end of September 2018, comprising the minimum monthly sum agreed, plus additional amounts transferred when the agreed trigger points were hit. A further £40 million has been transferred since the end of September.
- Given the progress made towards reducing the UK allocation, and with continued concerns that US equities are currently highly valued versus the rest of the world, mainly due to the tech stocks, it is proposed to slow down the transfer from the UK to Global equities over the next quarter, unless trigger points are hit. It is proposed to reduce the regular monthly amount to be transferred from £20 million to £10 million. Should the trigger points be hit whereby the UK market has significantly outperformed the Global Developed World market, then additional sums will be transferred as previously agreed by the Committee.

#### Currency Hedging

- The following graph shows the value of Sterling against a weighted average of the other major currencies.

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

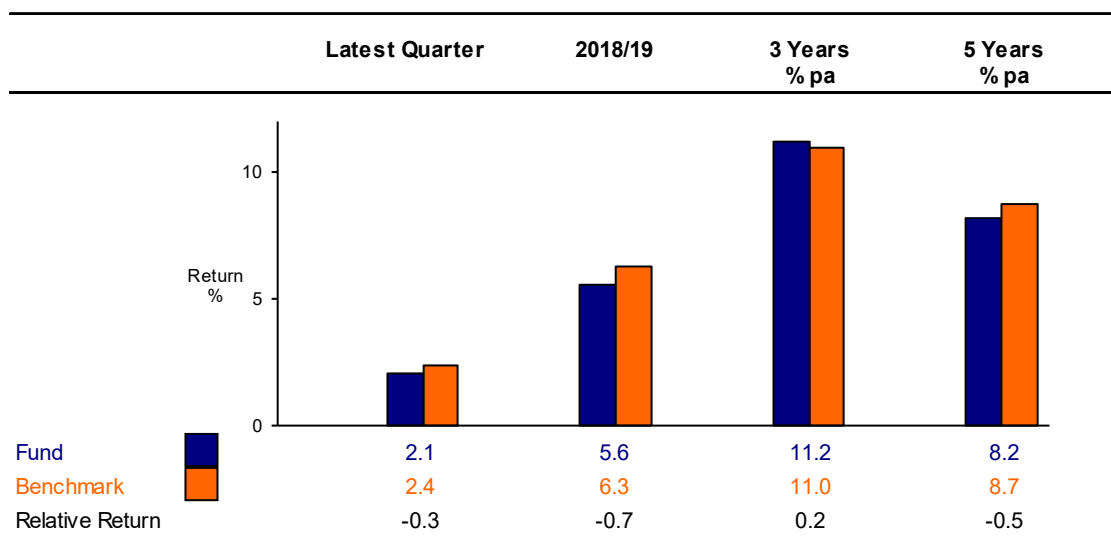


- As agreed by the Committee the allocation to Brunel's passive developed world equity portfolio was initially 50% hedged to Sterling. The transition point to Brunel is shown by the red line on the graph. However, in accordance with the currency hedging policy agreed at the June meeting of the Committee, 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 1<sup>st</sup> April 2018. The value of Sterling reduced from \$1.40 against the pound at the beginning of April to below \$1.30 at the end of August. The increase in the hedge ratio was implemented on 4<sup>th</sup> September, as shown by the blue line on the graph. The value of Sterling has fluctuated around the trigger point for moves between 75% and 50% during September and October, but the hedge has been maintained at 75%.

## 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 of 5.6%, which was 0.7% below benchmark. A breakdown of the performance of the Total Fund for the six months **to 30 September 2018** and the comparative Index returns are shown in the following table:

**Performance for the six months to 30 September 2018**

Sector	Fund Return	Benchmark	Benchmark Description
	%	%	
Global Bonds	1.2	1.3	BarCap Global Bonds
Multi-Sector Credit	0.3	-0.1	MSC Bespoke *
Cash	1.7	0.2	GBP 7 Day LIBID
Passive Equities	9.8	9.9	Devon Bespoke Passive Index
Active Global Equities	7.8	13.8	FTSE World
Active Emerging Markets	-3.9	-1.8	MSCI Emerging Markets
Diversified Growth Funds	0.9	2.2	Devon Multi Asset Benchmark
Property	1.9	3.6	IPD UK PPF All Balanced Funds
Infrastructure	5.4	2.7	GBP 7 Day LIBID+5%
Private Debt	7.5	2.7	GBP 7 Day LIBID+5%

<b>Total Fund</b>	<b>5.6</b>	<b>6.3</b>	<b>Devon Bespoke Index</b>
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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 six months include:

- The active global and emerging markets equities mandates have underperformed their benchmarks over the six months. This has been the major contributor to the below benchmark performance for the total Fund. The emerging markets underperformance was all during the first quarter, with improved performance ahead of benchmark over the quarter to September.
- Global bonds produced a positive 1.2% return just below the benchmark, while the multi-sector credit has only delivered a 0.3% return, albeit above the reference benchmark.
- The diversified growth funds (DGFs) have 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.

It should also be noted that since the quarter end equity markets have suffered significant losses, which will have an impact on the returns for the year to date. Over the month of October, markets suffered the following losses:

Index	Return for October %
FTSE All Share (UK Equities)	-5.2%
FTSE Developed World (GBP)	-5.5%
FTSE Emerging Markets (GBP)	-5.6%

While we have yet to receive performance data for October on Devon's equity investments, it is clear that the value of assets will have reduced.

