

Winter 2009 Edition

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Local Authority
Pension Fund
Forum

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The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of 50 public sector pension funds based in the UK. LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.

For more information about the Forum, contact Forum Officer, Keith Bray on 07811 800612.

Alternatively, you can email postmaster@keithbray.plus.com or visit our website at www.lapfforum.org

LAPFF membership as at 1 December 2009

- Aberdeen City Council
- Avon Pension Fund
- City of Edinburgh Council
- City of London Corporation
- Clwyd Pension Fund
- Derbyshire County Council
- Devon County Council
- Dorset County Pension Fund
- Dyfed Pension Fund
- East Riding Pension Fund
- Falkirk Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Lancashire County Pension Fund
- London Borough of Brent
- London Borough of Camden
- London Borough of Croydon
- London Borough of Hackney
- London Borough of Haringey
- London Borough of Harrow
- London Borough of Hillingdon
- London Borough of Hounslow
- London Borough of Islington
- London Borough of Lewisham
- London Borough of Newham
- London Borough of Southwark
- London Borough of Tower Hamlets
- London Borough of Waltham Forest
- Lincolnshire County Council
- London Pension Fund Authority
- Merseyside Pension Fund
- Norfolk Pension Fund
- Northamptonshire County Council
- Northern Ireland Local Government Officers Superannuation Committee (NILGOSC)
- North Yorkshire County Council
- Nottinghamshire County Council
- Rhondda Cynon Taf Pension Fund
- Shropshire County Council
- Somerset County Council
- South Yorkshire Pensions Authority
- South Yorkshire Integrated Transport Authority
- Surrey County Council
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire County Council
- West Midlands Pension Fund
- West Midlands PTA Pension Fund
- West Yorkshire Pension Fund
- Wiltshire County Council
- Worcestershire County Council

LAPFF statement on climate change

LAPFF recognises the impacts that climate change is likely to have on the global economy and society as a whole. It is LAPFF's view that the scale of these impacts is such that a proactive and precautionary approach is needed in order to address them.

As long-term investors, LAPFF members are aware that the risks and opportunities associated with climate change may have a material impact on the financial performance of their portfolios.

The Forum believes that companies have a unique role to play in addressing the challenges posed by climate change not only because they are emitters of greenhouse gases, but also as they are providers of short and long-term solutions to decarbonising the economy and adapting to climate change. In line with the LAPFF mission to 'promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest', the Forum aims to assist companies to fulfil this role by encouraging them to incorporate relevant considerations into their business strategy, and to identify and disclose related performance indicators including appropriate long-term emissions targets. In so doing, the Forum's aim is to reduce the carbon



footprint of the companies in which its members invest.

Companies will be exposed to risk if they are unprepared for the potential impacts associated with climate change. Such impacts include direct physical changes in the form of more extreme weather conditions and other impacts such as legislative measures enacted by government, reputational risk and overall systemic market risk. The degree to which a company is prepared for these changes will impact the company's

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bottom line and, therefore, shareholder value.

Our members are interested in maintaining the long-term health and efficiency of global capital markets which are underpinned by sound underlying economics. We believe that climate risk has the potential to disrupt this goal. As such, our members are committed to addressing climate-related risk where it exists at investee companies, and membership of the Forum provides a contribution to this effort. Members are also interested in investment opportunities afforded by a low-carbon future which increase diversification and provide long-term returns around a low carbon future.

LAPFF's approach will be evidence-based, pragmatic and based on collaborative engagement, focusing on research, corporate engagement, AGM voting recommendations, collaboration with other investors and government lobbying activities. The Forum sees collaboration as a useful tool for engagement as it maximises the collective influence of a large shareholding. The Forum believes that by pooling its expertise, shareholding and resources with that of other investors, it is able to exert a greater influence than it would be able to on its own and in so doing extend its influence beyond the UK. The Forum is an active member of the UN Principles for Responsible Investment clearing-house as well as the Investor Network on Climate Risk.



Financial reporting and audit - engaging for the future

Concern about financial reporting is nothing new, but even after the recent turbulence, there is no consensus as to what the problem is.



There is nothing intrinsically 'special' about financial reporting. In one sense, it is simply an accumulation of large quantities of data – with all the problems and difficulties that entails.

Writing in *Accountancy Age* in November 2008, Peter Wyman, global leader, public policy and regulatory matters, at PricewaterhouseCoopers claimed: "There has still been no audit failure..." and "...that financial reporting is working well..." That may be true for traders, but it is not true for long-term investors such as LAPFF members.

Generally, accounts fail to provide reliable intelligence for the purpose of enabling shareholders to scrutinise the conduct of the company's affairs: the complexity of something as apparently simple as reporting directors' pay demonstrates the problem for the engaged investor.

There can be little doubt that the challenge of giving a true and fair view of a company's financial position and results is an extremely demanding one. Summary financial statements, which were introduced in the UK in the early 1990s, carry a warning to the effect that they do not contain sufficient information to allow for a full understanding of the results but, without a time-consuming review of the various notes, neither do the financial statements. However, the absence of sufficient numbers of engaged owners, with the inclination or technical knowledge to hold boards to account for their accounting decisions, has created a vacuum that has been filled by creative compliance with the

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detailed standards rather than a focus on a true and fair view.

