

# GLOBAL IMPACT

A LOCAL VOICE MAKING A

Local  
Authority  
Pension  
Fund  
Forum

# SUMMARY

- LAPFF's key purpose is to help its members execute their fiduciary duty to generate required returns from investing. It does this by bringing members together to present a £300bn-plus unified voice to the companies in which its members invest, and to the regulatory and financial systems that support the investment industry. By doing this, LAPFF promotes the highest standards of corporate governance to protect the long-term value of local authority pension funds.
- Because it is a Forum for sharing perspectives LAPFF knows the environmental, social and governance (ESG) issues that concern its members. We are able to identify when companies violate the principles about which its members care. And we are able to target relevant corporate boards and other bodies to achieve change.
- We see the costs, first-hand, when things go wrong in the companies in which our members invest. That is why the Forum proudly leads the way on engaging with companies in the UK and around the world on issues such as climate change, executive pay, and reliable accounting. In the interests of protecting the value of our members' investments, we are prouder still to realise significant and tangible improvements in the practices of some of the world's largest corporations, and to hold up examples of behaviour that matches our values for other corporations to copy.
- But the Forum's work does not stop at the limits at which most investors define engagement. We recognise the role of responsible investors is not just to engage with companies but also stakeholders, such as employees and local communities affected by corporate activities; to gain alternative perspectives on the risks that a company's behaviour may contain, and to include these in our engagements, as we seek to enhance and protect the value of our members' investments.

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# ONLY AT LAPPF

“ LAPPF IS UNIQUELY EFFECTIVE IN GIVING  
 ITS MEMBERS THE UNIFIED VOICE TO  
 FIX WHAT THEY BELIEVE  
 IS WRONG WITH THE  
 WORLD – TO PROTECT  
 WHAT THEY BELIEVE IS  
 RIGHT WITH IT,  
 TO ENHANCE THE VALUE OF ITS MEMBERS’  
 INVESTMENTS AND TO KEEP THEM SAFE ”



LAPFF is the only collaborative engagement body made up of institutions connected by common backgrounds and purpose, who share the same or similar values. LAPFF expresses that common purpose and those shared values in the targeted conversations it conducts with companies, employees and local communities, to represent the interests of its members, and protect the value of their investments.

It is increasingly challenging for investment institutions that cannot match the scale of the world's largest asset managers to take leadership positions across a broad and constantly developing spectrum of ESG issues. It requires a substantial investment to resource the engagement work on these that will stand out to command the scarce attention of target companies, and to have an engagement voice that is heard. In LAPFF's experience, it also requires a differentiated tone to encourage companies (and others) to change their behaviour.

Common purpose and shared values combine with thought leadership, resource and tone; that is why LAPFF is uniquely effective in giving its members the unified voice to fix what they believe is wrong with the world – to protect what they believe is right with it, to enhance the value of its members' investments and to keep them safe.

All of LAPFF's engagement work is informed by listening to the concerns of its members. When we focus on correcting particular company behaviours, we concentrate our voice where the most questionable activities match our membership's largest exposure to risk, measured by portfolio holdings.

LAPFF's members get to choose which engagements to pursue, who to target, and how the engagements are managed. This includes handing control to members over when engagements should be escalated and when they should be concluded.

Working through the Forum's Executive Committee,

members set the objectives, and specify the milestones against which engagement success, or otherwise, is measured.

LAPFF members take the lead and set the tone in each significant engagement meeting. This may be the first time that company boards hear an authentic voice speaking on behalf of pension fund beneficiaries, and LAPFF has the capability to train members to represent the Forum at this level of engagement.

LAPFF's members therefore hear the responses that target companies make to the Forum's concerns in person, and witness the body language at play. That means they are able to accurately judge the authenticity and quality of these responses. This removes the risk involved in later receiving an edited form of a target's response, which may not reflect the nuanced reality of what was said – and how it was said.

