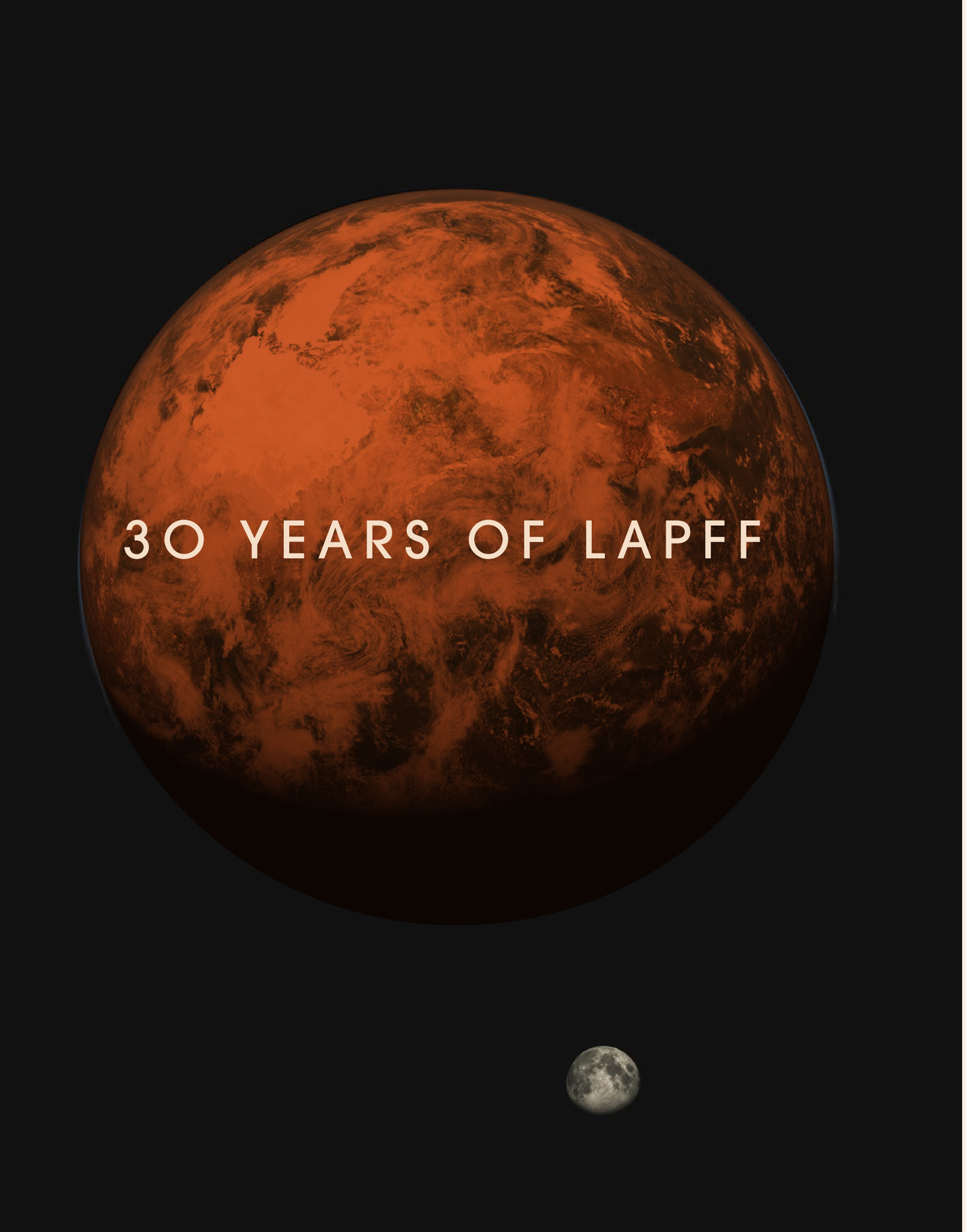
VISION & IMPACT

30 YEARS OF LAPFF

EST 1991

Local Authority Pension Fund Forum

Ronan Furuta/unsplash



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FOREWORD

The Local Authority Pension Fund Forum (LAPFF) has been proudly protecting public sector pension funds for 30 years. It has done so by engaging companies, and policymakers, to promote the highest standards of corporate governance.

Over the past three decades, the Forum has grown not just in membership, but in confidence and influence. This success has been built on LAPFF's founding idea that environmental, social and governance issues are financially material. This now sounds mainstream, but it wasn't in the early 1990s. And in this vein, the Forum's unwavering commitment to responsible investment principles and pioneering spirit means that while ESG has been brought into the mainstream the Forum continues to go where many investors dare to tread.

This ground-breaking work extends to our approach to engagement with companies. Rather than managers speaking to companies on a client's behalf, we as asset owners do so. LAPFF has engaged differently with the issues too. Rather than take company disclosures at face value, the Forum's work from the outset has been informed by independent research and speaking to other stakeholders, including company employees and community groups. This innovative approach has led the Forum to focus its engagements on issues overlooked by others and trailblaze investor action, such as being the first organisation to file shareholder resolutions in the UK on social issues.

As this booklet shows, LAPFF's vision and approach has resulted in significant change. The Forum has successfully engaged with companies to alter their policies, helped bring about change in governance practices and board composition, and successfully pushed for reforms of regulations and regulatory institutions. The booklet highlights the breadth of the engagement successes from action on human rights violations in Australia to high pay in the City, and from environmental disasters in Africa to labour practices in the US. It also demonstrates the importance of long-term, persistent engagement to deliver change to the benefit of our members and other stakeholders.

This is in essence what responsible investment is about: pursuing what is in the best long-term interests of the company and therefore shareholders by considering the wider societal and environmental impact of a company's activities. For those privileged to represent LAPFF in engagements this point is immediately apparent. Sometimes it is also very stark. Speaking to those affected by fatal mining disasters in South America will remain with me for a very long time.

Such examples further emphasise the need for investors to engage with companies on environmental, social and governance issues. They are also testament to the insight and support of our members who guide the Forum's agenda and to the hard work of LAPFF chairs and executive committee members past and present. The achievements of the Forum are also down to foresight and commitment of PIRC, which has supported the Forum from day one.

The booklet charts and celebrates the successes that LAPFF has had over the past 30 years. It is not, however, just a collective slap on the back. There have been many challenges, and as this booklet shows there remains much to be done. The impact of Covid has exposed serious concerns around social risks. And while many companies are now seeking to set carbon emissions targets, there is a long way to go to reach net zero targets set by government. It is this continuing pursuit of the highest standards of corporate governance, so clearly brought to life in this booklet, that drives the Forum's engagement with investee companies now and into the future. ●

Cllr Doug McMurdo
Chair of LAPFF

HOW FAR WE'VE COME

1991
A small group of local authorities agreed to form the Local Authority Pension Fund Forum following discussions about how pension funds could respond to environmental and employment issues, hostile takeovers and events in South Africa

1995
13 MEMBERS

2005
35 MEMBERS

2015
65 MEMBERS

2021
84 MEMBERS

LAPFF today represents more than 80 funds and seven LGPS investment pools, which together have assets under management of over £300bn. LAPFF's members are invested in the world's largest companies, and using this stake, the Forum engages with company boards and their directors to promote the highest standards of corporate governance.

Today's LAPFF is very different to that of the organisation 30 years ago. The size of the membership has steadily and consistently grown and with it the number of engagements has ratcheted up and the range of responsible investment topics widened. Despite these changes, the story of LAPFF has been one of consistency: proudly protecting members by having a clear-eyed focus on corporate governance and environmental and social issues.

The Forum emerged following a period of interest in both Socially Responsible Investment and in pension funds activity because they had emerged as the largest form of institutional investor through the 1970s and 1980s. The specific roots of LAPFF date back to 1990. There was a growing sense among some local authority pension funds that they had investment considerations beyond a narrow view of how to maximise financial returns. A group of seven local authorities met to discuss how pension funds could respond to environmental and employment issues, hostile takeovers and events in South Africa. Following a fruitful discussion, the group agreed to meet again. At that meeting the original seven and four other funds decided to establish 'Like Minded Pension Authorities' which a year later became the Local Authority Pension Fund Forum.

At the time it was far from common for large institutional investors to pay much attention to environmental, social and governance (ESG) concerns. This meant that LAPFF was a unique organisation, being the only investor body with a specialist focus to engage on ESG issues. It also meant that some companies were initially reluctant to engage shareholders in ways that are now commonplace.

The booklet in part charts this shift which has been assisted by regulatory reform. Such reform did not, though, happen by chance. Over the past three decades the Forum has been a vocal advocate for shareholder rights and improving the corporate governance regulatory regime. The early work undertaken by the Forum over British Gas on executive pay, highlighted in the report, fed directly into an inquiry into pay policies, disclosure and shareholders rights. This involvement with the policymaking process has continued and evolved with the Forum engaging policymakers through fringe meetings at party conferences, establishing an all-party parliamentary group and frequently responding to government consultations.

While companies over time have been more open to engaging with the Forum, the approach to engagement by LAPFF has remained consistent and unique. LAPFF is marked out as an investor organisation led by its member funds. Engagements with companies are undertaken by LAPFF executive members as asset owners rather than on their behalf. The topics for engagement and companies chosen are determined by LAPFF members and their holdings. Over the years, those engagements have also been informed by engagement with stakeholders. The Forum's approach has been not simply to take what a company tells LAPFF as the complete picture. Since the early 1990s, LAPFF has met with trade unions, community groups and campaigners to understand their perspective on company practices to enable the Forum to ask the right questions of company boards.