### 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 provides a quarterly update, 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 30 September 2018 without completing a full valuation, the results will be indicative of the underlying position.

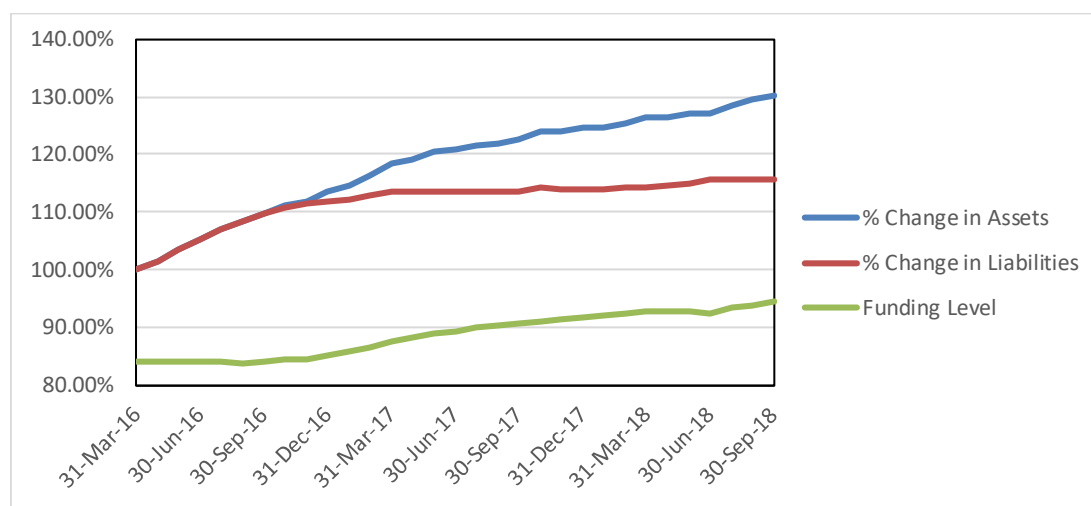
- Over the period since the 2016 Triennial Valuation, returns have been ahead of the required rate as shown in the following table:

#### Investment Returns since 2016 Triennial Actuarial Valuation

	<b>Actuarial Assumption</b>	<b>Actual Return</b>
2016/17	5.5%	18.0%
2017/18	5.5%	4.3%
2018/19 to date	2.8%	5.6%
<b>Return since 31/3/16 (annualised)</b>	<b>5.5%</b>	<b>11.1%</b>

- 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 September 2018



- Using the ongoing basis, the Actuary has estimated a funding level of **94%** as at 30 September 2018, compared with the 84% funding level at the 2016 Triennial Valuation.
- However, HM Treasury has recently reviewed the discount rates it proposes to use for the unfunded public sector pension schemes. It has reduced the SCAPE rate (Superannuation Contributions Adjusted for Past Experience, from 2.8% above the Consumer Prices Index (CPI) to 2.4% above CPI. It is thought likely that the review of the LGPS 2019 Valuation undertaken by the Government Actuary's Department under Section 13 of the Public Services Pension Act 2012 will use the SCAPE rate to assess whether LGPS funds meet

solvency and long term efficiency requirements. The Actuary is therefore likely to adopt a higher level of prudence in setting the discount rate for the 2019 Valuation, which is likely to bring the funding level back down to around or just under 90%.

- It also need to be borne in mind that there are still a further 6 months to go to the Valuation and asset values may be impacted by markets falls, as has happened during October, which will also have an impact on the funding level.

#### 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 deficit of **£8.6m** between contributions received and pension benefits paid out over the six months to 30 September.
- (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) Following the transition of passive equities to Brunel, the passive fees will no longer be invoiced, but will be deducted from the fund value. As a result, the invoiced fees are now anticipated to be below the original forecast for the year. The forecast for external management fees not invoiced will be impacted by the level of performance fees charged on some of the specialist equity, infrastructure and private debt funds, which is difficult to estimate at this point of the year, and the forecast is therefore shown as unchanged.
- (e) Brunel company costs invoiced to the Fund are now shown under investment manager fees, but there is still a residual spend under oversight and governance costs where the Client Group receives external support for the administration of meetings etc. and provision of legal advice. This heading now shows a forecast spend of £15,000 for the year.
- (f) The following table shows that the unallocated cash on deposit as at 31 October 2018, was **£29.3m**, plus **\$15.2m** 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 level of cash has reduced since the beginning of the financial year as a result of 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 31/10/18	Average Interest Rate
<b>GBP Deposits</b>		<b>£m</b>	<b>%</b>	<b>£m</b>	<b>%</b>
Call and Notice Accounts	Immediate	12.2	0.43	19.3	0.68
	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	0.0	
<b>TOTAL GBP</b>		<b>52.2</b>	<b>0.64</b>	<b>29.3</b>	<b>0.78</b>
<b>USD Deposits</b>		<b>\$m</b>	<b>%</b>	<b>\$m</b>	<b>%</b>
Call and Notice Accounts	Immediate	12.6	1.55	15.2	2.20

- (g) The weighted average rate being earned on GBP cash deposits, as at 31 October 2018, was **0.78%**. 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. However, 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%, and this is reflected in the higher average rate compared with 31 March. A higher rate is achievable on the US Dollars investment, but the return will also be impacted by changes in the exchange rate.
- (h) 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 September 2018