Critically, LAPFF gets to cross check these corporate responses against what members hear from employees and local communities to establish the truth of corporate performance and the risk that company behaviour may pose to the value of member investments.

Because they play a central role in LAPFF's engagement work, members are in position to learn from engagements that proceed more slowly than they would like, or which do not succeed in achieving their objectives: to report a genuine account of this performance to the wider membership base, and to learn from each engagement experience such that the Forum is in position to get better at protecting the value of members' investments over time.

Working so closely with them, LAPFF members own the performance of the engagements they choose to pursue and which they design. That enables them to put their names next to the changes in corporate behaviour that their engagement work achieves, and to be the responsible investors they wish to be.

“LAPFF MEMBERS GET TO CHOOSE WHICH ENGAGEMENTS TO PURSUE, WHO TO TARGET, AND HOW THE ENGAGEMENTS ARE MANAGED.”

# HOW LAPFF CHOOSES AND PRIORITISES ITS ENGAGEMENT WORK

The purpose of the Forum's ESG research is to ensure each engagement is evidence-based: to identify and analyse corporate policies and practices where members have raised concerns about investment risk; to establish best practice regarding the member-related principles at play, and; to identify any companies the Forum should hold particularly accountable in respect of poor practice.

The resources committed to engagement by the Forum, and decisions made in respect of engagement themes and targets, is an iterative process that starts from the work plan that directed the Forum's engagements in the prior year. This is itself is a cumulative and changing reflection of the issues that members believe are most pressing in respect of generating investment risk.

Each year, the Forum's work plan is amended to include new engagement topics, and refinements to existing work that have been suggested by members, and which have thereafter been discussed and approved by the LAPFF Executive Committee (the LAPFF Executive Committee itself comprises 14 representatives who are elected to the committee by the wider LAPFF membership).

This process generates a draft work plan, which is presented to the January meeting of the Executive Committee, supported by dedicated research provided by the Forum's research and engagement partner on any newer topics.

Wider comments and suggestions contributed by members to the Executive Committee in that meeting are then incorporated into the work plan that is presented for member review at the January Business meeting. This is also emailed to all members, officers and chairs – with a request for comment and input by a certain date.

The input generated by that process is reviewed and collated for further consideration by the Executive Committee, together with recommendations in respect of what issues to include in the final work plan.

Amendments agreed by the Executive Committee are subsequently incorporated into the final work plan which is put to members for approval at the April Business meeting.

Forum members may raise issues in respect of the Forum's engagement work throughout the year, by writing to the LAPFF Chair. A request is sent to members each year to ascertain portfolio holdings in order to ensure that specific company engagements are concentrated in targets in which members' investments are most at risk. Individual member holdings are anonymised in the aggregation of this data.

The resulting choice as to which company engagements to pursue and to prioritise is a product of issues most likely to be of concern to members; of identifying the companies that exhibit the most questionable performance in respect of these issues, combined with consideration of the size of the investments that members have in companies most closely associated with the issues of concern.

The Forum also engages with those companies that demonstrate best practice, so that it can evidence higher standards of ESG performance to poorer performers in the same sector.

As a matter of course, the Forum aims to communicate with or meet with board members of the most widely held companies in each market every two years, and has more recently introduced a focus on engagement with FTSE 100 companies in which members have holdings of 2% or over.

To match the increasing geographic diversification of member portfolios, LAPFF continues to expand the international component of its company, stakeholder and local community engagement work. Where considered more effective, the Forum adopts a collaborative approach to support its international engagement work.

Where feasible, AGM attendance is considered a core element of corporate engagement allowing all board members of a company to hear from the Forum: often paving the way for follow-on meetings. AGM attendance is offered to members of the LAPFF Executive Committee and focuses on those companies with which the Forum has been engaging; its most widely held companies, and other, less widely held companies in which particular concerns have been identified. This attendance includes UK, European, North American, South American and Australian annual meetings.

