

Autumn 2010 Edition

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Local Authority  
Pension Fund  
Forum

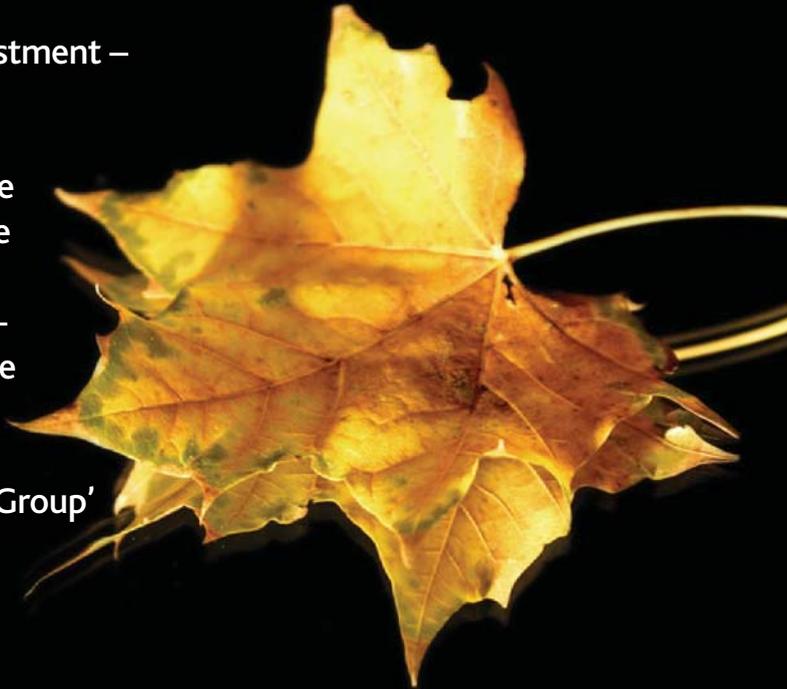
# the **f** the view from **forum**

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**The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of 52 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](mailto:postmaster@keithbray.plus.com) or visit our website at [www.lapfforum.org](http://www.lapfforum.org)

## LAPFF membership as at 1 September 2010

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- 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 Ealing
- London Borough of Enfield
- 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 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 Pension Fund
- Worcestershire County Council

# Responsible investment - some guidance

The situation facing pension funds in respect of their shareholder responsibilities has changed significantly over recent years.

There have been a number of interventions from government, seeking to encourage both pension funds and their fund managers to consider their ownership responsibilities seriously. There has been further clarification of the legal position regarding the development and implementation of responsible investment policies; and the range of products and services available to pension funds wishing to implement such policies has grown rapidly.

As a result of the combination of these trends, there has been an increase in the number of pension funds interested in implementing investment strategies that take account of shareholder responsibilities.

The term 'ethical investment' has fallen out of common usage to describe pension funds' activity in this area. This is for two principal reasons: firstly, many people felt that the term was too 'loaded' and implied taking a moralistic approach to investing, rather than assessing the financial impact of social and environmental issues, and secondly, as a term it actually does not capture accurately the nature of activity undertaken. For example, a pension

fund seeking to evaluate how climate change might affect its portfolio is not necessarily taking an 'ethical' approach. Currently, the term most commonly used is 'responsible investment'. Looking at the issues addressed by responsible investment strategies, many investors these days refer to environmental, social and governance (ESG) issues.

At its June meeting, the LAPFF received a short paper intended to provide guidance for funds governed by the Local Government Pension Scheme (LGPS) regarding shareholder engagement and responsible investment.

The guide covers:

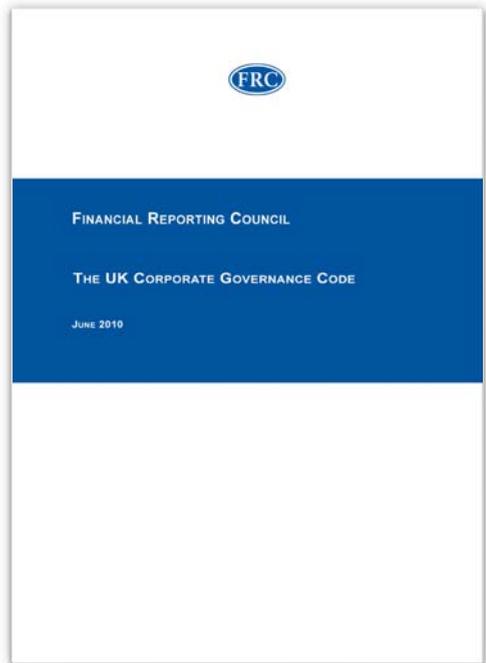
- Terminology
- The requirements on funds
- Shareholder voting
- Responsible investment
- Best practice standards and collaborative campaigns