Manager	Number of Meetings	Number of Resolutions	Votes against management recommendation
UBS	17	208	22
State Street Global Advisors	11	102	17
Brunel (LGIM)	356	3,982	412
Aberdeen Asset Management	9	128	9
Specialist Funds (combined)	43	613	23

The UBS and State Street numbers only encompass the first half of July, at which point the assets were transitioned to Brunel, following the appointment of Legal and General Investment Management (LGIM) as their passive equity provider. More detail on the resolutions that the managers have voted on, together with their engagement activity, 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 September 2018, together with how the Fund's principal equity managers voted on the resolutions concerned. The voting alerts were issued following the transition of the Fund's passive assets to Brunel and their appointed passive manager, Legal and General Investment Management (LGIM). LGIM has been proactively engaging with Sports Direct on its governance, social and risk structures and transparency on these issues since the company listed in 2007. Due to ongoing concerns, they have since escalated our engagement with the company in collaboration with other investors and voted against management on a number of occasions. However, they have noted a number of positive steps that Sports Direct has taken in relation to their concerns, including the appointment of a Finance Director and improved labour practices. They will continue to engage with the company to ensure that it continues its trajectory of improvement. Ryanair's free float was reduced to 5% which has resulted in its exclusion from the FTSE indices, as a result the stock is not held in the passive portfolio. Neither stock was held by Aberdeen Standard Investments in their mandate.
- (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 2018/19

	Actual 2017/18 £'000	Original Forecast 2018/19 £'000	Actual to Sept 18 £'000	Revised Forecast 2018/19 £'000	Variance from Original Forecast £'000
<b>Contributions</b>					
Employers	(131,149)	(134,000)	(66,493)	(134,000)	0
Members	(37,659)	(37,000)	(18,640)	(37,000)	0
Transfers in from other pension funds:	(6,481)	(6,000)	(3,006)	(6,000)	0
	<u>(175,289)</u>	<u>(177,000)</u>	<u>(88,139)</u>	<u>(177,000)</u>	<u>0</u>
<b>Benefits</b>					
Pensions	142,191	148,000	74,195	148,000	0
Commutation and lump sum retirement benefits	28,225	30,000	15,290	30,000	0
Lump sum death benefits	3,357	4,000	2,708	4,000	0
Payments to and on account of leavers	445	500	202	500	0
Payments for members joining state scheme	5,410	6,000	4,374	6,000	0
	<u>179,628</u>	<u>188,500</u>	<u>96,769</u>	<u>188,500</u>	<u>0</u>
<b>Net Withdrawals from dealings with fund members</b>	<b>4,339</b>	<b>11,500</b>	<b>8,630</b>	<b>11,500</b>	<b>0</b>
<b>Investment Income</b>					
Received as Cash	(28,441)	(29,000)	(13,042)	(29,000)	0
Reinvested by Fund Manager	(16,137)	(17,000)	(9,576)	(17,000)	0
	<u>(44,578)</u>	<u>(46,000)</u>	<u>(22,618)</u>	<u>(46,000)</u>	<u>0</u>
<b>Administrative costs</b>					
Peninsula Pensions	2,037	2,241	1,243	2,241	0
	<u>2,037</u>	<u>2,241</u>	<u>1,243</u>	<u>2,241</u>	<u>0</u>
<b>Investment management expenses</b>					
External investment management fees - invoiced	7,698	8,800	2,885	8,400	(400)
External investment management fees - not invoiced	6,242	5,500	2,125	5,500	0
Custody fees	160	160	7	160	0
Transaction costs	1,510	1,500	370	1,500	0
Reversal of accrual	0	0	0	0	0
Stock lending income & commission recapture	(77)	(100)	(17)	(100)	0
Other investment management expenses	30	50	0	50	0
	<u>15,563</u>	<u>15,910</u>	<u>5,369</u>	<u>15,510</u>	<u>(400)</u>
<b>Oversight and governance costs</b>					
Investment & Pension Fund Committee Support	93	100	42	100	0
Pension Board	29	31	13	31	0
Investment Oversight and Accounting	280	300	124	300	0
Brunel Pension Partnership	(94)	0	7	15	15
Legal Support	30	30	1	30	0
Actuarial Services	28	30	58	30	0
Investment Performance Measurement	60	60	0	60	0
Subscriptions	23	25	19	25	0
Internal Audit fees	13	24	0	24	0
External Audit fees	24	30	6	30	0
	<u>486</u>	<u>630</u>	<u>268</u>	<u>645</u>	<u>15</u>
<b>Total Management Expenses</b>	<b>18,086</b>	<b>18,781</b>	<b>6,881</b>	<b>18,396</b>	<b>(385)</b>

**LAPFF Voting Alerts**

Company	AGM Date	Target Resolution	LAPFF Recommendation	Voting Record		Outcome
				LGIM	Aberdeen	
Sports Direct	12-Sep-18	Receive the Annual Report	Oppose	For	N/A	Approved (98.7% votes for)
		Approve the Remuneration Report	For	For	N/A	Approved (99.8% votes for)
		Approve the Remuneration Policy	Abstain	For	N/A	Approved (98.4% votes for)
		Re-elect Keith Hellawell	Oppose	Against	N/A	Resolution withdrawn
		Re-elect Mike Ashley	Oppose	For	N/A	Approved (90.2% votes for)
		Re-elect Simon Bentley	Oppose	Against	N/A	Resolution withdrawn
		Authorise share repurchase	Oppose	For	N/A	Approved (99.7% votes for)
RyanAir	20-Sep-18	Consider financial statements and reports	Oppose	N/A	N/A	Approved (98.7% votes for)
		Re-elect David Bonderman	Oppose	N/A	N/A	Approved (70.4% votes for)

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 79 public sector pension funds and five pools in the UK with combined assets of over £230 billion.