The LAPFF approach has always been to deliver change through constructive dialogue with companies. This does not mean the Forum slips into having cosy conversations. As a former LAPFF chair, Cllr Kieran Quinn, remarked to the Financial Times: "there are no questions we are afraid to ask". This booklet and its case studies highlight the fact that progress is not always immediate. Companies can be resistant to change even when policies and processes fall way short of best practice. As result, LAPFF has developed its approaches to escalation. This includes attending company annual general meetings (AGMs) and filing shareholder resolutions at some of these, including being the first shareholder group in the UK do so on social issues.

The Forum is not only led by members but is there to support them. This support started early with the report 'Share Action – A User Friendly Guide' produced in 1991 when only a minority of pension funds voted their shares. This has grown over time to include producing briefing documents, hosting seminars and publishing research reports. And, although the form has changed, the Forum has kept members up to date with company engagement since its inception - long before initiatives and requirements were introduced on reporting stewardship activities.

The Forum has not only wanted to support members individually but also collectively. This has included representing members during periods of LGPS reform, ranging from a value for money study and mooted privatisation in the mid-1990s to the creation of investment pools for funds, the latter development which led to the Forum membership widening to include pools.

This support for funds and pools alongside the focus on responsible investment and delivering change has seen LAPFF's membership rise. At the start of 1995 there were 13 members. By 2005 it had grown to 35 members. A decade later it stood at 65 funds. Today that number has grown to 84 of the 98 LGPS funds.

This growing support has meant LAPFF has been better placed than ever to apply collective pressure on companies and shape market behaviours and regulations. Over the past year LAPFF has engaged 171 companies domiciled across 31 countries with operations spread across the globe. It has attended AGMs and issued multiple voting alerts. It has responded to consultations, held seminars, hosted meetings at political party conferences and supported an All-Party Parliamentary Group inquiry.

This is far cry from the level of engagement work that could be undertaken when the Forum was first established. However, the consistent thread over the past three decades has been pursuing the highest standards of corporate governance through robust but constructive engagement. As this booklet therefore demonstrates that while activity has expanded, successes have increased and the context has changed, the Forum's values and approach have remained constant.

LAPFF TODAY

£300bn

Today LAPFF is made up of 84 funds and seven investment pools, representing assets under management in excess of £300bn.

LONG TERM VALUE

LAPFF promotes the highest standards of corporate governance to protect the long-term value of local authority pension funds.

A UNIFIED VOICE

It does so by providing a unified voice to companies and their boards, and also governments and regulators, about the importance of environmental, social and governance issues to long term value creation.

ENGAGEMENT

In the past year, LAPFF has engaged 171 companies and held engagement meetings with numerous company chairs.

GLOBAL

LAPFF is global in reach engaging companies domiciled in over 30 countries in the past year and raising issues about operations spread across the continents.

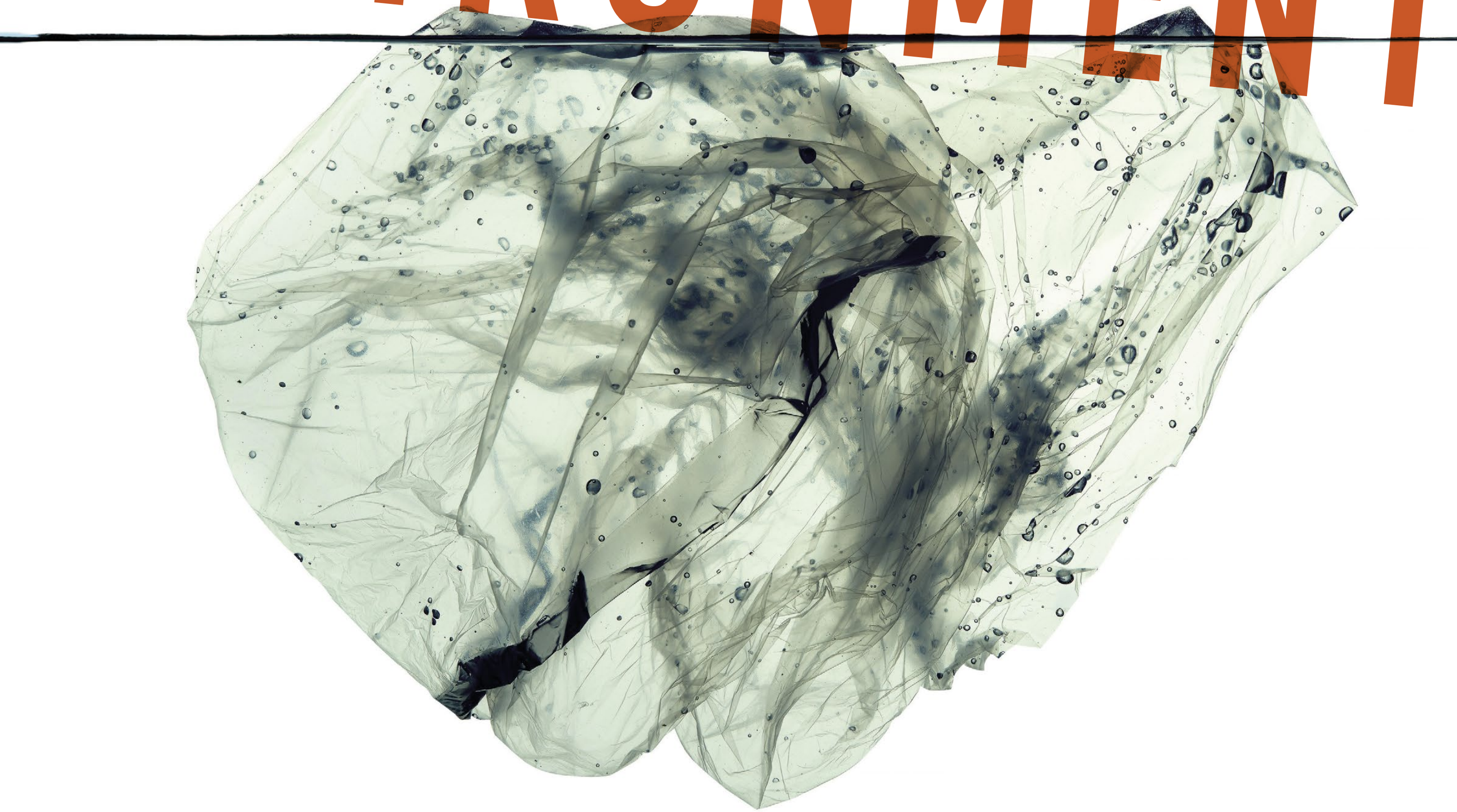
MEMBERS

The work of LAPFF is led by a chair and an executive made up of pension trustees (elected councillors) and officers. Decisions about engagement areas and who to engage are decided by members and in relation to their holdings.

RESEARCH

The Forum's work is supported by PIRC who have provided engagement and research assistance since LAPFF was established.

ENVIRONMENT



A massive oil spill decimated the environment, businesses and livelihoods in Dalian, China in July 2010

Safeguarding our environment for growth

Few would argue that oils spills, plastic waste, water pollution or deforestation would not have a bearing on a company's financial performance. Yet, in the early 1990s the environmental impact of business operations rarely featured in company reports or were raised by investors as concerns.

LAPFF members wanted to address this oversight. A paper presented at the first LAPFF meeting outlined how environmental factors affected company performance and how investors could assess these factors. An 'Environmental Investor Code' was discussed for adoption by funds. The code included companies making a commitment to environmental excellence, monitoring environmental impacts, procedures for improving environmental performance and disclosure of regular reports to shareholders on progress on improving environmental standards. From then onwards the Forum has continued to set out expectations of companies on their environmental impact, including in relation to human rights and climate change.

LAPFF took forward its early policy stance on the environment with an engagement with pharmaceutical company Fisons which was involved in peat production from sites of special scientific interest (SSSI). At the time there was a major consumer boycott of such products backed by the Prince of Wales. LAPFF viewed peat production as unsustainable and reputationally damaging and proposed backing a resolution committing the company to cease production from SSSIs.

The resolution fell short of the required shareholdings to proceed to the AGM. However, the Forum attended the AGM to push for an immediate reduction. Campaigning by Friends of the Earth directed at B&Q, Homebase and Do It All, led to them banning Fisons products or SSSI peat. After the proposed resolution the company's stance towards LAPFF hardened, but with time the company did start to move. It reduced peat cutting and decided to explore appointing a new director to look after environmental issues.

After this initial success, LAPFF continued its work around environmental risk. For example, a group of shareholders and environmentalists were pushing for reform at Yorkshire Water following pollution incidents and customer complaints and were calling for the appointment of an alternative director. LAPFF backed the resolution for a new director which received one in five of shareholder votes. Three months later the company appointed a non-executive director with a background in customer services and LAPFF continued to engage with the company on its environmental performance. In 1996, there was a real breakthrough with the company appointing a new chair and directors; meanwhile improved environmental standards had been secured.

The importance of good environmental standards for shareholder value led to a push for greater environmental reporting. Even by the turn of this century, companies were not universally reporting environmental issues. Research from PIRC in 2000 for the Forum identified 53 companies in high impact sectors that made no mention of environmental policies or processes in their annual reports. After engagement, two thirds gave a commitment to do so. After further correspondence and AGM attendance all but three had done so within a couple of years.