# The UK Corporate Governance Code

The Financial Reporting Council (FRC) carried out its latest review of the Combined Code during 2009. Opinions were canvassed on four issues relating to the content and implementation of the Code as it then stood:

- 1 Which parts of the Code have worked well? Do any of them need further reinforcement?
- 2 Have any parts of the Code inadvertently reduced the effectiveness of the board?
- 3 Are there any aspects of good governance practice not currently addressed by the Code, or its related guidance, that should be?
- 4 Is the 'comply or explain' mechanism operating effectively and, if not, how might its operation be improved?

The FRC subsequently issued a proposed revised version of the Code, under the new name of the UK Corporate Governance Code, and held a further consultation on this, which closed in March this year. The Forum has engaged actively in the various reviews of the Code, and made two submissions to the FRC in 2009, and a further one in 2010. At the end of May, the FRC published its final version of the UK Corporate Governance Code, which will apply to



reporting in financial years beginning on or after 29 June 2010 (for financial years beginning before 29 June 2010, the previous edition of the Code will continue to apply).

The FRC has taken a number of positions on issues in the new version of

the Code that are of interest to LAPFF. In some cases, the Code is now in line with existing Forum policy positions. For example:

- LAPFF was in favour of the renaming of the Code, to make its content and purpose more explicit.
- In respect of time commitment, LAPFF has argued that a focus is required on the time that directors have available to perform their role and that this must logically raise a question about individuals with multiple directorships. The Code suggests that a full-time executive should take on no more than one FTSE100 non-executive position. It could be argued that the FRC could have put forward more specific commentary on the time commitment required.
- On director elections, the FRC had put forward the option of either annual election for the chair only, or for the board as a whole. In its response to the consultation, the Forum took the view that, of the two options proposed, annual elections for the whole board were preferable. Some investors had warned that simply

requiring the chair to face annual election might undermine the unitary nature of UK boards. Ultimately, the FRC decided that there should be annual elections for the whole board, but only for FTSE350 companies for now.

- The FRC has made little significant change in respect of the section of the Code which deals with remuneration. The Forum had called for more emphasis to be put on the need for remuneration committees to be sensitive to pay and employment conditions elsewhere in the group, and suggested that this might be turned into a main principle. LAPFF also suggested that there should be greater specificity in the disclosures required of companies in respect of directors' pensions.

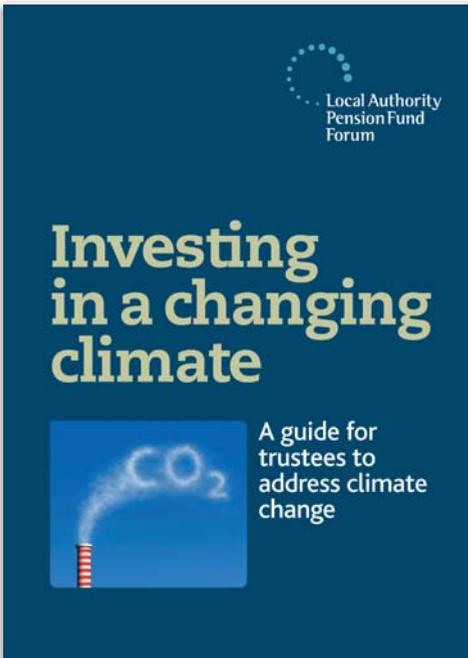
Unfortunately the FRC has not moved on either issue. However, the Code now states that payouts under incentive schemes should be subject to non-financial performance criteria, where appropriate, and be compatible with the company's risk policies and systems.