# **QUARTERLY ENGAGEMENT REPORT**

JULY TO SEPTEMBER 2018



Vote recommendations to oppose the election of Ryanair and Sports Direct Chairs amid employment concerns

Response to the Kingman Review sets out that the Financial Reporting Council is 'beyond repair'

Meetings with the Chairs of Sainsbury's and Pearson on governance risks prove useful

# Executive Summary

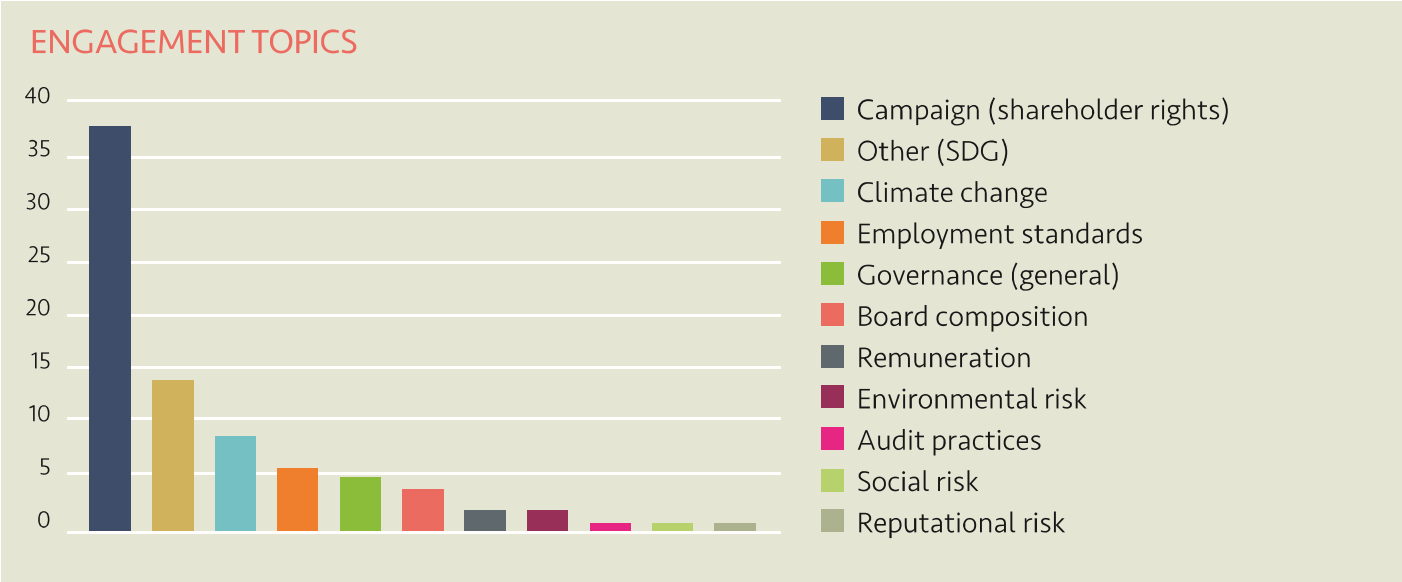
During the last quarter, LAPFF has engaged with 63 companies on issues ranging from employment standards to Sustainable Development Goals and shareholder rights.

The Forum issued two voting alerts ahead of the Ryanair and Sports Direct AGMs in September. Poor human capital management, along with continued concerns related to poor board oversight over governance issues led to recommendations to oppose annual reports and the Chair at both companies. The Forum also attended both companies’ AGMs.

With an aim to better understand how companies approach the UN Sustainable Development Agenda, LAPFF has liaised with 14 companies to discuss the topic of sustainable cities and climate risk management, as well as water stewardship and access to water and sanitation.

The Forum has submitted its response to the Kingman Review that aims to review the role and power of the Financial Reporting Council (FRC). Despite the responses not being public, the Forum considers that its position on disbanding the current FRC is widely shared.

# Company Engagement





## GOVERNANCE RISK



Sidney Taurel, Chair of Pearson

At a meeting with **Sainsbury's**, LAPFF Executive member Cllr Doug McMurdo spoke with Chair David Tyler about cybersecurity management post-General Data Protection Regulation (GDPR) and how this is managed at the Board level. The meeting also covered the 2016 acquisition of Argos as well as the planned Asda merger and how these can impact investor value, customer experience and employment.

LAPFF also met with the Chair of **Pearson**, Sidney Taurel, to better understand the company's approach to the changing publishing environment and to discuss the new focus on digital content and book rentals. The Forum was also pleased to hear about positive changes to the Company's executive remuneration and plans to increase female representation throughout the Company. Other topics covered included climate-related financial disclosure and eliminating plastics in packaging for printed materials.

