

Winter 2010 Edition

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Local Authority
Pension Fund
Forum

the the view from forum



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Annual conference
hailed as “the best yet!”

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 or visit our website at www.lapfforum.org

LAPFF membership as at 1 January 2011

- 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

Stewardship Code update

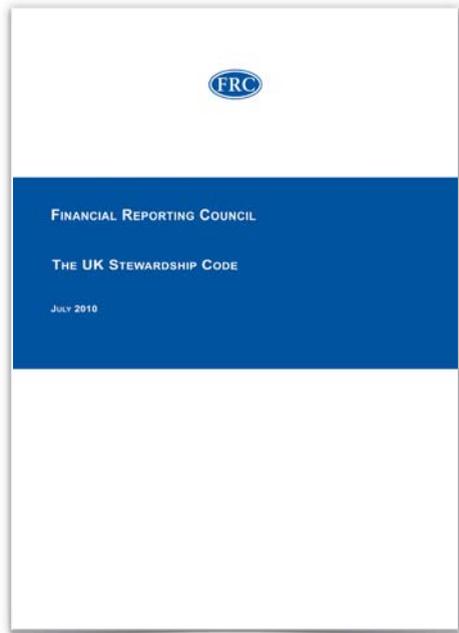


In July, the Financial Reporting Council (FRC) published the Stewardship Code for institutional investors.

The Code is a set of best practice principles covering the relationship between shareholders and the companies in which they invest. The principles are as follows:

Institutional investors should:

- publicly disclose their policy on how they will discharge their stewardship responsibilities.
- have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.
- monitor their investee companies.
- establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.
- be willing to act collectively with other investors where appropriate.
- have a clear policy on voting and disclosure of voting activity.
- report periodically on their stewardship and voting activities.



Investors are expected to have published a statement in respect to their adherence, or otherwise, to the Code in a way that mirrors 'comply or explain' statements made by companies under the Corporate Governance Code. At this stage reporting

under the Code is voluntary, although the Financial Services Authority has recently consulted on an amendment to its Conduct of Business rules that would require asset managers to report. This would be similar to the listing rules requirement for companies to report under the Corporate Governance Code.

It is therefore clear that asset managers are the principal focus of the Code, and the only group of investors for whom reporting is likely to be mandatory. Nonetheless, the FRC has stated that all institutional investors should seek to report under the Code.

In September, the Forum issued a short briefing paper to members on reporting under the Stewardship Code. Informed by discussions with the FRC, this paper is intended to give members an understanding of what is expected in

terms of reporting under the Code, with suggestions on the information that could be disclosed in relation to each principle. Also in September, the Forum signed a joint letter to the FRC expressing support for the Stewardship Code

A number of LAPFF members have already responded to the Stewardship Code by reporting in line with it, and a significant number plan to do so in future. In the short-term, the Forum may be able to best assist members by sharing experience of reporting, and one member has suggested that this could be promoted through an article in the member bulletin.

Looking ahead, the LAPFF trustee guide *'Delegating shareholder engagement: holding fund managers to account'* may be updated in light of the Stewardship Code.



Global focus list 2011



In recent years, UK pension funds continued to move a greater proportion of their equities holdings outside the UK. The Forum's engagement programme has adapted to reflect this by undertaking the global focus list (GFL) project.

Currently, this aims to address corporate governance issues at companies in the US, UK and Europe. The focus list is based on a set of corporate governance indicators to identify the worst-performing companies in each market. Additional factors, such as level of member holdings and likelihood of responding to engagement, help determine the final list constituents. The Forum then engages with the companies to improve practices. The GFL project is about to enter its third year. During the past two years a number of changes have taken place to improve the approach.

Each year, the focus changes slightly in each market. This year, for the US, the engagement focus will be on the changes that the enactment of the Dodd-Frank Act will bring to companies in the US. In continental Europe, we continue our focus on remuneration as we did last year. However, the emphasis has moved away

from French and Spanish companies which have formed the majority of European companies engaged with in previous years. For the UK, the link between pay and performance continues to be an area of focus. In addition, the Forum aims to address some of the changes brought about by the new Corporate Governance Code.

In summary, the process takes the following high level steps:

- analyse corporate governance factors,
- select the 10% worst performing companies in each market,
- compare to LAPFF holdings where there are more than ten members holding the relevant company, and then
- perform some detailed analysis to create the final list.