Around the same time the focus of much of LAPFF's environmental work shifted to carbon emissions. However, the Forum continued to engage companies on a range of environmental issues, including the environmental impact of operations for local communities, the palm oil industry, and the use of plastics. The Forum has secured significant wins in these areas, including gaining commitments to end single use plastics, and continues to seek enhanced policies and procedures, such as water use and deforestation.

SHELL SHOCK: LAPFF FILES FIRST UK SOCIAL ISSUE SHAREHOLDER RESOLUTION

LAPFF first started to engage with Shell in 1995 over the planned disposal of the oil storage facility, Brent Spar. However, it was the ongoing human rights and environmental issues in the Niger Delta that became the Forum's focus. There had been allegations about oil spills, the poor state of the company's infrastructure and accusations of collusion with the military regime. Following civil unrest, Nigeria was facing sanctions. At the same time, Shell announced it was proceeding with a liquefied gas installation in the African state.

The Forum held several meetings with Shell executives to discuss the issues. The Forum was concerned that the company was not operating to the highest environmental standards and the company needed specific guidelines for operating in countries where human rights abuses were prevalent.

In early 1996, the company wrote to LAPFF stating that it was undertaking a review of environmental policies as well as its statement of business principles. The Forum was considering a shareholder resolution but held back given this movement.

Ahead of the AGM, allegations about the company's conduct were repeated in several documentaries. While the chair reaffirmed the company's support for the Universal Declaration on Human Rights at the AGM, as the year progressed statements from executives suggested the review of business principles was unlikely to be wide-ranging. A new environmental adviser was appointed but a review of environmental management systems promised in early 1996 had not appeared to have led to higher standards. In the winter of that year, it was decided that LAPFF would go ahead with a resolution.

The resolution called on Shell to appoint a managing director to have responsibility for environmental and corporate responsibility policies, to have internal procedures for implementing and managing the policies, to establish an independent external review and audit procedures for these policies, to regularly report to shareholders on the issues and also to report on how the policies apply to Nigeria.

LAPFF co-filed the resolution with the Ecumenical Council for Corporate Responsibility (ECCR) in January 1997. The resolution was the first social issue shareholder resolution at a UK company brought forward by institutional investors. Shell's response was significant. Prior to the AGM the company published a new Statement of Business Principles which included a commitment to sustainable development and human rights. The chair of the committee of managing directors was named as the director responsible for environmental corporate responsibility policies. New internal guidance was produced as was a health safety and environment report. In a final shift towards LAPFF's resolution request, a report on Nigeria was published on the day of the AGM. Likely as a result of the push by LAPFF and subsequent changes made by the company prior to the AGM, the resolution was backed by one in ten votes.

Marcus Kauffman/unsplash

Leading the change on climate

Climate change is a severe, systemic and substantial investment risk. From presidents to central bankers, climate change is viewed as an existential threat to society and the economy. It is now high on the risk register for investors and companies alike, but progress to face the financial implications of climate change has been long and slow, and climate action remains at times partial.

Since LAPFF's inception, the Forum has had a focus on pollution and environmental impacts of industrial activity. From around 2001, LAPFF's focus concentrated on greenhouse gas emissions and reporting. Research at that time by PIRC for LAPFF benchmarked reporting on emissions by FTSE 100 companies against guidelines published by the Department for Environment, Food & Rural Affairs (DEFRA). The research published later that year showed that only five reports were fully in line with reporting guidelines and 55 made no relevant disclosures. This work led to a successful engagement with these companies and improvements in reporting.

LAPFF continued to undertake research on company activity and the financial risks of climate change. In 2004, LAPFF commissioned research on the investment risks of climate change. This research came two years before the government commissioned Stern Review into the economics of climate change. LAPFF's research and support for members on addressing climate change

Shell workers inspect the site of an oil spill in Ogoni Nigeria in 2001

continued over the following years. In 2010, the Forum produced a guide for trustees, 'Investing in a changing climate' which covered policy, evaluating climate, exposure, engagement with companies and government, investment opportunities, and questions trustees could ask of fund managers. This guide came in advance of the 2017 Task Force for Climate Related Disclosure (TCFD) which was commissioned by finance ministers and central bank governors to look at how companies and investors could assess climate risk and report on actions they were taking. TCFD's recommendations were backed by LAPFF who produced a Climate Change Investment Policy Framework for members drawing on the taskforce's principles. The Forum also continued to look at the financial costs of inaction, including a 2016 report with Carbon Tracker analysing the financial risks associated with stranded assets in the oil and gas sector.

LAPFF's policy position and asks of companies have developed in line with the scientific understanding of climate change. In 2018, the UN-endorsed International Panel on Climate Change (IPCC) special report starkly set out the risks to natural and human systems of global warming in excess of 1.5 degrees. Since then, LAPFF's focus has been alignment with reaching 1.5 degrees. Today, the Forum policy covers companies reporting on their approach to carbon management and actively factoring climate change into their business strategy. LAPFF also supported calls for mandatory carbon emissions and risk reporting in all jurisdictions.

The Forum's wider responsible investment work has informed its approach to climate change and consideration of the wider social implications climate action could involve. Shifting to net zero provides opportunities to create new jobs and improve our environment. The shift will also have an impact on those working in carbon-intensive industries and the communities in which those companies operate. Failing to support workers, communities, consumers and supply chains could not only lead to an unjust transition but also create resistance to climate action. In 2018, LAPFF signed an investor statement on a just transition which stated that there had been insufficient attention to the social dimension of the transition. In 2021, the Forum also supported a just transition inquiry through the all-party parliamentary group for local authority

pension funds. This work set out an agenda for what investors, including LGPS funds and pools, could do to ensure a just transition and what support might be needed from government.

To reduce the risks and maximise the opportunities associated with ensuring a just transition to net zero, LAPFF has engaged companies directly. These engagements have focused on climate reporting and aligning business models with net zero carbon economy. The scale and scope of the challenge means this engagement over the years has covered oil and gas majors, mining, utilities, carmakers, and housebuilders. It has also covered companies domiciled across the globe with a focus on North American and European markets.

Recognising the power that asset owners and managers have when working in partnership and the size of the challenge, LAPFF's work on climate change has also been undertaken in collaboration with other investors. LAPFF was the first investor to support the ground-breaking 'Aiming for A' initiative organised by charity fund manager CCLA. This initiative spearheaded strategic resilience shareholder resolutions for major emitters to disclose their strategic approach to carbon management. The initiative was a remarkable success and led to rare backing from boards on the resolutions.

The Forum also joined Climate Action 100+ at its inception. The investor initiative engages the world's largest corporate greenhouse gas emissions on taking action on climate change. It now includes 615 investors with $55 trillion of assets who currently engage 167 companies that make up over 80% of global industrial emissions. Through Climate Action 100+, LAPFF has co-led engagements with National Grid and ArcelorMittal and has seen notable successes with both companies setting out plans and putting measures into place for achieving net zero.

The Forum has also been vocal where progress has been too slow or plans do not seem credible. This has included scepticism around nature-based solutions and carbon capture and storage. Recently, the Forum has raised concerns that Shell's climate transition plans were inadequate. Although most shareholders backed the plans, LAPFF's view was shared in the Dutch courts: that the proposal was not incorporated into business plans or budgets, proposals for CCS and nature-based solutions were ill-defined, the focus was on carbon intensity not absolute emissions and there were no targets for 2030. LAPFF has also escalated engagement activity where progress was slow. For example, LAPFF recommended voting against all Exxon directors in 2019 and two years later backed the successful move to vote in new directors.

Over the years that LAPFF has engaged on climate change there has been a significant change in attitudes and regulations. Over time the terminology has moved from 'climate change' to 'climate emergency' then 'climate crisis' and now, as termed by the head of the UN, a 'climate catastrophe'.

Most companies publicly recognise and support the need for urgent action on climate change. The success for LAPFF has been its move from a focus on disclosure and target setting to companies taking firm action in terms of asset allocation. National Grid's commitment to be able to fully operate the grid with zero carbon by 2025, has been supported by its buying of WPD, the UK's largest electricity distribution business, to strategically pivot its UK portfolio towards electricity. And ArcelorMIttal's Sestao plant in Spain is set to become the world's first full-scale zero carbon-emissions steel plant.

Investors are now focussed on companies having shorter term targets, and demonstrating more fundamental changes in their business strategy and operations to reduce their entire emissions footprint. Making provision for shareowners to be able review this annually by means of a resolution at the AGM is the next stage to help safeguard pension fund investments against climate risk. ●

CODE RED FOR HUMANITY: TWO DECADES OF ACTION ON CLIMATE CHANGE

2001

Research undertaken for LAPFF showed only five FTSE 100 company reports fully in line with Department for Environment, Food & Rural Affairs (DEFRA) guidelines; 55 provided no disclosure on the eight DEFRA requirements.

2002

Following this research, 85 FTSE 100 companies were contacted by LAPFF and Environment Agency Pension Fund, seeking an explanation for omissions and requesting fuller reporting. In the same year, Carbon Disclosure Project (CDP), the international institutional investors alliance of which LAPFF was an early member, wrote to 500 largest global companies regarding emission reporting.

2003

By September 2003, almost 60% of the FTSE companies contacted by LAPFF had improved their reporting with a number of others making a commitment to do so.

2004

LAPFF attended Amvescap, Smith & Nephew, LogicaCMG and Shire Pharmaceuticals AGMs to push for greater carbon disclosure. LAPFF received positive responses from the companies.

2005

At the start of the year, a LAPFF-commissioned study into the long-term implications of climate change is launched, which includes sector analysis. This was used to guide engagement activity, which covered writing to all oil and gas FTSE companies about how they were addressing climate change and disclosing information to shareholders.