Along with 80 investors, the Forum was named on letters to more than 40 US companies that serve on the **National Association of Manufacturers' (NAM)** board. NAM has launched an aggressive critique of shareholder engagement especially on climate and is working against shareholders being able to file resolutions as well as any responses received. The letter expressed concerns regarding a recent report funded and distributed by NAM, which states that shareholder resolutions diminish company value. The letters call for the companies to distance themselves from NAM's position and to communicate their concerns to NAM leadership.

With an aim of gaining a better understanding of companies' approach to the Sustainable Development Goals, LAPFF wrote to **Stagecoach Group, Go-Ahead Group, Taylor Wimpey, Persimmon, Berkeley Group, Bovis Homes** and **Barratt Developments** on the topic of sustainable cities and climate risk management. The Forum also wrote to the most widely-held food and beverage companies on their approach to water stewardship and ensuring adequate water and sanitation practicalities across the supply chain, as well as to **United Utilities** and **Severn Trent** on sustainable and efficient water use.

### Voting alerts

Ahead of the **Sports Direct International** Annual General Meeting, LAPFF issued a [voting alert](#) advising members to oppose the annual report, share repurchase and the re-election of Chair Keith Hellawell, Chief Executive Mike Ashley and Senior Independent Director Simon Bentley. Owing to the unresolved employment issues, the Forum continues to consider that the company does not have adequate governance structures and processes in place to foster the creation of long-term shareholder value. The Forum further recommended a vote in favour of the remuneration report and to abstain on the remuneration policy.

An [alert](#) was also issued recommending a vote against **Ryanair's** annual report and the Chair, David Bonderman, amid continuing human capital management issues across the company and the company's failure to deliver adequate customer service during flight cancellations. There are further concerns over the overall level of independence on the board, including Mr Bonderman himself, who has been on the Board for over twenty years.

## ENVIRONMENTAL AND CARBON RISK

The Forum Vice Chair Cllr Doug McMurdo spoke with **Unilever** representatives on the topic of sustainable palm oil and the recent critiques of the Roundtable on Sustainable Palm Oil (RSPO), of which Unilever is a founding member. The Forum was interested to know how the Economic, Social and Governance (ESG) components are balanced within RSPO and discussed how the S component can be more integrated within the work of RSPO. The Company also provided insight into the decision to move to a single share class structure.



Amu Power plant

LAPFF co-signed a letter to the chair and chief executive of **General Electric**, John Flannery, asking the company to re-consider the acquisition of a stake in Amu Power coal plant in Kenya. The Forum is of the view that the investment is at odds with the Company's public positioning on climate change and the Paris Agreement.

Collaborative engagement with **BP** continued with one of the regular '8 on 8' meetings with investors and senior BP staff, as part of the Climate Action 100+ initiative.



Discussions focused on the company's 'race to lower carbon' including an efficiency focus in upstream technology and the company's new technology and investments. As BP is the lead provider of methane in the US, LAPFF asked about the focus on methane emission control in the US and promoting methane management beyond the company's direct impact. The Forum also asked about the ambition and scale of the company's plans for Electric Vehicle charge points.

At a collaborative meeting with Simon Thomas, the Chair of **Rio Tinto**, LAPFF joined other members of the Institutional Investors Group on Climate Change (IIGCC) to follow up the Company's progress in disclosing more information subsequent to the shareholder resolution at this year's AGM on membership of trade bodies and lobbying practices. It was noted that Rio has sold all its coal operations, but still relies on coal as an energy source in Mongolia and South Africa.



In September, LAPFF continued its collaborative engagement with **Ford Motor Company** under the aegis of Climate Action 100+. The meeting sought to pursue existing dialogue on the company's position on public policy on vehicle greenhouse gas emission standards, in the context of the Climate Action 100+ requests on emission reduction and enhanced disclosure.

## SOCIAL RISK

### Employment Standards

Following strong investor concern over governance and employment practices at Sports Direct and Ryanair, the Forum attended both of the companies' AGMs in September. At the **Sports Direct** AGM, LAPFF spoke to the employee representative about the election process and inquired about some of the feedback from staff. The Forum also spoke to the newly elected Chair and the new female director. The Forum considers that the changes in leadership are likely to result in a more constructive discussion with the Company in the future.

LAPFF Vice Chair Cllr Paul Doughty attended the **Ryanair** AGM in Dublin. He inquired about alleged disciplinary actions against staff for not reaching sales targets and noted the issues around workers on Irish contracts. Cllr Doughty also asked about potential repayments for the delays and cancellations during industrial strikes.

### Diversity

Through its membership of the 30% Club investor group, the Forum requested meetings with companies from the energy sector to discuss board governance processes around nominations and succession planning for both non-executives and executives and how diversity is considered in this process.

## RELIABLE ACCOUNTS/CONSULTATION RESPONSES

LAPFF submitted its [response](#) to the Kingman Review, with the main recommendations being: disbanding the current FRC, creating a stand-alone UK Financial Accounting Standard Board, putting some audit oversight functions into a Companies Commission with the Insolvency Service, and creating a UK auditing oversight board. Disappointingly, the Kingman Review team have decided not to make the responses public. However, it is clear from those that have been published by the party making the submission, that the LAPFF position is widely shared.

These statements are from the response of fifth largest accounting firm BDO: 'It is our view that the FRC's reputation for regulation is poor...' '...the FRC's reputation for standard-setting has been, and will continue to be, undermined. For this reason alone, we believe that the two functions should be separated into different bodies.' and 'the FRC's failings are partly due to the conflict of interest engendered by its dual responsibilities for standard-setting and compliance, and partly through its "negative" impact on the audit market place.'