# Climate change - new trustee guide

In June this year, LAPF Forum members approved a new trustee guide which focuses on climate change.

The aim of the guide is to provide advice and strategies for pension fund trustees on how to combat climate change in the context of their pension fund's activities and investments. This goal is driven by the challenges posed to pension funds by climate change, the increased focus of the Forum's own work on the subject

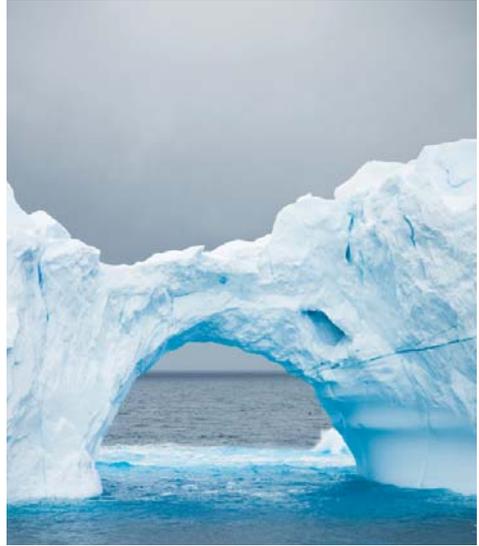


and the heightened profile of government and scientific thinking.

As a body of investors, the Forum's approach to climate change has centred on risks and opportunities presented to companies and the resulting affect on shareholder value. This approach has guided the Forum's sector specific engagement. The guide sets out the framework used by LAPFF in engagement and explores additional ways for trustees to address the investment challenges posed by climate change.

The formulation of a LAPFF policy statement on climate change was one element of the guide's proposal. This policy statement emerged during the drafting of the guide and was presented to the Executive in October 2009. A subsequently revised version was approved by the Forum in January 2010. The policy statement is noted in the guide's introduction.

As part of the drafting process, a survey of members was undertaken to gain a more complete understanding of trustees' needs and potential uses for the guide. The feedback received has been incorporated and the time taken by the members who provided input is very much appreciated.



## NEWS IN BRIEF

- At the LAPFF members meeting in June, Edward Mason, Secretary of Church of England Ethical Investment Advisory Group, gave an overview of the role of the Ethical Investment Advisory Group of The Church of England before recounting his experience of the engagement events with [Vedanta](#). The key lessons learned revolved around 'being on the front foot' and that exclusion is a tool available for use. He also highlighted the benefits of site visits in such circumstances, but acknowledged that the whole process can be resource-intensive.
- The June meeting also received updating reports on the Sudan engagement and the LAPFF global focus list
- The Forum has agreed to affiliate to Eumedion who provide specialist engagement expertise for the Dutch market.

# LAPFF awarded 'Special Interest Group' status by LGA

The Local Government Association constitution provides for member authorities with common characteristics to be able to form groupings of authorities to express a sectional interest.

Special interest groups (SIGs) are able to make representations direct to Government and elsewhere on matters arising directly from their special interest, and to obtain LGA assistance in doing so. All SIGs are required to submit a full report, at the end of April each year, to the LGA Executive covering such matters as their dealings with government departments.

The Forum has been awarded SIG status by the LGA and held its June meeting, which was addressed by John Ransford, CEO of the LGA, at LGA headquarters in London, which will also be the venue for future Forum meetings. This development is viewed as a very positive step by members of the LAPFF, reflecting the progress it has made over recent years by raising its profile and in achieving recognition as the pre-eminent body representing Local Government Pension Scheme (LGPS) funds on environmental, social and governance (ESG) issues.

## PIRC re-appointed as Research and Engagement Partner

Following a competitive tender process, PIRC has been re-appointed as the LAPFF's Research and Engagement Partner.

## LAPFF Annual Conference

### 1 to 3 December 2010

The Forum's 2010 Conference will be held as usual at the Bournemouth Highcliff Marriot Hotel on 1 – 3 December 2010.

**LAPFF members are entitled to two free places at the conference, but are responsible for their own hotel arrangements.**

The programme and booking form will be available shortly. However, if you would like to pre-book yourself or colleagues, please contact Janice Hayward at [janice.hayward@pirc.co.uk](mailto:janice.hayward@pirc.co.uk) to reserve delegate places.

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