2006

This work with oil and gas majors continued with LAPFF undertaking engagement meetings, including with the chair of BP (John Browne ↓). LAPFF explored how to take forward engagements with the sector, including co-filing resolutions and collaboration with US shareholder bodies.

2007

LAPFF responded to the government's consultation for the climate change bill. The Forum proposed tougher emission reduction targets and stated that the bill provided an opportunity to introduce mandatory corporate climate emissions reporting.

2009

Climate reporting was becoming more mainstream, even if far from universal or comprehensive in scope. The Climate Disclosure Project sent information requests on behalf of investors to over 3,700 companies. LAPFF co-signed a letter to those non-respondents and poorly responding companies. The Forum also issued a number of voting alerts on climate change disclosure and target setting, including at Exxon and Halliburton.

2010

The Forum focused efforts on tar sands in shareholder resolutions at BP and Shell.

2011

Through collaborative engagement, Adecco, Assa Abbloy, Carrillion, Clariant, De la Rue, D S Smith and Fortune Oil agreed to improve carbon reporting. The Forum continued to engage companies on tar sands.

2012
After a number of years calling for regulatory changes on emissions reporting, the UK government announced mandatory corporate carbon reporting. The Forum were the first investors to join 'Aiming for A' coalition, initiated by CCLA, which focused on long-term engagement with companies.

2013
LAPFF led Aiming for A engagements with Rio Tinto and National Grid on their strategic approach to carbon management. Over the year both companies improved their Carbon Disclosure Project rating. The Forum also supported engagements with BP and Shell.

2014
Many LAPFF members as well as other investors in the 'Aiming for A' coalition co-filed strategic resilience shareholder resolutions on reporting and carbon management at Shell and BP 2015 AGMs.

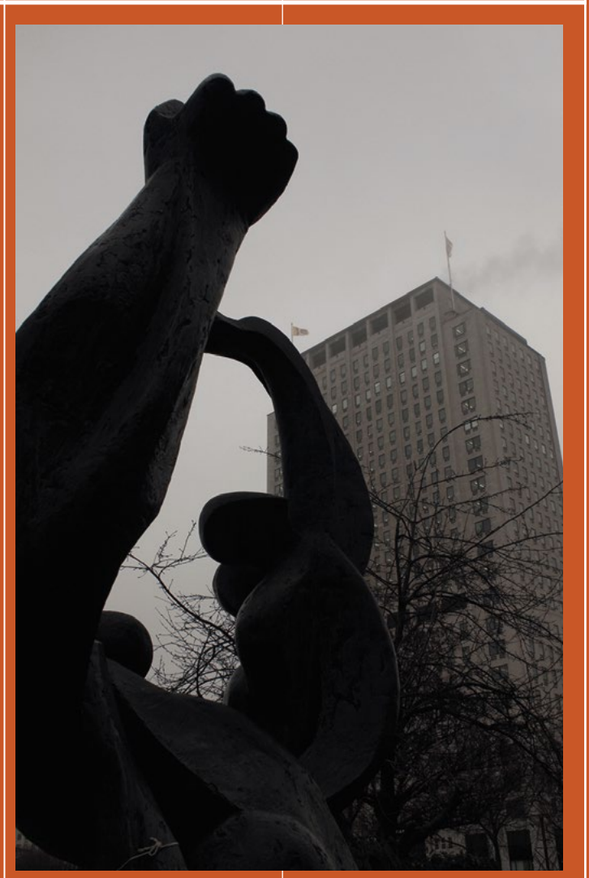
2015
The strategic resilience shareholder resolutions at BP and Shell were supported by their boards and gained the backing of 98% of shareholders. LAPFF was the only Aiming for A investor to meet with both company chairs.

2016
LAPFF continued to support strategic resilience resolutions, with a focus on integrated mining companies with LAPFF members co-filing at Rio Tinto (lake polluted from mining in Spain ↑), Glencore and Anglo American. The company boards supported the resolutions which passed. LAPFF also engaged with companies following the AGMs on how they would be implementing them.

2017
LAPFF continued to engage with Rio Tinto requesting greater detail about disclosures and engaged with BP and Total on scenario planning for a faster transition. Shell announces its decision to sell most of its Canadian oil sand assets.

2018
As part of the newly created CA100+ initiative, LAPFF becomes co-lead investor in engagement with ArcelorMittal, with engagements focused on hydrogen as a means of decarbonising steel. LAPFF signs an investor statement on a just transition.

2019
After a lack of action on climate change, LAPFF issues a voting alert at Exxon advising members to oppose the re-election of most of the board.



2020
ArcelorMittal commits to the group being carbon neutral by 2050 and to producing the first steel using hydrogen in Europe. There was also movement at National Grid, who LAPFF had been engaging with for a number of years and most recently as lead CA100+ investor, who set out their ambition to operate a net zero grid in the UK by 2025.

2021
LAPFF recommended members vote against Shell's climate transition resolution after concerns about its commitment to net zero. While only 11% of investors opposed the Shell resolution, Dutch Courts concluded that Shell's plans were inadequate on the points LAPFF had highlighted. After years of ignoring investor concerns about climate change, LAPFF backed the proposal by hedge fund Engine No.1 for four new directors at Exxon which resulted in a change in board make up. LAPFF supports Say on Climate Initiative to press companies on their climate plans and strategies in a vote at AGMs.

FORGING THE FUTURE

GREEN STEEL AT ARCELORMITTAL

Climate Action 100+ brings together investors with $55 trillion of assets and is focused on engaging the world's largest emitters. As part of the initiative, individual investors lead engagements on behalf of the group. One of the companies that LAPFF has led on is the world's largest listed steel maker ArcelorMittal.

Steel is a widely used commodity, including in the production of cars and buildings. As such, moving to green steel is a requirement for achieving net zero. However, decarbonising steel is not a straightforward task because of current use of coal in blast furnances. LAPFF started to engage ArcelorMittal in 2018. From the first collaborative engagement, the Forum consistently raised the issue of using hydrogen in steelmaking to de-carbonise the process.

In 2019, the Forum continued to engage the company and started to make some progress. The Forum sought assurances about company lobbying activity. The Forum and other investors had been concerned that companies can publicly state their intention to reduce climate emissions only for their positions to be undermined by their trade bodies. Specifically, company representatives were pressed for disclosure that would list membership of trade organisations, positions of those bodies and if and where there was divergence between the trade body and company positions.

LAPFF attended the ArcelorMittal AGM in Luxembourg and asked the company chair, Mr Mittal, to include a 1.5 degree scenario in their policy and climate planning and to join the Energy Transition Commission (ETC) which focusses on decarbonising hard-to-abate sectors. LAPFF, with fellow Climate Action 100+ investors, also met with Mr Mittal after the AGM where Mr Mittal set out his views that there needed to be a green border tax adjustment for the company to be sustainable.

After the meeting, there was movement with ArcelorMittal publishing its first Group Climate Action Report which set out its ambition to reduce emissions and be carbon neutral in Europe by 2050.

In 2020, there were further breakthroughs. The company announced that it would be producing its first steel with hydrogen from renewables in Europe and that it would reduce carbon emissions by 30% by 2030 in Europe. Soon after, ArcelorMittal set an objective for the group as a whole to be carbon-neutral by 2050. The Forum also achieved success in gaining greater disclosure around lobbying, including a published review of activities.

In 2021, company representatives made clear that joining the ETC had been influential in promoting faster change in the company. There were also announcements of real-world impact, including plans for the Sestao plant in Spain to become the world's first full-scale zero carbon emissions steel plant.

SOCIAL ISSUES

HUMAN RIGHTS AND COMMUNITIES

Standing up for human rights

Human rights breaches and social issues impacting communities pose significant investment risks. Often overlooked by companies and investors, LAPFF has actively sought to address such concerns.

Demonstrated by its interest in the apartheid situation in South Africa in the early 1990s, the Forum has historically recognised the importance of engaging companies to protect against reputational damage and legal action and to support sustainable business growth.

Over the past 30 years, the Forum's work on this agenda has covered health and safety and employment practices. However, corporate respect for human rights is wider than employment issues and the Forum's approach has been to engage on company operations affecting individuals and communities, including companies operating in conflict zones.

An early example of success for LAPFF was food and drinks company Grand Metropolitan. In 1993, the Forum became aware of poverty pay and environmental concerns affecting workers and local communities in the company's Mexican subsidiary. The Forum met with the company and successfully pushed for the company to meet the Coalition for Justice in Maquiladoras, an umbrella environmental and human rights campaign group, to discuss its human rights responsibilities.

With the Human Rights Council's endorsement of the UN Guiding Principles on Business and Human Rights in 2011, the Forum has encouraged companies to adopt human rights policies alongside management practices in line with these UN Guiding Principles. LAPFF has led the way on setting expectations to ensure companies were adhering to the introduction of new legal requirements, such as the 2015 UK Modern Slavery Act.

Human rights came to the fore in 2014, when LAPFF engaged defence companies on their respective approaches to cluster munitions. LAPFF research identified difficulties due to states such as US and Singapore not ratifying the international treaty, the Oslo Convention, banning their use. The Forum focused its efforts on raising awareness and adherence of the convention and successfully gained assurances – notably Singapore Technologies in 2017 and Hanwha in 2021 - about not producing or selling cluster munitions.