Engaging in emerging markets and Asia

In spite of the challenges involved in engaging with companies in emerging markets and Asia, it is still possible to do so productively – as long as each case is thoroughly researched and each engagement clinically planned.



Nevertheless, the Forum will consider whether it is likely to generate the highest return (measured in engagement outcomes) by engaging with companies that have already travelled further in the direction of improving ESG performance, and which are culturally 'easier' to influence or whether higher returns may be available from well-planned engagements in culturally diverse companies that lag in regard to ESG performance.

Where collaboration is considered an attractive alternative or additional option, the Forum will consider whether local partners exist in the emerging market or Asian countries in which members invest. Given the cultural aspects of effective engagement alluded to above, it is to be expected that local engagement partners will be able to influence issues that arise from cultural differences more effectively than others.

The Forum may also seek to 'vet' collaboration partners closer to home in order to satisfy itself that such partners have the capacity and insight to effectively influence companies in relevant markets.

However, should the Forum consider effective engagement at a focus list level impractical, it will consider engaging with national institutions and regulatory agencies, such as domestic stock exchanges.

Data on the Forum's members' holdings in emerging market and Asian companies can be difficult to obtain. For example, many Forum member investments in emerging market and Asian companies are held in funds managed by third parties. The Forum will therefore consider expanding its engagement activity into Asia Pacific, rather than into emerging markets and Asia. The Forum's holdings are likely to be much larger in Asia Pacific, and many of the companies in this region have exposure to global themes on which the Forum already engages.

Principal countries in Asia Pacific include Australia (which is culturally similar to the UK), Hong Kong, Japan, Taiwan and Singapore.



NEWS IN BRIEF

■ Hutton Commission



The interim report was generally accepted as having captured the main relevant facts and issues, although some felt that the LGPS position was not as fully represented as unfunded schemes. A number of the report's conclusions and recommendations are in line with LAPFF's submission, and we will continue to engage with the Commission.



■ Non-monetary rewards survey

The Forum will seek to gather information from companies as to what factors beyond financial rewards are used by them to attract, motivate and retain executives.

■ International Securities Lending Association update

At the October meeting, Gerard Moore of Merseyside Pension Fund gave an introduction to three booklets recently launched by ISLA:

- Stock Lending: An Introductory Guide
- Stock Lending: Checklist for Lenders
- Stock Lending: Agent Disclosure Code of Guidance.



All three booklets are now on the LAPFF member website:
<http://www.lapfforum.org/securities>

Annual conference hailed as “the best yet!”

The Forum’s annual conference took place at the beginning of December at our usual venue, Bournemouth, and despite the unprecedented snowfall, it proved to be a most successful event.

This year’s conference began with a pre-conference session on the Hutton review of public sector pensions. Brian Bailey, from the West Midlands Pension Fund, set out a proposed draft LAPFF response to the review, which can be adapted by funds wishing to make their own submissions.

We were very grateful to our corporate speakers for struggling through the weather to reach the conference. **Sir John Parker** of National Grid gave a fascinating talk on how good boards work. Next, **Roger Carr**, the ex-chair of Cadbury, provided a very enlightening insider’s view of the deal that saw the company taken over by Kraft. After lunch, **Lord Myners** gave a typically robust view of the progress of reform over the two years since the financial crisis really hit. While he maintained that much of the reform effort had been deflected, he singled out LAPFF for praise, stating: “You need to speak up for yourselves, the LAPFF does that, there is no equivalent to LAPFF... I think you are the best hope for change I can see.”

Corporate conference speakers



Sir John Parker



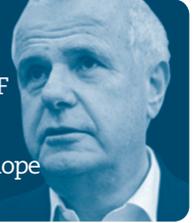
Roger Carr



Laura Liswood

Lord Myners

“You need to speak up for yourselves...the LAPFF does that...there is no equivalent to LAPFF... I think you are the best hope for change I can see.”



The Friday morning of the conference began with a very interactive and fascinating presentation featuring **Laura Liswood**, senior advisor to Goldman Sachs.

This session focused on diversity and some of the unconscious biases we may have about particular groups.

For the final session of the conference, attention returned to the question of reform of the LGPS. Conference favourite, Terry Crossley of the DCLG, provided typically insightful comments on the direction of travel, with Brian Bailey providing a fund view.

All in all, another great LAPFF conference which was hailed by many – including Forum members, many City fund managers and others present – as the best yet. But it will probably also be the conference that will be long remembered due to a incident involving a coach and an icy road ... thankfully, no one came to any harm.



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