## MEDIA COVERAGE

### Ryanair

[Ryanair cancels flights after strike by pilots and cabin crew](#) – Financial Times, 28 September 2018

[UK public pension group call for ‘oppose’ votes at Ryanair AGM](#) – Business Insider, 14 September 2018

[UK public pension group to oppose Ryanair at AGM](#) – Reuters, 14 September 2018

[Local authority pension group seeks to outst Ryanair chair](#) – Local Government Chronicle, 14 September 2018

[UK pension fund will oppose Ryanair at annual meeting](#) – The Guardian, 14 September 2018

[Ryanair chairman David Bonderman facing turbulence](#) – The Times, 15 September 2018

[Michael O’Leary’s lockdown won’t keep Ryanair’s woes a secret](#) – The Guardian, 15 September 2018

[Ryanair says shareholder will back Bonderman at AGM](#) – Independent, 19 September 2018

[Ryanair CEO O’Leary admits he needs to improve his performance](#) – Bloomberg, 19 September 2018

[Ryanair investors Royal London to oppose re-election of airline’s chair at AGM](#) – City AM, 19 September 2018

[Ryanair faces growing backlash at annual shareholder meeting](#) – The Guardian, 19 September 2018

[Ryanair shareholders re-elect O’Leary and Bonderman](#) – RTE, 20 September 2018

[Ryanair chief survive shareholder revolt](#) – Travel Weekly, 20 September 2018

[Ryanair faces turbulent AGM](#) – The Times, 20 September 2018

[Ryanair boss Michael O’Leary may leave within five years](#) – BBC, 20 September 2018

[Ryanair reports 30% votes against re-election of chairman Bonderman](#) – Morningstar, 20 September 2018

[Ryanair chair survives shareholder revolt but investors want change](#) – The Guardian, 20 September 2018

[Council pension fund rebel at Ryanair meeting](#) – The MJ, 20 September 2018

[Ryanair chairman re-elected at AGM by narrower margin amid concerns about strikes](#) – Proactive Investors, 20 September 2018

[Ryanair board survives AGM intact but dissatisfaction evident](#) – The Irish Times, 20 September 2018



### Sports Direct

[Debenhams comment by Sports Direct forces watchdog to intervene](#) – The Guardian, 12 September 2018

[Ashley turn on shareholder after shambolic week for Sports Direct](#) – Shropshire Star, 14 September 2018

### Reliable Accounts

[Britain needs a companies commission](#) – Economia, 9 August 2018

[UK accountancy watchdog ‘too close’ to big four, say critics](#) – Financial Times, 20 August 2018

[Independent Review considers calls for UK audit regulator to be shut down](#) – IPE, 28 August 2018

[UK accounting watchdog to publish hospitality register](#) – Financial Times, 13 September 2018

[Accountancy can be made to work for investors](#) – Financial Times, 13 September

### Climate

[Investor group opposes General Electric plans for Kenyan power plant](#) – Reuters, 19 July 2018

[UK pension fund forum urges greater climate action from 16 firms](#) – Environmental Finance, 10 August 2018

[Fracking investments by council pension funds ‘unlawful’](#) – BBC, 3 September 2018

### Other

[How gender pay gap data is being used in investor engagement](#) – Professional Pensions, 28 August 2018

[Barnet pension scheme votes to join the LAPFF](#) – Pensions Expert, 9 July 2018