Every quarter, the LAPFF Executive Committee meets to review developments in the work programme, and discuss and deliberate new proposals. Additionally, a meeting is dedicated to a strategic review of LAPFF activity. Further provision is made for ad-hoc meetings on items that need a timely response.

Business meetings provide members with updates on overall engagement activity over the previous quarter as well as hearing from LAPFF executive members on specific company engagements. These meetings also enable members to debate current initiatives and help shape new proposals. The programme often includes a presentation from an external speaker on a responsible investment topic related to the work plan or member interests.



**EACH YEAR, THE FORUM'S WORK PLAN IS AMENDED TO INCLUDE NEW ENGAGEMENT TOPICS, AND REFINEMENTS TO EXISTING WORK THAT HAVE BEEN SUGGESTED BY MEMBERS.**

# HOW LAPFF MANAGES ITS ENGAGEMENT WORK

Rather than hiring a third-party to engage with companies, regulatory bodies and parliamentary groups on its behalf, LAPFF does all of its engagement work itself, as pension fund trustees and asset owners. That way, we are able to manage each engagement according to our agenda and priorities. Where we deem fit we can, for example, extend our outreach to employees of a relevant companies and members of local communities that are affected by the company's behaviour.

LAPFF engagement meetings with target companies are typically held with the chair or other board members of the companies concerned. Training is available to LAPFF executive members who participate in such engagement meetings and each meeting is supported at all times by expert staff from the Forum's research and engagement partner.

In initial meetings with a company the LAPFF representative takes the lead by setting the tone and purpose. Participation in all meetings is supported by briefing notes shared ahead of time, which are discussed by the executive committee member and the research and engagement staff member who drafted the note. These discussions take place either shortly before the meeting is scheduled to start, or by telephone a day or two prior to the meeting.

A de-brief discussion is held immediately after the meeting to gauge progress; to clarify how to respond, and to decide the next steps. This is where we learn most from our experience, and gain perspectives on how to improve our engagement performance next time round.

A record of the meeting, its objectives, outcomes and suggested next steps is made, which is subsequently reported in the Quarterly Engagement Report at the next Executive meeting – and subsequently to all members at the next Business meeting.

Our experience suggests that having LAPFF executive committee members meeting face-to-face with company representatives is a particularly persuasive form of engagement. It can be a new experience for a board member to discuss an engagement issue with a pension fund trustee or asset owner, rather than with their appointed, representative fund managers. Being so close to the people whose investments are at risk, the authentic voice with which our members can speak of the concerns they are raising can be distinctive and highly influential.

It is also helpful for LAPFF representatives to hear directly from companies about challenges they may have in regard to responding to the Forum's requests, which can give the Forum a sense of what it (and the company in question) is up against aiming for change, and inform the future shape of the engagement, with ripple effects out to the Forum's work plan.

This direct engagement coupled with the weight of representing over £300bn of asset under management gives Executive members considerable clout in company engagements. Consequently, rather than having to shout loudly to get itself heard, LAPFF customarily employs an engagement style that is balanced and – respectful – yet challenging. This approach means that the Forum will support board members where desired behavioural and policy changes are clearly being made, but will hold them to account where performance needs to improve. Critically, the tone with which the Forum conducts its engagements not only mirrors its own personality, but also makes for the type of relationship building that grants the Forum access to chairs and boards when members decide the next engagement issue with that company.

## ESCALATING THE FORUM'S ENGAGEMENTS

To reflect its engagement style, LAPFF has a set escalation strategy for company engagements:

- The Forum prefers to meet with company chairs or board directors in the first instance, either one-on-one or through appropriate collaborative investor engagements.
- If these meetings and subsequent meetings do not meet the Forum's expectations in terms of a company's receptiveness to LAPFF's agenda and performance against the objectives and milestones set for the engagements, the Forum might issue a voting alert to its members (voting alerts can reflect positive developments too, with LAPFF choosing to support a resolution as a means of recognising a company's progress).
- If progress falters, the Forum can choose to initiate a media campaign.
- It might choose to join or instigate a collaboration with other trusted investors.
- It may also file a shareholder resolution, or co-file a resolution with other shareholders.