The Forum's engagement approach of meeting stakeholders, and in particular affected stakeholders, has over the years proven invaluable. The nature of human rights risk means truly understanding concerns relies on qualitative information. From the early 1990s, the Forum has listened to the perspectives of worker and community groups about company practices, both to press companies to respect human rights and to identify and understand investment risks. This approach helped the Forum's recent activities focused on the mining sector following tailings dam disasters and the destruction of culturally significant sites. In the wake of these incidents, the Forum has consulted and spoken to affected communities to enhance its understanding and push for change that both meets the needs of affected communities and lays the groundwork for sustainable investment opportunities.

As the following profile of the engagement with mining companies outlines, this work is ongoing with much still to be done to rebuild trust with local communities and address the causes of the problems. More broadly, new human rights legislation and emerging case law means that scrutiny of company human rights records and the types of risks to companies stemming from their human rights impacts are only likely to increase. ●

A U.N Spanish peacekeeper explains to a child school the risk of unexploded landmines in Khiam village, south Lebanon, 2008

ADDRESSING FATAL CORPORATE FAILURE IN THE MINING SECTOR

Mining is associated with significant human rights risks. While providing employment opportunities, mining also poses grave threats to local communities. The Forum has also been concerned about joint ventures following the 2015 collapse of a mine operated by Samarco, a joint venture between BHP Billiton (now BHP) and Vale. At BHP's 2017 AGM, LAPFF raised questions about the disaster, which killed 19 people, and asked about the operational risks of joint ventures.

Since 2018, LAPFF has met with community members affected by BHP operations. Hearing the perspectives of people directly affected by the companies' day-to-day operations has enabled LAPFF to understand the main concerns and pose more probing questions to the company than would be possible by only studying corporate disclosures.

At the start of 2019, there was another tailings dam disaster, this time in Brumadinho, Brazil. The collapse resulted in the loss of well over 250 lives. This disaster led to the establishment of the Investor Mining and Tailings Safety Initiative, in which LAPFF has played a leading role as stakeholder liaison. The initiative has been involved in engaging affected communities. It also has requested that companies disclose information on tailings storage facilities. This initiative has seen companies post tailings dam information to a database compiled by a Norwegian foundation supported by the UN. The database enables investors and stakeholders to understand the risks associated with individual dams and the companies responsible for them.

"Not only is the human impact of these dam collapses devastating, but we are starting to understand the extent to which failure to ensure dam safety has created risks for our investment portfolios. LAPFF is pleased to be part of the Investor Initiative on Mining and Tailings Safety, both to support safer dams and communities and to help build stronger companies that create better shareholder value for our beneficiaries."

Councillor Doug McMurdo, LAPFF Chair, 2019.

LAPFF has continued to engage with BHP and Vale over reparations to the communities of the Samarco and Brumadinho dam collapses. Progress has been slow and community groups have lacked trust in the process. Six years on from the Samarco disaster, few of the homes destroyed have been rebuilt, but the Forum is hopeful that through further engagement the situation will improve, including wider reparations and support.

In 2020, the Forum began to engage Rio Tinto over its decision to blow up two caves of cultural importance in Juukan Gorge in Western Australia. There was uproar from affected community members and investors. Following the incident, significant corporate governance failings and weak oversight of community engagement were revealed – a systemic problem within the mining industry.

Learning from engagement in Brazil, LAPFF liaised with local investment bodies, primarily the Australasian Centre for Corporate Responsibility (ACCR) and engaged with Aboriginal representatives. LAPFF and ACCR held a seminar with Aboriginal representatives and attended by international investors. When efforts to engage with the company on these concerns failed, LAPFF, ACCR and Aboriginal representatives issued a joint press release. LAPFF issued several subsequent news releases to press the company board to take responsibility for Rio Tinto's actions. Traction with the global media assisted LAPFF's aims, and the Forum used the engagement activity with affected stakeholders to make specific asks of the company.

The company did start to act, cancelling short-term incentives of three senior executives implicated in the incident. However, LAPFF made it clear to the company and publicly that this action was inadequate. In September 2020, the company announced the three executives, including the chief executive, had announced their resignation in relation to the destruction of the caves at Juukan Gorge. The chair announced shortly after that he, too, would be leaving as a means of taking accountability for the caves' destruction.

LAPFF continues to engage with companies and Aboriginal communities in Western Australia to ensure that another Juukan Gorge does not take place.

Concerns about labour practices in National Express' US operations led to a number of members filing a resolution at its 2015 AGM requesting an independent review

EMPLOYMENT STANDARDS

Driving better workplace practices

According to many annual disclosures employees are a company's 'greatest asset'. However, policy and practice can fall short of annual report rhetoric and sentiment, presenting significant risks to investors.

These risks have long been recognised by LAPFF. Founded during a period of high unemployment in the UK, early on the Forum recognised, for example, the potential for hostile takeovers to increase unemployment and the need to engage companies to stop the destruction of long-term value in pursuit of short-term profits. The Forum's initial engagement focused on company approaches during a period of de-industrialisation. The Forum engaged with British Steel about a plant closure and secrecy around it. In a remark indicative of the Forum's pioneering engagement approach (and hostility to it), the British Steel chair remarked at its AGM that it was not a 'tea and sandwiches company'.

The scope of LAPFF's work has not only been long standing but geographically far ranging. In 1998, the Forum laid out its position on supply chain standards, including on child and forced labour. These violations posed significant reputational and legal risks, with LAPFF outlining the need for companies to adhere to International Labour Organization standards. Following LAPFF's adoption of a position on global employment standards, LAPFF initiated an engagement programme with the objective of ensuring companies had clear employment policies. In 2000, the focus moved to the four largest retailers without any policies: JJB Sports, Signet, Boots and WH Smith. On the back of AGM attendance and publicity, by January 2002, all four companies had published employment policies.

The Forum has also taken clear positions on freedom of association and health and safety standards which have been weaker abroad than where the company is domiciled. Concerns about labour practices in National Express' US operations led to a number of members filing a resolution at its 2015 AGM requesting an independent review. A quarter of shareholders backed the resolution, the highest vote an employee rights shareholder resolution in the UK had received at that time. Engagement with the company continued and a freedom of association agreement with the US Teamsters was signed in 2018.

Over the past 30 years the Forum has not only sought to secure change but improve reporting requirements and support investors assessing the risks. In 2003, the Forum set out investor expectations on minimum reporting requirements so that funds could assess 'human capital management' to protect and enhance shareholder value. Scrutiny of employment standards and risks continued over the years, including a 2018 report into precarious work which established stances on zero hours contracts and living wages.

The impact of COVID-19 has again highlighted how important good labour standards and practices are to keeping employees safe at work and protecting shareholder value. Following the onset of the pandemic, LAPFF asked all companies in engagement meetings about their approach to Covid and focused engagements with outsourcing companies and those in the care sector. Although overlooked by some investors, LAPFF from its inception has stressed and engaged companies on the S in ESG and will continue to do so long after the pandemic has ended. ●

In a remark indicative of the Forum's pioneering engagement approach (and hostility to it), the British Steel chair remarked at its AGM that it was not a **'tea and sandwiches company'**

FLYING PICKETS: INDUSTRIAL DISPUTES AT RYANAIR

LAPFF has placed a spotlight on precarious work and poor employment standards, including at Sports Direct and Ryanair. In an engagement lasting over five years with the high-profile company and its outspoken chief executive, Michael O'Leary, LAPFF secured significant changes at Ryanair.

2014

LAPFF concerns regarding employment standards and practices at Ryanair were first raised at the company's 2014 AGM. The issues included the employment status of workers as well as the company's refusal to meet with the pilot union. The Forum also identified governance issues, such as the lack of board independence. At the AGM, LAPFF asked about the lack of engagement with the union and its potential to damage the company's reputation and shareholder value. The response was that relationships were 'very good'.

2015-17

The Forum continued to seek to engage the company on labour and governance issues. However, this came to little with the company declining to meet the Forum despite several attempts.