## COMPANY PROGRESS REPORT

63 companies engaged over the quarter

Q3 2018 ENGAGEMENT DATA			
Company	Activity	Topic	Outcome
A3M Company	Letter	Campaign (Shareholder rights)	Dialogue
ABB Ltd	Letter	Campaign (Shareholder rights)	Dialogue
Abbott Laboratories	Letter	Campaign (Shareholder rights)	Dialogue
American Electric Power Company Inc	Letter	Campaign (Shareholder rights)	Dialogue
Barratt Development plc	Letter	Other (SDGs)	Dialogue
Berkeley Group Holdings plc	Letter	Other (SDGs)	Dialogue
Bovis Homes Group plc	Letter	Other (SDGs)	Dialogue
BP plc	Meeting	Climate Change	Substantial improvement
Bristol-Myers Squibb Company	Letter	Campaign (Shareholder rights)	Dialogue
Brown-Forman Corporation	Letter	Campaign (Shareholder rights)	Dialogue
Cairn Energy plc	Letter	Board composition	Dialogue
Caterpillar Inc	Letter	Campaign (Shareholder rights)	Dialogue
Conocophillips	Letter	Campaign (Shareholder rights)	Dialogue
Cummins Inc	Letter	Campaign (Shareholder rights)	Dialogue
Deere & Company	Letter	Campaign (Shareholder rights)	Dialogue
Devon Energy Corporation	Letter	Campaign (Shareholder rights)	Dialogue
Dow DuPont Company	Letter	Campaign (Shareholder rights)	Dialogue
Eli Lilly and Company	Letter	Campaign (Shareholder rights)	Dialogue
Emerson Electric Co	Letter	Campaign (Shareholder rights)	Dialogue
ExxonMobil Corporation	Letter	Campaign (Shareholder rights)	Dialogue
Fluor Corporation	Letter	Campaign (Shareholder rights)	Dialogue
Ford Motor Company	Meeting/Letter	Climate change/Campaign (Shareholder rights)	Small improvement
General Electric Company	Letter	Campaign (Shareholder rights)/ Climate change	Dialogue
Glencore plc	Letter	Audit practice	Dialogue
Go-Ahead Group plc	Letter	Other (SDG)	Dialogue
Intel Corporation	Letter	Campaign (Shareholder rights)	Dialogue
Johnson & Johnson	Letter	Campaign (Shareholder rights)	Dialogue
Johnson Controls Inc	Letter	Campaign (Shareholder rights)	Dialogue
Leggett & Platt Inc	Letter	Campaign (Shareholder rights)	Dialogue
Lockheed Martin Corporation	Letter	Campaign (Shareholder rights)	Dialogue
Marathon Petroleum Corporation	Letter	Campaign (Shareholder rights)	Dialogue
McCormick & Company Inc	Letter	Campaign (Shareholder rights)	Dialogue
Merck & Co Inc	Letter	Campaign (Shareholder rights)	Dialogue
Microsoft Corporation	Letter	Campaign (Shareholder rights)	Dialogue
National Grid plc	Letter	Climate change	Dialogue
Nestle SA	Letter	Other (SDG)	Dialogue
Nostrum Oil & Gas plc	Letter	Board composition	Dialogue
Novartis AG	Letter	Campaign (Shareholder rights)	Dialogue
Pearson plc	Meeting	Governance/Remuneration	Moderate improvement
Pennon Group plc	Letter	Other (SDG)	Dialogue
PepsiCo Inc	Letter	Other (SDG)	Dialogue
Persimmon plc	Letter	Other (SDG)	Dialogue
Pfizer Inc	Letter	Campaign (Shareholder rights)	Dialogue
PPG Industries Inc	Letter	Campaign (Shareholder rights)	Dialogue



## Q3 2018 ENGAGEMENT DATA

Company	Activity	Topic	Outcome
Procter & Gamble Company	Letter	Campaign (Shareholder rights)	Dialogue
Rio Tinto Group (GBP)	Meeting	Climate change	Moderate improvement
Ryanair Holdings plc	Alert issued/AGM	Employment standards/Board composition	Change in process
Sainsbury (J) plc	Meeting	Governance (General)	Dialogue
Severn Trent	Letter	Other (SDG)	Dialogue
Southern Company	Letter	Climate Change/Campaign (Shareholder rights)	Dialogue
Sports Direct International plc	Alert issued/AGM/ Letter	Employment standards/Board composition	Dialogue
Stagecoach Group plc	Letter	Other (SDG)	Dialogue
Suez Environment	Letter	Other (SDG)	Dialogue
Taylor Wimpey plc	Letter	Other (SDG)	Dialogue
Textron Inc	Letter	Campaign (Shareholder rights)	Dialogue
The Boeing Company	Letter	Campaign (Shareholder rights)	Dialogue
The Coca-Cola Company	Letter	Other (SDG)	Dialogue
The Goodyear Tire & Rubber Company	Letter	Campaign (Shareholder rights)	Dialogue
Tullow Oil plc	Letter	Board composition	Dialogue
Unilever plc	Meeting	Environmental risk/Social risks/ Governance	Small improvement
United Technologies Corporation	Letter	Campaign (Shareholder rights)	Dialogue
United Utilities Group plc	Letter	Other (SDG)	Dialogue
Verizon Communications Inc	Letter	Campaign (Shareholder rights)	Dialogue

## NETWORKS AND EVENTS

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



In July, the Forum organised an investor briefing to discuss governance and workforce issues at Ryanair, chaired by Cllr Ian Greenwood. The meeting heard from Ryanair cabin crew, representatives from the International Transport Workers Federation, an HSBC analyst and a partner at Charles Russell Speechlys.



The Local Government Pensions Minister, Rishi Sunak MP, spoke at the July meeting of the All Party-Parliamentary Group (APPG) on Local Authority Pension Funds. Chaired by Clive Betts MP, the meeting covered the importance of investing in infrastructure, pooling and revisited the topic of including Councillors as members of LGPS. Richard Murphy, Professor of Practice in International Political Economy and Director of Tax Research LLP also addressed the group on the lack of transparency within the big four accountancy firms – Deloitte, KPMG, Ernst & Young and PwC – and emphasised the importance of having strong accountancy standards. The minutes from the meeting can be accessed [here](#).



The Forum joined a new investor alliance to engage companies on plastic pollution, led by the As You Sow Initiative. The Plastic Solutions Investor Alliance are intending to primarily focus on plastic packaging and to initiate dialogue with four large international consumer goods companies: PepsiCo, Procter & Gamble, Nestle and Unilever.



Through its membership in the Principles for Responsible Investment (PRI) Investor Working Group on Sustainable Palm Oil, the Forum attended a webinar on the risks that banks associated with deforestation face and the importance of investor engagement. The Forum also attended a webinar on companies that allegedly buy illegal palm oil in Indonesia.



Attendance at the Global Climate Action Summit in San Francisco emphasised the central importance of investors in sending strong signals to government to step up action by 2020, when global emissions need to peak and then swiftly decline. Conference outcomes set out a 'call to action' for all parties to take advantage of the opportunities to transition to a low-carbon economy.