## POLICY ENGAGEMENT BY LAPFF/HOW LAPFF INFLUENCES PUBLIC POLICY

Public policy often sets the framework for the Forum's issues-based and company engagements. For example, the Forum secured a significant victory when Ford and other car makers with which it engaged agreed to more stringent federal emissions and fuel efficiency standards in California, which will drive up regulatory requirements in reducing carbon emissions. And its work to improve financial reporting standards so as to reduce the risk of another banking crisis, contributed to the replacement of the Financial Reporting Council by a new body, the Auditing, Reporting and Governance Authority (ARGA).

LAPFF therefore seeks to influence the public policy debate where it believes it has the chance to bring most leverage to bear. In the UK, for example, the Forum backs the All-Party Parliamentary Group for Local Authority Pension Funds; hosts regular political party conference fringe meetings; submits responses to government consultations, and; works with politicians and policymakers to push the Forum's agenda – including engaging with MPs on Select Committees and, more widely, assisting MPs putting down Parliamentary Questions.

## ISSUE-BASED ENGAGEMENT BY LAPFF/HOW LAPFF MIRRORS THE CONCERNS OF ITS MEMBERS

Because LAPFF's mission is to represent the interests of its members and mirror the concerns of its membership base in its engagement activity, the Executive Committee can approve engagement with companies that are not necessarily widely held by LAPFF funds, where the behaviours the companies are exhibiting may result in a systemic impact.

For example, in the past the Forum has engaged with Sports Direct on employment standards, a company in

which many LAPFF funds have periodically chosen not to invest (most likely because of its poor performance across a range of responsible investment measures).

Three criteria are reviewed when considering whether to undertake an issue-based engagement with one or a small group of companies. These are compelling evidence, severe consequences, and industry or broader impact.

With regard to compelling evidence LAPFF has, for example, engaged with National Express despite LAPFF funds not having large aggregate holdings. The basis for this was that the Forum believed there was significant legal and anecdotal evidence that the company's approach to unionisation in the US could be leading to systemic anti-trade union practices within its business. In the opinion of the Forum's members, this threatened to undermine generally accepted good practice for labour standards, and created reputational, legal, operational and financial risks for companies in the passenger transport industry as a whole.

In respect of severe consequences, union studies suggested that adverse employment practices were taking place systematically and on a large scale at a Sports Direct facility in Derbyshire. LAPFF felt these allegations warranted engagement, not least to ensure the company did not drive down standards for the entire leisure goods retail industry.

With regard to broader impact, LAPFF has considered it important to engage with companies in oil and gas industries, which may be responsible for almost two-thirds of the world's carbon emissions. Members wanted LAPFF to do this in order to contribute to pressure being brought to bear on the companies in these industries to reconfigure their businesses in accordance with a low-carbon economy – even where LAPFF fund holdings are not very high.

In determining when and how to engage across these three criteria, LAPFF considers whether it might be more effective (from a cost and an impact perspective) to collaborate with other investors or partners to achieve its engagement objectives.

If a company is creating an issue that warrants possible LAPFF attention but the company does not meet a holdings threshold for engagement, a member can request that LAPFF engage through the following procedure.

The LAPFF member writes a letter or email to the LAPFF Chair identifying the company with which it wishes LAPFF to engage, and why it believes the engagement is justified in respect of the three criteria above – spelling out LAPFF's incentive to engage.

That communication will then be presented to the LAPFF Executive for discussion and approval. If approved, the engagement will proceed in line with LAPFF's standard engagement approach: starting with a letter to the company chairman requesting a meeting on the subject of concern.

If a LAPFF member would like to approach the engagement as a collective engagement, additional justification for the collective engagement should be included in the letter. In this case, if the request is approved, LAPFF will seek to engage with the company through the collective body undertaking the engagement in question.