2018

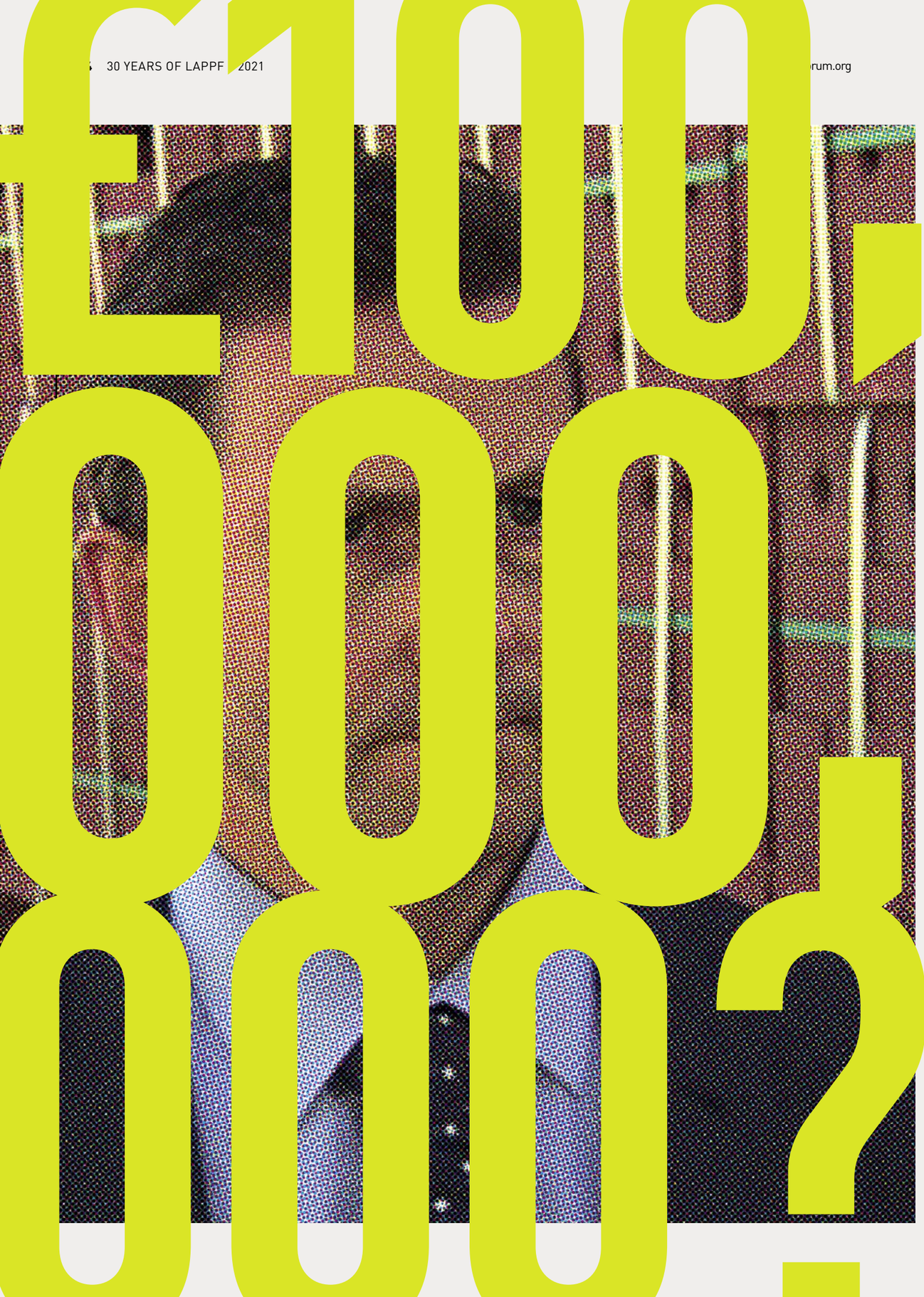
Concerns about employment standards and industrial relations first raised by LAPFF in 2014 came to a head in 2018. Poor industrial relations led to strike action causing widespread travel disruption and the issuance of a profit warning.
Despite numerous attempts, the Forum was still not able to secure a meeting with a Ryanair board member. At the 2018 AGM, 30% of shares were voted against the re-election of Mr Bonderman, the company chair.

2019

Concerned about the continuing human capital management and governance issues at Ryanair, the Forum announced a proposal to file a shareholder resolution ahead of the company's 2019 AGM. The resolution sought to replace the chair David Bonderman, who had been on the board for 22 years, and introduce a coherent succession plan for chief executive Michael O'Leary.

Following the announcement of the proposed LAPFF resolution, Ryanair set out its intention that Mr. Bonderman (↓left), along with the then Senior Independent Director, Kyran McLaughlin (↓right), would step down from the board by Ryanair's 2020 AGM.

GOVERNANCE



EXECUTIVE PAY
Curbing excessive director rewards

High pay is an emotive issue that can move AGM reporting from the business pages to newspaper front covers. It therefore carries serious reputational risks for companies, as well as the potential for shareholder returns to be diverted to excessive executive rewards.

Since its inception, the Forum has raised concerns about high and rising levels of pay and so-called rewards for failure. In the early 1990s the issues centred on privatised utility companies where executive rewards increased rapidly despite little change in company performance. On the back of these developments, LAPFF outlined its stance and called for full disclosure of director pay (including options and bonus scheme targets and awards), shareholder voting on pay policies, and shorter contracts (to combat rewards for failure).

LAPFF met with the housebuilder Persimmon which had courted controversy by rewarding its chief executive, Jeff's Fairburn, in excess of £100m. Persimmon later said the issue was having a "negative impact" on the firms reputation and "Jeff's ability to continue in his role".

Alongside successful engagements including that with British Gas, the Forum also sought to influence policymakers. This included feeding into an inquiry led by Sir Richard Greenbury, then chair of Marks & Spencer. The final Greenbury Report on Directors' Remuneration was published in 1995 and recommended improved pay disclosure. Nevertheless, the Forum noted that while a step in the right direction, shareholders still did not have a say over pay. However, after a decade of pushing for the change and following further concerns over executive pay, the 2002 Directors' Remuneration Report Regulations did give shareholders the opportunity to vote on directors' pay policies.

By the late 1990s the Forum was scrutinising policies which were rewarding executives for small earnings growth (e.g. share options becoming available for only 2% growth a year). On the back of the research, LAPFF wrote to over 50 companies where weak targets were a concern. With time and subsequent engagement LAPFF secured change and by the mid-2000s a quarter had set tougher targets.

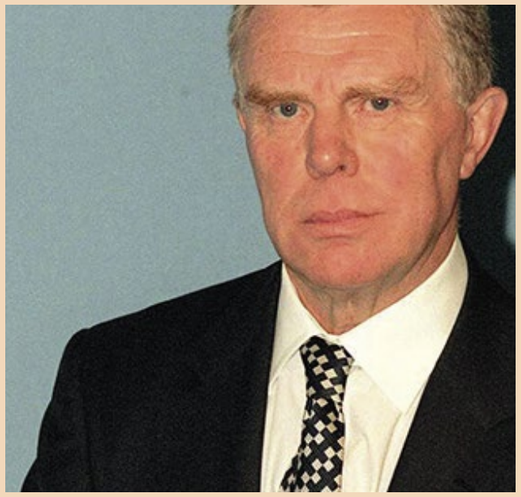
The scale of potential rewards for failure was further revealed after new disclosure requirements. In 2002, LAPFF wrote to the 85 FTSE 100 companies with one or more directors with a contract of longer than a year. A year later a third had seen a change. In 2003, investors could vote on remuneration reports and LAPFF could apply greater pressure. LAPFF raised particular concern at GlaxoSmithKline about the company's 'insipid' targets and potential pay out for contract termination. In a major victory for responsible investors, the remuneration report was voted down by 51% of the proxy votes.

Top pay hit the headlines again in the wake of the financial crisis. The Forum stated at the time that the 'current remuneration system is broken' and started to develop a more comprehensive set of expectations. In 2013, the Forum published these expectations, emphasising that base salary should be the primary way executives should be rewarded, noting too much complexity in long-term incentive plans and criticising the usual definition of 'long term'.

The Forum was also engaging extensively with the banking sector following the furore over bonuses at a time of bailouts. This included with Barclays which is highlighted later in the booklet. Beyond the initial public outcry over the pay of Bob Diamond and Fred Goodwin, LAPFF continued its engagement work. LAPFF met with the housebuilder Persimmon which had courted controversy by rewarding its chief executive in excess of £100m. The Forum had first raised concerns about its incentive plan in 2010. After the pay out was announced in 2018, LAPFF met with the chair to raise deep concerns about the reward and the shortcomings in the company's pay policies. Shortly after the chief executive stood down and following further engagement Persimmon was undertaking changes in its approach to remuneration alongside addressing a wider set of concerns.

The past 30 years have seen notable successes for LAPFF with greater disclosure and shareholder say on pay. However, the Forum has continued to consider company approaches to remuneration flawed and with recurrent cases of excessive awards, much still needs to change in the coming years. ●

CEDRIC THE PIG
AND THE FIRST CORPORATE GOVERNANCE SHAREHOLDER RESOLUTION



LAPFF had not long been formed and had recently adopted clear policy positions on executive remuneration when top pay shot up shareholders' agenda and became an issue of significant public interest. Attention focused on the newly privatised utilities and escalating pay awards. In particular, there was outrage when in 1994 British Gas announced that its chief executive, Cedric Brown, was to receive a 75% pay hike as part of a new remuneration structure, including introducing a long-term incentive plan. This outrage was exacerbated by company plans to cut a third of employees and increase prices for consumers.

In 1995, LAPFF noted that 'there is now widespread public concern that the directors of the company have exploited their position to award pay rises which are unjustified and undermined their ability to lead the company with integrity'. The Forum met with the company chair who provided more detail and rejected the idea that the pay policy should be put to a vote.

LAPFF scrutinised the service contract, under little known shareholder rights to do so, and uncovered discrepancies between the presentation of the changes and the true position. This sparked LAPFF into submitting a shareholder resolution to the 1996 AGM. It was the first time ever that a corporate governance resolution was filed by a group of UK pension funds. The resolution stated that:

'As shareholders seeking to protect the long term business interests of the company, we call on the directors of British Gas to revise its remuneration policy for executives in line with standards of best practice and to report to shareholders on the issue with the company's second quarter results.'

The backlash over the award meant the AGM had to be moved to a larger venue. The AGM was front page news and over 4,000 shareholders attended, including trade unionists who brought a trough and a live pig they named Cedric. LAPFF spoke at the AGM and the resolution passed on a show of hands and received 20% of proxy votes.

Although the vote was lost, within weeks the chair had stood down from the remuneration committee. The company also told several institutions that it would revise targets for its Long-Term Incentive Plan. The Forum's work also helped to inform the Greenbury report on executive pay and had a wider impact on shareholders introducing voting policies on corporate governance issues. The resolution was ground breaking and recognised as such at time with the Financial Times stating that it was:

'a watershed in corporate governance.'

BOARD COMPOSITION AND GOVERNANCE STANDARDS

Insisting on the best company leadership

Challenges companies face often start at the top. Having proper oversight of those in senior positions can safeguard against problems occurring and help enhance shareholder value. Over the past 30 years LAPFF has sought to ensure boards provide challenge to executive directors and senior managers and that the right people, policies, and practices are in place to do so.

