

PENSION FUND COMMITTEE – 8 JUNE 2018
THE LOCAL AUTHORITY PENSION FUND FORUM
Report by the Director of Finance

Introduction

1. One of the areas of growing importance in the work of this Committee is how it fulfils its role as a responsible investor. Stakeholders, including both scheme employers and scheme members are becoming increasingly vocal in challenging the Committee to ensure it is carrying out its statutory duties with sufficient regard to concerns around environmental, social and corporate governance (ESG) issues.
2. Across the Brunel Pension Partnership, 8 out of the 10 Pension Funds have joined the Local Authority Pension Fund Forum (LAPFF) as a means of supporting their role as a responsible investor. This report considers whether it is appropriate for the Oxfordshire Pension Fund to now sign up as a member to the Forum.

Investment Strategy Statement

3. The Committee's Investment Strategy Statement (considered elsewhere on today's agenda) includes sections on both ESG Policy and our Policy on the Exercise of our Rights. The ESG Policy makes clear that this Committee recognises that ESG issues, including climate change, can have materially significant investment implications. As a responsible investor, the Fund will consider ESG risks as part of its investment process.
4. The Committee has clearly stated its view that as a responsible investor, it sees engagement with company management as a key part of its role and something that should always be undertaken before simply divesting from a company. Divestment removes the ability to influence company management, whereas engagement done well has been seen to bring about real change.
5. Under the section on the Policy on the Exercise of Rights, the Committee recognises that encouraging the highest standards of corporate governance and promoting corporate responsibility by investee companies, protects the financial interests of pension fund members over the long term. The Fund commits to actively exercising its ownership rights, reflecting a conviction that the way in which an enterprise is managed and how their activities impact on customers, clients, employees, stakeholders and wider society are all issues that should be overseen by a responsible investor.

The Local Authority Pension Fund Forum (LAPFF)

6. A key question therefore is how the Committee fulfils its responsibilities as set out in the Investment Strategy Statement. Whilst many of the functions are delegated to the individual Fund Managers, and will be overseen by staff at Brunel, this does not mean that the Committee have fully met their responsibilities.
7. The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of local authority pension funds and membership is open to all Local Government Pension Scheme (LGPS) funds. The Forum:
 - Seeks to protect and enhance the value of members shareholdings by optimising LA pension funds' influence as shareholders on ESG issues and thereby to promote Corporate Social Responsibility and high standards of Corporate Governance
 - Facilitates commissioning of research and policy analysis of issues more effectively than individual members
 - Provides a forum for consultation on shareholder initiatives
 - Provides a forum for information exchange and discussion about any investment issues
 - Provides a forum to consider issues of common interest to all pension fund administrators and trustees.
8. The Forum has 4 business meetings a year plus an AGM and an annual conference with each member fund having one vote at meetings. LAPFF contracts PIRC (Pensions Investment Research Consultants) to supply technical research, advice and assistance on all matters relating to best practice in corporate governance and corporate social responsibility. It also employs a part-time Forum Officer (a former City/County Treasurer) to assist with the promotion of its activities.
9. The Forum currently has 75 local authority members including 28 English counties; 25 London authorities (including the City of London Corporation and the LPFA); 7 English metropolitan/ unitary authorities; 8 Welsh authorities; 4 Scottish authorities; The Environment Agency and 2 passenger transport authorities.
10. LAPFF member funds now control assets of around £180 billion. The annual cost of membership would be the annual subscription of **£9,000**.
11. Benefits of membership would include:-
 - Supporting shareholder value through engagement and activism on issues relating to ESG issues.
 - Strength in numbers when engaging with companies at the highest level (i.e. Chairperson or other senior board members)
 - Collective and more cost - effective approach to research
 - Saving of officer time and cost in researching issues

- Sharing research costs with 75 Forum member funds
 - Providing a Forum for discussion of any related local government pension fund issue
 - Opportunities for networking with colleagues from all parts of UK and all types of authority
 - Facilitating collaboration with other major institutional investor groups both nationally and internationally.
 - The Forum's aims are to provide a customised, cost effective vehicle for local authority pension funds to make their compliance with Myners principle 5 (responsible ownership) more effective.
12. Membership of LAPFF would further demonstrate the Fund's commitment to socially responsible investment and the promotion of high standards of corporate social responsibility (on environmental, social and governance issues etc) and re-enforce our aim to maximise shareholder value.

RECOMMENDATION

13. **The Committee is RECOMMENDED to agree membership of the Local Authority Pension Fund Forum, and instruct the Officers to make the necessary arrangements.**

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