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# LAPFF'S ENGAGEMENT WITH STAKEHOLDERS AND LOCAL COMMUNITIES

The Forum has routinely engaged with unions and workers, and recognises the important information these stakeholders can provide about investee companies. This engagement has included speaking to unions about developments at Ryanair and having workers share their insights at a LAPFF investor briefing.

Because it has seen the value of gaining perspectives on an issue other than solely from the companies that lie at the heart of members' ESG concerns, LAPFF has now taken the decision to increasingly reach out to company employees and local communities affected by a

company's behaviour.

How else could we discover the truth on the ground in the Mariana region of Brazil when a tailings dam owned by Samarco collapsed? How could we report this back to members, and contrast this with the company's response to the disaster without hearing from affected communities? And how else could members agree to commit significant additional resources to a wider mining related engagement issue about which they are passionate, and where the value of their investments is at stake?

Reflecting on why LAPFF should be amongst the first in the investment industry to engage with local communities, and why it has become a leader in doing so, we have concluded that doing so is simply an extension of who we are and at the heart of what we are trying to achieve.

As asset owners, rather than asset managers, our members are close to the people whose savings are entrusted to them. They live and work alongside current and future beneficiaries. They have a local presence. And they know many of the pensioners that rely upon them to look after their pensions.

Maybe that is why, working through the Forum, they care about speaking to the people that actually work in the companies in which they invest, and about speaking to people in the local communities affected by the operations of those companies.

**Cut from the same cloth: we are more likely to place a value on opinions that originate from outside the boardroom than some. And we are more likely to reflect those opinions using an authentic voice inside the boardroom.**





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Brazilian community members: Leticia Aleixo, Marcela Nayara Rodrigues, and Julia Mello Neiva

# DO YOU KNOW THAT WE SAW THE CRACKS IN THE DAMS? WE TOLD THE COMPANIES AND THEY DID NOTHING

## CASE STUDY: LOCAL AUTHORITIES LISTENING TO LOCAL COMMUNITIES TO ENGAGE WITH INVESTEE COMPANIES FOR CHANGE

About two and a half years ago, a young Brazilian woman contacted LAPFF to ask if any of its representatives would be willing to meet with Brazilian community members affected by the Samarco dam collapse in the Mariana region of the country on 5 November 2015.

Given LAPFF's inclusion of workers at its annual conference and seminars, and its engagement with Nigerian community members affected by Shell's operations in the late 1990s, LAPFF knew the social, environmental, and investment benefits of worker and community engagement. So a meeting was set, and five Brazilian community members flew to London to meet with LAPFF and other investors.

Over the course of two and a half hours, the Brazilian community members spoke one by one about the dam collapse, some shaking with rage, others bursting into tears. In addition to their pain and emotion being evident, what also began to emerge was the financial materiality of

the information they were sharing.

"Do you know that we saw the cracks in the dams?" one community member asked, adding: "We told the companies and they did nothing."

When this information was shared with LAPFF members, some pension fund trustees who clearly cared for the welfare of local communities affected by the behaviour of the companies whose shares they owned but who may previously have thought, 'what does this have to do with my fiduciary duty to generate required returns from investing?' now made the connection between the communities' suffering and their own investment performance. So when the Church of England Pensions Board and Swedish Council of Ethics to the AP funds began an investor initiative on tailings dam safety in February 2019 following the tailings dam collapse in Brumadinho, Brazil, the Forum asked to bring the community voice into investor discussions. The initiative co-leads very willingly agreed.

More revelations were experienced after two Brazilian community members spoke in front of over 200 investors at the LAPFF Annual Conference in December 2019. The Chairman of the Forum, Doug McMurdo, readily admits to being brought to tears by the community members' accounts of their suffering, and other LAPFF members have also clearly been affected by the presentations – so much so that, over the past year, the LAPFF membership has called for increased engagement between the Forum and community members.