LAPFF's stance has always been nuanced when it has come to board composition regarding both board size and directors' skills, background, and experience. Proper oversight and challenge of management decisions also depends on the presence of independent directors on boards. The Forum has long supported separate chairs and chief executive roles and opposed retiring chief executives becoming board chairs.

LAPFF had early success when advocating reform at Lonrho. The FTSE 100 mining company had suffered poor results and was the only FTSE 100 company without any non-executive directors. It's chief executive, RW ('Tiny') Rowland, was also the company chair. Prior to its 1992 AGM, PIRC produced a critical report for LAPFF calling for four non-executives to be appointed. This call was backed by other institutional investors. After raising the issue and pushing for change, eighteen months after the AGM four non-executives were appointed and by 1994 Mr Rowland had resigned. A focus on board composition and independent directors continued with high profile and successful interventions, including at Marks & Spencer in 2009 (profiled in the next section).

> *"It is four years on from the Davies Review, yet Glencore Xstrata, with its global presence, still seems unable to find a woman anywhere in the world of sufficient capability to join the board."*
>
> *LAPFF quoted in Reuters, 8 May 2014*

The Forum continues to issue alerts where practice falls short of expectations, including combined chief executive and chair positions at many of the big US tech firms where it is commonplace alongside dual class shares with different voting rights and directors able to be elected without majority shareholder backing. The Forum has not only sought changes at individual companies but also in regulations governing board elections. A notable success was the annual election of directors, which meant shareholders could take action if problems at a company arose over a short period. Annual elections were first called for by LAPFF in 1994 and were finally introduced in the UK in 2010.

An important aspect of ensuring balanced boards is the background of directors. Successfully providing challenge relies on members avoiding group think. LAPFF has pushed for greater gender and ethnic diversity and has supported recommendations of the Davies review into women on boards and the Parker review into the ethnic diversity of UK boards. In 2012, the Forum joined the 30% Club Investor Group, which sought to increase gender diversity on FTSE 100 boards to at least 30%. LAPFF and other members focussed on the few remaining companies with all male boards. This included a public stance by the Forum with Glencore, the last FTSE 100 company with an all-male board. The Forum issued a voting alert ahead of the 2014 AGM and gained press attention. By the end of the year, the company had appointed a female director. The initiative has been a huge success even if there is much still to be done. When the group first launched, female representation on FTSE 100 boards stood at 12.5%. Today it is approaching 40% and LAPFF now consider 50% an achievable goal for board and senior management gender diversity.

Board composition continues to be a theme of the Forum's work. Joint chief executive and chair roles are commonplace in markets outside the UK. While boards have become more gender balanced, men are still predominant in chief executive and chair roles, and companies have some way to go on ethnic diversity. An emerging area of focus for LAPFF is also on improving the balance of socio-economic background of senior staff and boards. ●

LAPFF SPARKS BOARDROOM CHANGE

In 2008, Marks & Spencer chief executive, Sir Stuart Rose, was promoted to the role of executive chair. The move by the high street retailer contravened the UK corporate governance code's stance over separate chair and chief executive roles and LAPFF's position that if this were to happen, it should only be for a specified, limited period. The Forum met with company directly to raise concerns. LAPFF was not alone in raising an eyebrow over the move with 22% of shareholders not supporting Sir Stuart's re-election at the AGM.

"There is a significant risk for investors that the decision to breach a key principle will send a message to the market as a whole."

LAPFF quoted in the Financial Times, 15 April 2008

Early in 2009, the LAPFF chair met with the deputy chair, Sir David Michels, and outlined its intention to requisition a shareholder resolution if it proved necessary. In line with the Forum's constructive approach to engagement, the LAPFF chair told the company that if LAPFF did file a resolution it would not be advising voting against the election of individual directors. The Forum issued a resolution recognising the challenges the board faced but noting that the board 'now exhibits a high degree of governance risk'. The Forum undertook extensive engagement with other shareholders. It also raised the issue through the media, noting it was about 'Risk, not Rose' and gaining global news coverage

In the event, over 40% of shareholders voted in favour or abstained on the resolution. Following the result, the Forum continued to engage with the company. A successful outcome was achieved later that year when the company announced that a new chief executive had been appointed.

RELIABLE ACCOUNTS

Demanding a 'true and fair view'

The 2007-08 global financial crisis was the biggest of its type since the 1920s, precipitating the largest stock market crash of LAPFF's history. A contributing factor to the banking crisis was defective accounting standards which, because of the immense economic and social fall-out of the ensuing downturn, placed the spotlight on the accuracy of company books.

In the wake of the crash, LAPFF published its 'post-mortem' of the crisis in 2011 which was followed up and updated in 2013. The two reports quantified the shareholder capital lost at UK banks and emphasised the levels of capital the banks had overstated. LAPFF's analysis found that the problem stemmed from International Accounting Standards (IFRS). The Forum also had concerns with the way that Financial Reporting Council (FRC) was presenting the law. On the back of this work, the Forum received two legal opinions from George Bompas QC examining the issues. Mr Bompas confirmed the Forum's view that the 'true and fair view' test in law applies to the numbers in the accounts, not the narrative in general. He also confirmed that UK legislation requires company accounts to enable a determination of distributable profits. The issue rose in prominence as cases emerged of companies paying illegal dividends (dividends paid from profits which did not exist) because IFRS did not follow a true and fair model addressing neither going concern or the cash basis of profits (realisation) properly. Mr Bompas also concluded that IFRS neither required or allowed a "true and fair view" or a "fair presentation", but instead information that is "useful". A test so vague as to be meaningless.

Financial regulation and the role of the FRC became a particular focus for LAPFF. LAPFF analysis uncovered several red flags. In 2018, the Forum's submission to the FRC's consultation on revisions to the Governance Code pointed out these concerns, including the need for the FRC to address its own governance and culture. The Forum did so in the context of the multi-billion-pound collapse of Carillion, the construction and outsourcing company, and with it renewed interest in accounting standards a decade after the crash. The Forum concluded that the FRC needed to be put into special measures or scrapped.

The Forum's submission received a forceful rebuttal from FRC Chair, Sir Win Bischoff. The critique from LAPFF was, however, based on sound research and included information obtained under the Freedom of Information Act. That information included serious anomalies about the FRC's own status, such as the FRC being a public body since 1990 but not operating as one. This meant that the FRC was failing to adhere to rules on spending public money, procurement, recruitment, conflicts of interest and freedom of information. Freedom of Information Act requests also showed that the government's lawyers had not disagreed with LAPFF or the Opinions of George Bompas QC. The FRC had told both the press and Parliament that the government had. As such, LAPFF was concerned about both the technical output of the FRC around accounting law and about its status, the support for the LAPFF position grew.

The collapse of Carillion led to a parliamentary inquiry that was critical not only of the company and auditors but also the FRC, which it described as 'toothless' and 'useless'. At a similar time, the secretary of state Greg Clark MP said that he was planning a review of the FRC. In April 2018, it was announced that Sir John Kingman would lead the review. LAPFF met with Sir John and made a full submission to the inquiry. LAPFF's submission stated that the existing FRC body could not be remodelled and called for a new freestanding organisation accountable to parliament and tasked with standard setting that conforms to company and capital markets law. Pressure on the FRC mounted. By the summer of 2018, over seventy parliamentary questions had been tabled by Baroness Sharon Bowles focused on the FRC.

LAPFF's work paid off when in 2019 the Kingman Review recommendations reflected those put forward by LAPFF. These recommendations included replacing the FRC with a new body accountable to parliament: The Audit, Reporting and Governance Authority (ARGA).

Following the financial crisis LAPFF was also pushing for reform of the accounting industry. There was concern about the dominance of the big four accounting firms and the value of non-audit fees. The Forum pushed for mandatory rotation of auditors, something which was brought in during the mid-2010s. The Forum also met with the Competition and Markets Authority on the structure of the auditing industry in 2019. The opinions of George Bompas QC were cited in their review of the audit industry. Further validation of LAPFF's original view of the shortcomings of international accounting standards outlined in its post-mortem reports came that year. In a Business, Energy and Industrial Strategy Select Committee inquiry, the chief executive of the FRC and the Institute of Chartered Accountants in England and Wales admitted on record that there was a gap between International Accounting Standards and company law in respect to capital maintenance.

BANKERS' BONUSES, FINANCIAL FRAUD AND BARCLAYS

The financial crisis and the near collapse of the banking system led to intense scrutiny of the actions and culture within the financial services sector. This scrutiny extended beyond the lending practices and concerns around accounting standards to bankers pay. This pay issue became particularly resonant with the public with the chief executives of the major banks becoming household names.

In 2011, the Forum wrote to Barclays requesting further information on their remuneration policy. The Forum raised concerns about the risk-reward model operating in banks and suggested that the refinancing of banks by shareholders and taxpayers had changed the rationale of pre-crash approaches to remuneration. The issue gained further attention in 2012 ahead of the Barclays AGM, with Barclays chief executive, Bob Diamond (left), receiving a multi-million pound pay cheque. LAPFF noted that while high pay in the banking sector continued to be a controversial issue with the public, the Forum's approach needed to be based on best practice and shareholder value. The Forum duly criticised the bank for failing to align executive pay with shareholder returns and for its 'tax equalisation payment' which LAPFF deemed irregular and unconvincingly explained. The Forum recommended shareholders oppose the remuneration report and the re-election of the chair of the remuneration committee. LAPFF also called for Bob Diamond to go, and met with non-executive directors to push that point.

