

HAMPSHIRE COUNTY COUNCIL

Decision Report

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| Decision Maker: | Pension Fund Panel |
| Decision: | 19 December 2014 |
| Title: | Review of the Pension Fund's membership of the Local Authority Pension Fund Forum |
| Reference: | 6357 |
| Report From: | Director of Corporate Resources – Corporate Services |

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1. Executive Summary

- 1.1. This report provides a review of the Pension Fund's first year of membership of the Local Authority Pension Fund Forum (LAPFF), and considers the Fund's options for future participation of the LAPFF and in other national groups.

2. Background

- 2.1. The Hampshire Pension Fund is the 6th largest LGPS Fund in England and Wales (based on total members). The Fund therefore has significant potential to participate in, and influence, national forums.
- 2.2. One of the forums the Fund currently participates in is the Local Authority Pension Fund Forum, which it joined in December 2013. The LAPFF exists to promote the long term investment interests of local authority funds, and maximise their influence as investors.
- 2.3. The Panel need to decide whether the Fund should continue to participate in the LAPFF as the fund's first year of membership expires in March 2015. The Panel may want to consider if membership of the LAPFF represents value for money for the Fund, and whether there are other groups which it would be beneficial to join, in order to exercise influence over the future of the LGPS and to be better informed on wider pensions issues.

3. Review of LAPFF membership

- 3.1. The primary function of the LAPFF is to:
 promote the long-term investment interests of UK local authority pension funds, and in particular to maximise their influence as investors to promote corporate social responsibility and high standards of corporate governance

amongst the companies in which they invest, commensurate with statutory regulations. Furthermore the Forum: -

- i) Provides a forum for information exchange and discussion about investment issues.
- ii) Facilitates the commissioning of research and policy analysis of issues in a more effective manner than individual members could achieve.
- iii) Provides a forum for consultation on shareholder initiatives.
- iv) Provides a forum to consider issues of common interest to all pension fund administrators and councillors.¹

3.2. The advertised benefits of LAPFF membership are:

- Intensive engagement with more than 60 companies per year on environmental, social and corporate governance issues, plus outreach to hundreds of global companies through collaborative investor initiatives
- Access to extensive, detailed research and reports, such as LAPFF's ground-breaking 'post-mortem' of the UK and Irish banking crisis
- Expert opinion and responses to government consultations on corporate governance, stewardship, capital markets and responsible investment
- Trustee Guides on subjects ranging from mergers and acquisitions to climate change
- Voting alerts for global companies' AGMs with serious corporate governance failings
- Members-only website with exclusive content and monthly bulletin summarising Forum updates and responsible investment news
- Attendance at quarterly business meetings, including presentations from expert speakers and detailed updates on engagement and policy work
- Two free places at LAPFF's well-regarded Annual Conference.²

3.3. The LAPFF represents 61 LGPS funds. Membership has widened a little in recent years but primarily the membership has an interest in an activist approach to their role as shareholders. Metropolitan and London boroughs dominate LAPFF's executive, with Councillor Keiran Quinn of Greater Manchester as the Chairman.

3.4. Locally, Dorset, East Sussex, Surrey and Wiltshire are members of the LAPFF, but Berkshire, Kent and West Sussex are not.

¹ Local Authority Pension Fund Forum: The Constitution of the Local Authority Pension Fund Forum, 2013

² Local Authority Pension Fund Forum, 2013 - <http://www.lapfforum.org/about-us/join-us>

- 3.5. The LAPFF heavily contributed to the debate on the LGPS reforms, and have stated that their aim is to represent the LGPS in debates over its future as well as the future of administration authorities.
- 3.6. The annual subscription is £8,640 (or £8,250 per annum for a three-year subscription).
- 3.7. During the last year, members and officers of the Pension Fund have attended three LAPFF quarterly meetings. On two occasions these were combined with training. For the business section of the meetings, members of the LAPFF executive gave brief overviews of reports that had been agreed at prior meetings of the LAPFF executive.
- 3.8. Although as part of the Pension Fund's membership of the LAPFF, the Panel is given two free places at the Annual LAPFF Conference, no Panel members attended the event in Bournemouth on 3, 4 and 5 December 2014.
- 3.9. The Pension Fund also receives various communications via email from the LAPFF which include a monthly e-bulletin, a quarterly engagement report, and voting alerts.