Earlier this year, the Forum partnered with the Australasian Centre for Corporate Responsibility (ACCR)

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**Quarterly Engagement report**  
April-June 2019

**Tailings dams, Persimmon, Centrica, BP, ArcelorMittal, Imperial Brands**

Local Authority Pension Fund Forum

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**Quarterly Engagement Report**  
July-September 2020

**Rio Tinto BHP, Tesco, Sainsbury, ArcelorMittal, National Grid**

Local Authority Pension Fund Forum

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**CLIMATE EMERGENCY**



**Rio Tinto under pressure from investors over Juukan Gorge**

As LAPPF has been learning more about Rio Tinto's involvement in the destruction of the historically significant sites at Juukan Gorge in Western Australia, there has been increasing concern about the company's corporate governance practices. Consequently, the Forum – along with other investor groups, most prominently the Australian Centre for Corporate Responsibility (ACCR) – has been pushing the company to review its corporate governance arrangements.

One of the main strategies in this engagement has been to issue press releases citing LAPPF's concerns as well as details of Rio Tinto's practices were revealed through a range of investigations. There has been an interest investigation led by a non-executive director on Rio Tinto's board, which resulted in the elimination of short-term bonuses for three senior executive members, including the CEO. Subsequently, the CEO and two other senior executives resigned.

The Forum received significant press coverage for its support of this message. LAPPF also issued press releases responding to information issued by Australian Parliamentary inquiries into this matter. There appears to be increasing evidence of corporate governance failures, particularly in relation to engaging properly with indigenous communities, resulting from these inquiries.

LAPPF is continuing to ask questions of the Rio Tinto board about its response to the mounting information on corporate governance failures. The Forum currently has requested LAPPF Chair, Cllr Doug McMurdo, meet with the Chair of Rio Tinto, Simon Thompson, about the

"My interaction with Mr. Thompson, in his roles as Chair of both Rio Tinto and BHP, has been positive thus far. However, I sense that investors are losing confidence in his leadership and in his board at Rio Tinto. It will be a long road back for the company."

Cllr Doug McMurdo

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**What happened at Juukan Gorge?**

In May, Rio Tinto destroyed 46,000 year old Aboriginal sites in the Juukan Gorge region of Western Australia. The destruction was part of a government sanctioned mining operation in the region. The sites are of cultural significance to the Puutu Kuntj Kurrama and Pitjara (PKK) people who claim Rio Tinto did not engage with them adequately before the disaster.

Rio Tinto has since apologized, and senior executives have resigned. However, an Australian parliamentary inquiry is continuing and may yet reveal further corporate governance failures.

to bring Traditional Owner voices into the investment space in relation to Rio Tinto's destruction of a cultural heritage site at Juukan Gorge in Western Australia. LAPPF and ACCR co-hosted a webinar with Aboriginal leaders, Professor Marcia Langton and Karrina Nolan, to hear what the affected communities expected of Rio Tinto. A number of major Australian and UK asset owners and asset managers acted on this input in joining calls for Rio Tinto to take accountability for the site destruction, which led to the resignations of three senior executives from the company.

LAPPF members and other investors have now heard very similar stories from affected community members in Brazil, Australia, and the US about the shortcomings of company engagement with affected communities and how these inadequacies are creating business risks and investment risks.

In the wake of the Juukan Gorge disaster, an investor group has come together to discuss the relationship between mining companies and affected communities. A letter has now gone out to 78 mining companies requesting meaningful information on their community engagement practices.

There is a long way to go, but LAPPF members are taking a lead in seeking to understand how and why the corporate behaviours that adversely impact local communities can also impact investment returns, and what to do about this in terms of influencing corporate behaviours.

**“This is about local authorities representing the voices of local communities in the Boardroom in the interests of both those communities and the authorities’ pension fund beneficiaries.”**

Doug McMurdo, LAPPF Chair adds “I have said publicly that I now see community voice as financially material, and it appears that the membership increasingly agrees. Other responsible investors are also starting to understand the value of community voice from an investment perspective”.