Increased scrutiny of the banks also revealed allegedly illegal practices, including the LIBOR scandal. The scandal involved fraudulent activity connected to the London Inter Bank Offered Rate with major financial institutions colluding to manipulate the rate. According to a report by the Financial Services Authority between January 2005 and June 2009 Barclays derivative traders made a total of 257 requests to fix Libor and Euribor rates.

News of the scandal came after the 2012 AGM. LAPFF wrote to members outlining its position, including that the chair, Mr Agius, and the board should have let shareholders know of the investigation, especially given the implications for bonus awards. The Forum also decided to go public. In widespread coverage, ITV stated that the "First shareholder group breaks ranks" by stating Mr Agius' position as chair may no longer be tenable. After increased shareholder and regulatory scrutiny, the following month Bob Diamond stepped down and the chair outlined his intention to step aside.

The engagement with Barclays did not stop there. LAPFF later met with the chair to further express its concerns about LIBOR-fixing, international financial reporting standards and leadership at the company and to understand its approach to succession planning. After failing to deliver promised changes on high pay and succession of the chair of the remuneration committee (Sir John Sutherland), the Forum once again went public to push for change. This included the chair of the Forum telling the BBC:

"Having messed up remuneration for 2013 Sir John has in fact stayed on as chair and presided over another year of still unacceptably high pay for 2014, and is still in place in March 2015... It's nothing short of misleading shareholders."

Facebook 2019 Annual Shareholder Meeting in Menlo Park, California, 2019. Mark Zuckerberg, founder of Facebook, owns a minority stake in Meta Platforms, but controls a majority of the votes

SHAREHOLDER RIGHTS AND CORPORATE GOVERNANCE POLICY

Protecting our members

For 30 years LAPFF has championed not only high standards of corporate governance, but also shareholder rights (and responsibilities) to ensure these standards. From the outset LAPFF has faced push back for challenging companies over their records and their policies. However, over the decades LAPFF alongside other responsible investors have won hard fought battles to ensure shareholders have a say in how companies are run to help protect their investments.

This focus on shareholder rights started during the formation of LAPFF with a report to members on the 'practicalities of exercising voting rights'. This report focused on the rights that shareholders already had and could exercise. The paper noted the financial implications of exercising voting rights in the choice of directors, remuneration and takeovers. The report came out a year ahead of the Cadbury Report into the financial aspects of corporate governance.

This report was followed by: 'Shareholder Action – A user Friendly Guide'. This noted that only a small number of pension funds voted their shares. The report was critical of investment management passivity and recommended funds state a policy to vote their shares. The report criticised the 'administrative nightmare' of voting shares and proposing resolutions, and called for legal changes on shareholder resolutions to allow more time and a lower ownership threshold.

By 1995, the Forum's position had developed further. This position included views around directors pay, director independence, director elections, AGM reform, and environmental and social reporting. This informed LAPFF's submissions to the Hampel Committee on Corporate Governance tasked with reviewing the Cadbury recommendations. When its preliminary report was published, LAPFF highlighted areas that needed to be addressed such as separation of chair and chief executive roles, nomination committee membership guidance, and requirement for institutional shareholders to develop governance policy guidelines. The Committee's final report (1998) addressed some of these issues, but LAPFF argued that the Combined Code should require more detail on board effectiveness.

By the turn of the millennium new rules were introduced requiring funds to include a section in their Statement of Investment Principles on how they would deal with social, ethical and environmental issues and voting rights. One approach that funds could adopt to address ESG issues was engagement rather than just screening portfolios. Requiring funds to consider their response, it opened the way for engagement, and thus the rules both introduced requirements that LAPFF had called for and validated the Forum's modus operandi. This progress was further advanced by the Myners Report into Institutional Investment in 2001, which recommended greater shareholder activism.

In the wake of the financial crisis there were numerous regulatory and government reviews to which LAPFF responded. The Forum set out actions around the role of board directors, remuneration, audit and the role of institutional shareholders to the 2009 Walker Review into the governance of banks and other financial institutions. These actions all found echoes in the report's recommendations. In 2010, the Forum submitted responses to the FSA consultation on Revising the Remuneration Code, the Basel Banking Committee Consultation, the European Commission's Green Paper on Governance at Financial Institutions, and the FRC consultation on the revised UK Corporate Governance Code.

In 2010, reforms to the Corporate Governance Code did see an increase in shareholder rights with the recommendation that FTSE 350 directors face annual election. The same year saw the launch of the Stewardship Code. As LAPFF noted at the time, members had already placed stewardship at the heart of what the Forum does but it was an encouragement to redouble LAPFF's efforts. It was also noted that "we have hopefully entered an era when shareholder engagement is now truly mainstream".

Over the coming years LAPFF continued to push for greater shareholder rights alongside its work on financial reporting. In 2015, LAPFF signed an international investor statement sent to the Italian government expressing concerns about a double voting rights proposal, which was later scrapped due to shareholder pressure. In 2017, LAPFF responded to FCA consultation on the UK listing regime, to ensure the regime was fit for purpose and focussed on shareholder and creditor protection, not other market agents' interests. And in 2018, LAPFF's response to a FRC consultation on the corporate governance code not only outlined a critique of the organisation but also of 'comply or explain' and 'best practice' rather than a code based on duties and the law.

While there is much still to be done great progress in governance and shareholder rights have been made. When LAPFF was founded, engaging companies on ESG issues was a minority sport. Fiduciary duty was viewed narrowly and environmental and social issues were seen purely as ethical rather than financially material considerations. However, after corporate scandals and pressure from the Forum and other responsible investors over the past 30 years LAPFF has seen shareholder rights and stewardship responsibilities on these issues move from the margins to the mainstream.

PRESSING FOR CHANGE: PHONE HACKING AND CORPORATE GOVERNANCE

For some time LAPFF had concerns about global media company, News Corp. In 2009 and 2010 the Forum's focus list included the company because of issues around shareholder rights and the lack of independent representation on the board. During the period the Forum met three non-executive directors to discuss these issues and succession planning for the chair, Rupert Murdoch.

In 2011, news of the phone hacking scandal broke. The revelations showed that News International, a subsidiary of News Corp, and owner of the News of the World, had obtained private voicemails of celebrities, politicians and victims of crime, including the murdered schoolgirl, Milly Dowler.

The month after the scandal hit the headlines, LAPFF met with three board members (Sir Rod Eddington, Viet Dinh and Andrew Knight) to have, in the words of a LAPFF report to members, "a robust discussion". The Forum set out concerns about the scandal and advocated a transition of power away from the Murdoch family. Continuing concerns led to the Forum issuing a voting alert recommending members oppose James and Rupert Murdoch and to support Eddington, Dinh and Knight. In addition, the alert supported a shareholder resolution calling for the separation of the company chair and chief executive role. The Forum also decided to take a very public stance on the issue.

"News Corp and its shareholders desperately want to draw a line under this scandal, but that will only be possible if the board accepts the need to demonstrate real accountability. That requires a change in the structure and the make-up of the board."

Ian Greenwood, chair LAPFF, Guardian, 6 October 2011

The Forum's engagements included meeting with BSkyB given that NewsCorp had a large interest and James Murdoch was chair. News Corp withdrew their contentious takeover of BskyB following the phone hacking revelations and the Forum discussed with the senior independent director how the scandal at News International was affecting BskyB's reputation.

In 2012, the Forum continued to lead calls for action to address the phone hacking scandal, including the resignation of James Murdoch at BskyB and the separation of the joint chief executive and chair role at News Corp. Later that year, it was announced that News Corp would be split up.

LAPFF continued to engage with its main successor, 21st Century Fox, where Rupert Murdoch remained joint chief executive and chair. The Forum challenged this dual role and remained vocally opposed to 21st Century Fox's bid for Sky in 2016. From 2013, the Forum also engaged with Trinity Mirror group about their involvement in phone hacking.

WHERE WE'RE GOING...

The past 30 years have seen a sea change in attitudes towards ESG. In the 1990s, the impact of business activities on people and the environment were regarded as the domain of government not commerce. Such issues were viewed as a matter of ethics rather than hard-headed business. As the booklet has demonstrated, LAPFF has been a leading voice successfully challenging this false dichotomy. LAPFF's success is not only evident in individual company engagements but in a wider shift in attitudes within the market. It can be seen today in regulation and the larger fund managers' new-found emphasis on ESG.

However, the Forum still encounters the old, narrowly conceived view of stewardship responsibilities. LAPFF received push back about the relevance to investors of scrutinising the approach of mining companies to communities. A more responsible approach would have saved many lives but ended in tragedy and billions of pounds of costs. The Covid pandemic was unforeseen but the social issues it raised were long known. The pandemic may have placed the spotlight on social concerns, but LAPFF had for some time warned of the risks around employment standards and precarious work. This was a similar story to the demise of major businesses such as Carillion, after the Forum had questioned accounting standards and the auditing industry.

These are past examples but show the continued relevance of the work of LAPFF. The context in which LAPFF operates will continue to change and evolve, even as asks around corporate governance standards remain constant. We know, for example, that rapidly decarbonising our economy will involve a transformation of industry and commerce, but the scale of this transition will inevitably come with a whole set of unknown issues. Predicting these and other unknowns would be a fool's errand. However, with a focus on ensuring high standards of corporate governance and considering the social and environmental implications of a company's activities, LAPFF can step into the future sure of foot.

NOAA/unsplash

Max Bohme/unsplash

Local Authority Pension Fund Forum

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