4. Future participation

- 4.1. The Pension Fund Panel joined the LAPFF as a one year trial and agreed to revisit the decision of the Pension Fund being a member of the LAPFF when the membership needed to be renewed.
- 4.2. Since joining, Panel members have commented that if the Fund continues its membership of LAPFF it should seek representation on the executive as one of the largest LGPS funds.
- 4.3. The options available to the Pension Fund are to:
 - cease membership of the LAPFF,
 - renew the membership, but apply for a seat on the executive,
 - renew the membership, and continue with the current level of participation.
- 4.4. The unique benefit of LAPFF membership is access to communications and voting alerts, which allow members to exercise their shareholder voting rights in accordance with the LAPFF's agreed strategy.
- 4.5. The case for ceasing membership is that the key benefit of the LAPFF is not of use to the Fund because of the agreed way in which the Fund instructs its external investment managers, as set out in the Statement of Investment Principles (Appendix 1 to this report). The Fund's investment managers have been instructed to exercise the Fund's responsibility to vote on company resolutions wherever possible. The voting alert information is therefore not of use to the Fund, as the investment managers make the decisions based upon guidelines the Panel has provided.
- 4.6. Currently the Fund does not hold a seat on the executive, and so does not contribute to LAPFF's decision-making processes, despite being one of the

LAPFF's largest members. Therefore if the Panel decides that the Fund's membership of the LAPFF should continue, the Panel should consider whether a nomination for a member of the Pension Fund Panel should be put forward for the LAPFF 2015 Executive. Nomination forms are required to be submitted to the LAPFF by 5 January 2015, and a sample form is attached at Appendix 2.

- 4.7. Alternatively the Panel could continue its membership and current level of participation. However the benefits of doing so are limited, and may be equally or better achieved through membership of alternative organisations.

5. Membership of other organisations

- 5.1. Previously the Pension Fund held membership of the National Association of Pension Funds (NAPF). The NAPF is a body which aims to be the voice of workplace pensions in the UK. NAPF speaks for over 1,300 pension schemes that provide pensions for over 17 million people and have more than £900 billion of assets. NAPF also has 400 members from businesses supporting the pensions sector.
- 5.2. The Panel chose to cease its membership of NAPF because it was not felt that NAPF was representative of the LGPS as it has a wider remit of all workplace pensions in the UK, and did not have a voice in the public sector.
- 5.3. Since the Panel's membership of NAPF ceased, NAPF has increased its presence in the LGPS arena and 80 LGPS funds are now members. NAPF heavily contributed to the debate on the LGPS reforms, and the NAPF Defined Benefits Council now includes representatives from local authorities including Westminster and Norfolk.
- 5.4. NAPF runs three main conferences per year which are the annual conference, the investment conference and the Local Authority conference. Of these the Local Authority Conference would be the most useful for the Panel, and the registration is open to all. A benefit of membership of NAPF would be discounted registration to the conferences and training courses. The annual subscription for 2015 is £8,708.
- 5.5. The Chief Executive of NAPF is also the Chair of the LGPS Shadow Scheme Advisory Board. In April 2015 the Shadow Board will become the Scheme Advisory Board and will take up its statutory role to support the Secretary of State for Local Government in his role as responsible authority for the LGPS. In practice this means that the Scheme Advisory Board will have significant influence over the future of the LGPS.
- 5.6. Although it is anticipated that the current Shadow Board membership will become the statutory Board without a further election process, there may be opportunities in the future for the Panel to nominate representatives.
- 5.7. Additionally the introduction of the Scheme Advisory Board, local pension boards and the other governance changes are likely to change the landscape of pension groups with an interest in the LGPS. Consequently it

may be more appropriate to consider membership of external pension groups once the governance changes have been bedded in. Therefore a further report will be brought to the Panel for consideration when more information is available.

6. Recommendation

- 6.1. The Panel consider and decide whether to subscribe to the Local Authority Pension Fund Forum.

The options available to the Pension Fund are to:

- cease membership of the LAPFF,
- renew the membership, but apply for a seat on the executive,
- renew the membership, and continue with the current level of participation.