The LAPFF will seek to apply consistent and effective pressure to ensure that the financial reporting system works for the benefit of engaged shareowners and not just the accounting industry, corporate management and short-term traders. The Forum will therefore:

- develop tools for trustees to keep up to date with financial reporting and auditing issues to allow for the Forum to take an active role in ongoing debates.
- maintain direct company engagement as recommended in 'Audit: an Agenda for Reform'¹ - despite grave misgivings about the system in which the companies are operating.
- make engaging with the various standard setters and regulators a priority issue.
- respond to relevant consultations. The Forum has recently responded to the FRC's (Financial Reporting Council) *Discussion Paper on Reducing Complexity in Corporate Reporting* to promulgate the Forum's view that the goal of reducing complexity should not result in reduced transparency. The Forum will also respond to the APB's (Auditing Practices Board) consultation on audit firms providing non-audit services to list companies that they audit (January 2010).

¹http://www.lapfforum.org/members/event_5.html

M&S update

Appointment of new chief executive appears to be influenced by level of support for LAPFF resolution.

Sir Stuart Rose dismissed the LAPFF resolution as "lost" at the M&S AGM on 8 July 2009 where it received support from almost 40% of shareholders. However, subsequent developments would suggest that this high level of support has been influential on decision-making at M&S.

On 18 November 2009, Marks & Spencer Group plc announced formally to the market that Marc Bolland, the chief executive of William Morrison Supermarkets plc, will replace Stuart Rose as chief executive officer next year.



In the announcement, it was confirmed that Marc Bolland will "take up his position in the new year at a time and on terms to be confirmed".

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However, it has now been confirmed that he will take up the position from the start of February 2010. No information was provided with regard to, either, the entry remuneration arrangements for Mr Bolland, or the departing remuneration arrangements for Sir Stuart, as he steps down as CEO. M&S also confirmed that it is yet to start the process of recruiting a new chair.

The reaction of the market saw the M&S share price rise 5.9 percent to a 17-month high in London trading, while Morrison's share price fell 4.9 percent.

Key considerations for shareholders:

Although it was reiterated in the announcement that Sir Stuart Rose will be stepping down from the board by 31 July 2011, it was also confirmed that M&S are yet to begin the search for a new chairman – again raising a question over succession-planning at M&S and the capabilities of the incumbent non-executives to provide objective and independent oversight. It was stated that Sir Stuart will move to a part-time chairmanship role on a three-day week, but it was not confirmed whether he would therefore move to a non-executive capacity.

Having recruited a CEO, Sir Stuart's position as executive chairman is particularly questionable, especially on a part-time basis. Remaining in an executive role might be viewed as a lack of backing for the new CEO, or that Sir Stuart is in some way clinging on to power within the organisation. Either way, there is potential for Sir Stuart to exercise undue influence over the new chief executive, who will be looking to develop his own strategy and objectives. This is, of course, why the Combined Code stipulates that a chief executive

should not go on to be chair of the same company.

At the time of Sir Stuart moving into the widely criticised combined role, the company justified the move by pointing to the exceptional internal candidates for the chief executive role. Noting that they needed time to develop and test these candidates, Sir Stuart argued that the combined roles would allow him – rather than the board or nomination committee as a whole – to delegate some of his responsibilities to them and measure their progress. This previously stated position is now clearly at odds with the announcement of Mr Bolland's appointment as the new chief executive.

Sir Stuart said he wouldn't "second-guess Marc's thinking", adding that he expects "there will be a need to appraise the strategy and see how fast or not **we** (*our emphasis*) drive the business forward". This statement in itself suggests that company strategy may be under the purview of both Mr Bolland and Sir Stuart, at least initially. There must remain a question over Sir Stuart's ability to completely extract himself from strategic discussions, given his previous role as chief executive for six years. This is precisely the reason such an arrangement is contrary to the Combined Code.

Conclusion

The appointment of Marc Bolland is undoubtedly a positive result for M&S and its shareholders. Now attention must turn to resolving the remaining governance issues.

The LAPFF Chair will have further meetings with the company to discuss these issues.

East Riding Pension Fund is Forum's 50th member

The East Riding Pension Fund is the 50th fund to join the Local Authority Pension Fund Forum. Rodney Barton, Head of Investments at East Riding said: "The East Riding Pension Fund has decided to join the LAPFF as it will contribute to our aim of maximising shareholder value through active engagement on issues in accordance with the Fund's corporate governance and voting policy."

LAPFF Chairman, Councillor Ian Greenwood said: "This is yet another notable milestone in the development of the

Forum. We are delighted that the distinction of being our 50th member has gone to the East Riding Fund, and we look forward to having the benefit of their invaluable contribution to our future development. This has been an eventful and highly successful year for the Forum. We now have more than 50% of the LGPS funds as LAPFF members representing the widest range of funds, with each bringing its individual view to our discussions. I encourage the other funds, who we know to be actively considering the benefits



of membership, to come along and join us – you will all receive the warmest of welcomes. We face many challenges in 2010, but by acting together we can achieve so much more."



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