In September, LAPFF also attended the annual Climate Week in New York. The summit, which was launched by The Climate Group in 2009, gathers politicians, nongovernmental organisations, activist, policy makers and representatives from businesses to drive climate action forward.



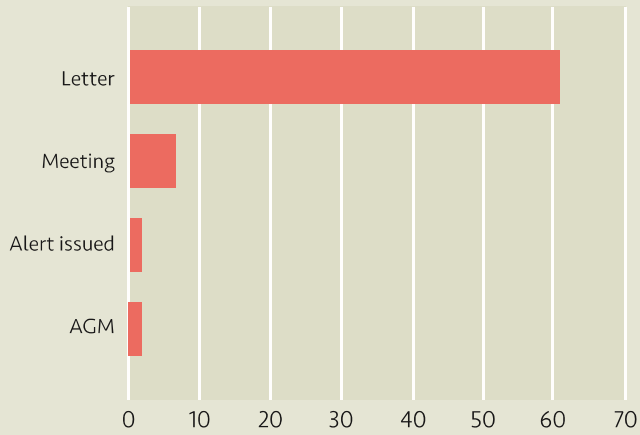
At a CEO Investor Forum organised by 'CECP: The CEO Force for Good,' the Forum heard from a range of CEOs including from NRG Energy, IBM and GSK. The event reviewed the positive impact of communicating long-term value creation with investors.



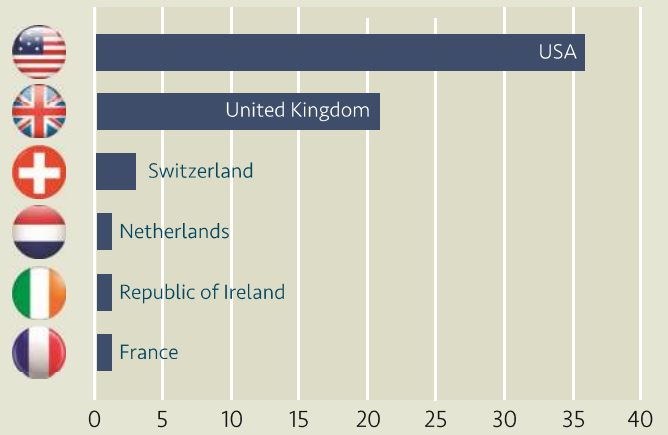
The Financial Reporting Council (FRC) has launched independent research into FTSE350 companies' diversity and inclusion reporting. The Forum attended an event organised by the FRC on current trends in reporting and related initiatives.

## COMPANY ENGAGEMENT ACTIVITIES

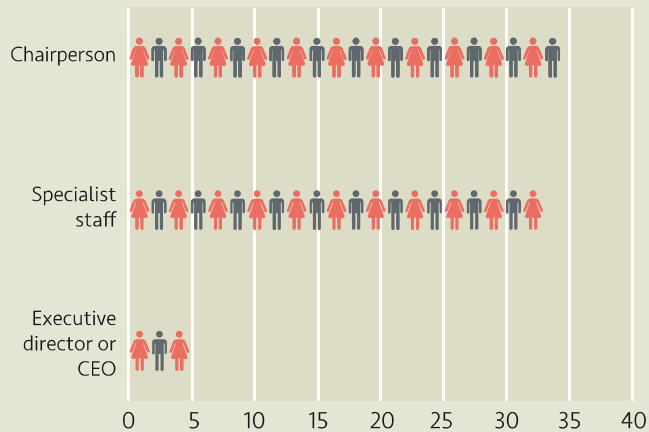
### Company engagement activities



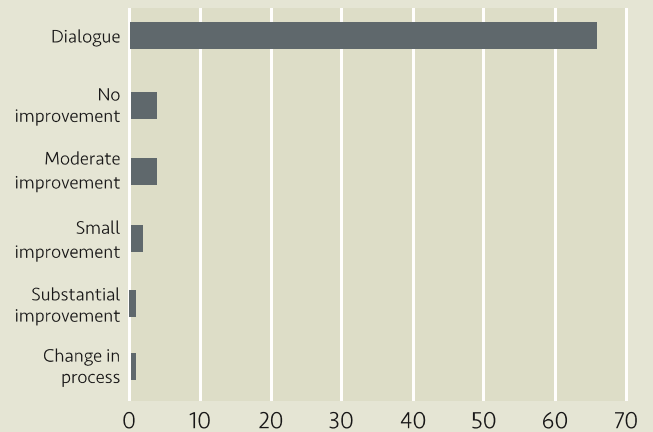
### Company domiciles



### Position engaged



### Outcomes



## LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

- Avon Pension Fund
- Barking and Dagenham LB
- Barnet LB
- Bedfordshire Pension Fund
- Border to Coast Pensions 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
- Environment Agency Pension Fund
- Falkirk Council
- Gloucestershire Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Greenwich Pension Fund
- 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
- Leicestershire 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 CC Pension Fund
- Redbridge LB
- Rhondda Cynon Taf
- Shropshire Council
- Somerset CC
- South Yorkshire Pension Authority
- Southwark LB
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk CC Pension Fund
- Surrey CC
- Sutton LB
- Teesside Pension Fund
- Tower Hamlets LB
- Tyne and Wear Pension Fund
- Wales Pension Partnership
- Waltham Forest LB
- Wandsworth LB
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Westminster LB
- Wiltshire CC
- Worcestershire CC