- 6.2. That the remainder of the report is noted.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

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| None |
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Other Significant Links

| Links to previous Member decisions: | | |
|--|------------------|-------------|
| <u>Title</u> | <u>Reference</u> | <u>Date</u> |
| | | |
| Direct links to specific legislation or Government Directives | | |
| <u>Title</u> | <u>Date</u> | |
| | | |

Section 100 D - Local Government Act 1972 – background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

| <u>Document</u> | <u>Location</u> |
|-----------------|-----------------|
| None | |

IMPACT ASSESSMENTS:

1. Equality Duty

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- a) The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- b) Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- c) Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

1.2. Equalities Impact Assessment:

1.3. At this stage in the creation of the Hampshire Pension Board there are not considered to be any Equality Impacts. Equality considerations will need to be taken into account at the point that the County Council considers how to find representatives to be members of the Pension Board.

2. Impact on Crime and Disorder:

2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

3. Climate Change:

a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact.

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific impact.

Extract from the Statement of Investment Principles as published in the Hampshire Pension Fund Annual Report 2013/14

Social, environmental and ethical considerations

The Hampshire Pension Fund has an overriding fiduciary duty in law to invest Fund monies to achieve the best possible financial return for the Fund consistent with an acceptable level of risk.

However, the Fund recognises that companies can enhance their long-term performance and increase their financial returns by adopting positive social, environmental and ethical principles in planning and running their activities.

The Fund has delegated to the external investment managers responsibility for taking social, environmental and ethical considerations into account when assessing the financial potential and suitability of investments.

Each investment manager is asked to work actively with companies to promote forward-looking social, environmental and ethical standards. This should not, however, deflect from the primary objective of achieving the best possible financial return for the Fund, in accordance with the Fund's fiduciary duty.

Exercise of rights attaching to investments

Managers have been instructed to exercise the Fund's responsibility to vote on company resolutions wherever possible.

They have also been instructed to intervene in companies that are failing and thus jeopardising the Fund's interests, by voting or by contacting company management directly.

The Fund believes that if companies comply with the principles of the UK Corporate Governance Code published by the Financial Reporting Council, this can be an important factor in helping them succeed; but the Fund also accepts the need for a flexible approach that is in the common long-term interests of shareholders, company employees and consumers. The Fund's managers should cast their votes with this in mind.

In particular, the Fund's managers should cast their votes to ensure that:

- executive directors are subject to re-election at least annually,
- executive directors' salaries are set by a remuneration committee consisting of a majority of independent non-executive directors, who should make independent reports to shareholders,
- arrangements for external audit are under the control of an audit committee consisting of a majority of independent non-executive directors, with clear terms of reference – these should include a duty to ensure that managers closely control the level of non-audit work given to auditors, and should not significantly exceed their audit-related fee unless there are, in any manager's opinion, special circumstances to justify it,
- in the manager's opinion, no embarrassment is caused to the Fund in relation to its beneficiaries, Hampshire residents, or the general principles of the UK Corporate Governance Code.

If managers do not follow these guidelines, they must report to the Panel explaining why.

**Nomination Form
for the
LAPFF Executive 2015**

Submission to LAPFF secretariat by 5 January 2015

Nominations are required for the LAPFF Executive from Councillors (or trustee equivalent) and Officers to serve for 2015.

| | |
|--|--------------------------|
| Name: | |
| LAPFF Member Fund: | |
| Position held in Member Fund: | |
| Position applied for (please tick as appropriate): | |
| Councillor Member (or equivalent trustee) | <input type="checkbox"/> |
| Chair of LAPFF | <input type="checkbox"/> |
| Vice Chair | <input type="checkbox"/> |
| Honorary Treasurer | <input type="checkbox"/> |
| Officer | <input type="checkbox"/> |
| Supporting statement: | |

Member or Trustee equivalent Nominations to be supported by the signature of the Chair of the Pensions Committee

Signature.....

Name.....

Position.....

Officer Nominations to be supported by the signature of the Director of Pensions or equivalent

Signature.....

Name.....

Position.....

Notes:

The Constitution in terms of election to the Executive requires:

- LAPFF meetings are held 8 times a year, together with an annual conference. Those elected are expected to attend the majority of these meetings.
- Input to LAPFF initiatives and work would be in addition, but can be limited depending upon the individual’s availability.
- LAPFF does not usually pay expenses for attending meetings as these are funded by individual funds that support the nomination. Exceptional expenses may be paid.
- Please return this form to the LAPFF secretariat, either by email: c/o Janiceh@pirc.co.uk or post: c/o Janice Hayward, PIRC Limited, 9 Prescott Street, London, E1 8AZ by the latest 5 January 2015.