

Autumn 2013 edition  
[www.lapfforum.org](http://www.lapfforum.org)



  
**Local Authority  
Pension Fund  
Forum**

# the view from the forum

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public health**

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**18th annual  
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**Cumbria and  
Barking & Dagenham  
join the Forum**



The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of 58 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 October 2013

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- Avon Pension Fund
- Bedfordshire Pension Fund
- Cheshire Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Cumbria 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
- Gwynedd Pension Fund
- Lancashire County Pension Fund
- Lincolnshire County Council
- London Borough of Barking & Dagenham
- 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
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Norfolk Pension Fund
- Northamptonshire County Council
- North East Scotland Pension Fund
- Northern Ireland Local Government Officers Superannuation Committee (NILGOSC)
- North Yorkshire County Council
- Nottinghamshire County Council
- Rhondda Cynon Taf Pension Fund
- Royal Borough of Greenwich
- Shropshire Council
- Somerset County Council
- South Yorkshire Pensions Authority
- South Yorkshire Integrated Transport Authority
- Staffordshire Pension Fund
- 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

# Tobacco and public health

As of April 2013, local authorities in England and Wales assumed responsibility for a new public health role as set out in the Health and Social Care Act 2012.



This has prompted a public discussion on the role that local authority pension funds can or should play in promoting and supporting the public health agenda. As a result, local authority pension investment in tobacco companies has become a point of contention in some regions, where journalists, members of the public and directors of public health have called on pension funds to disinvest from tobacco companies.

The role of the Local Authority Pension Fund Forum (LAPFF) is to protect the long-term investment interests of its member funds' beneficiaries by promoting the highest standards of corporate governance and corporate responsibility among the companies in which they invest. We do this by undertaking proactive, long-term engagement with the companies held in our members' investment portfolios. We do not

give investment advice. As such LAPFF does not advise members on whether or not they should continue to invest in tobacco stocks or any other companies or sectors open to controversy.

Where members are invested and have determined that the Forum should open or continue a dialogue, LAPFF will first undertake disciplined research into company performance, governance and environmental and social risks. The Forum will then start or continue a conversation with board directors and/or management about positive improvements the company can make. **In 2013, LAPFF has had board-level meetings with Britain's two publicly-listed tobacco companies: British American Tobacco and Imperial Tobacco.**

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## Key issues in the tobacco industry

There is no doubt that tobacco is a controversial and challenging industry. Some of the key issues facing the industry include:

- **Health in the UK** – understanding the short and long-term effects of chemicals and additives, development of safer tobacco alternatives, research and development into harm reduction
- **Business strategy** – prospects for declining tobacco sales in developed markets, options for alternative products or services, litigation costs, regulation risks, and lobbying
- **Marketing and sales** – advertising restrictions, children and youth advertising, and global v local (UK) standards of advertising and promotion
- **Health in developing countries** – health and financial costs of smoking-related diseases in poor countries, health care access and quality for smoking-related illness, developing v developed market standards for chemicals and additives
- **Production and manufacturing** – health, safety and labour standards of farm workers and tobacco pickers, the environmental impact of production, the social and environmental effects of packaging and distribution
- **International tobacco trade** – corruption and bribery risks, the role of the illicit trade in tobacco and its links to money laundering and international crime, smuggling of tobacco products

## Considerations for pension funds

Local authority pension funds must come to their own decision regarding whether they remain invested in tobacco companies, or whether they disinvest from the sector. This decision will ultimately be based on the funds' own view of their risk tolerance, their liabilities, and the best long-term financial interests of their beneficiaries. Pension funds that decide to disinvest will need to ensure they have very clear guidelines regarding what constitutes a 'tobacco company'.

This can be done by setting a strict threshold, such as the percentage of sales or profits derived from tobacco products. Where pension funds remain invested in tobacco, there are opportunities to engage with companies to make improvements and advocate for ongoing harm reduction strategies, strict controls on marketing standards, stricter lobbying guidelines, and greater investment in improving supply chain practices



# Corporate tax avoidance

This issue has been raised at the Forum by Staffordshire Pension Fund

## Why tax avoidance matters

Tax avoidance by companies operating in the UK has generated growing media attention in recent months and has heightened the issue as a potential responsible investment concern.

Public opinion, political and media attention has meant pressure on companies such as **Starbucks, Amazon** and **Vodafone** has been focussed and sustained and, at least for Starbucks, has had a financial consequence. The company has only reported UK taxable profit once in 15 years, and was subject to tax avoidance campaigners protesting outside UK outlets in late 2012. The company said it 'listened to its customers' and will be paying £10m in tax in 2013 and a further £10m in 2014.

Tax avoidance or efficient tax planning is, of course, legal, and it is really a matter for governments to consider if changes in tax rules and regulations are seen as necessary or desirable. However, it has been argued and legal opinions have been issued stating that there is no 'fiduciary duty' on companies to avoid tax. This view argues that directors' duties to promote the success of a company do not equate to a positive duty to avoid tax. It further argues that legislation protects directors from criticism where they take decisions not to avoid certain tax payments based on factors such as reputation, brand and community impact.

Political pressure is growing in response to these developments and the G20 has recognised the need for a radical overhaul of the international tax regime to counter concerns of how tax regimes differ globally. It has endorsed OECD proposals to scope international changes to tax law and

definitions to bring tax avoidance under better control. The Multilateral Convention of Mutual Administrative Assistance in Tax Matters provides a global standard for automatic exchange of information and now has a total of 56 signatories, including all the G20 nations, and tax havens such as Jersey, Guernsey, Bermuda and the Cayman Islands. In addition, a number of sectors and organisations have brought out guidelines on how companies should manage their tax affairs.

The Parliamentary Public Accounts Committee of MPs is now pressing for a study of the likely impact of changes proposed by the OECD and the House of Lords Economic Affairs Committee considers that HM Revenue and Customs may not be assertive enough with large UK-based companies and has urged the Treasury to review the UK corporate tax regime.

## Shareholder engagement opportunities

Corporate tax avoidance is a controversial issue and responsible shareowners should consider the options available to engage with companies on their approach to their tax affairs and to ensure they have the appropriate governance systems in place to manage associated risks.

**The Forum's company engagement will be prioritised by the number of members with holdings in the company, which are UK listed and by the level of investment risk posed by tax management concerns currently facing particular sectors.**

# Strategy on executive pay

In April 2013, LAPFF published its *Expectations on Executive Pay* setting out fifteen high-level expectations for companies to address shareholder concerns about executive pay.

These expectations included the following: refocusing pay on base salary; phasing out the use of long-term incentive plans; posting all new director and executive vacancies publicly; setting pay for incoming executives below those of the outgoing executive; ensuring pay quantum is 'reasonable'; and publishing pay ratios.

There are five areas of proposed work to take place between October 2013 and June 2014

- Meet with 'leaders' such as Marks and Spencer and Standard Chartered to seek their feedback on specific aspects of LAPFF's *'Expectations'* paper
- Solicit views of mainstream asset managers to get feedback on specific aspects of the expectations document, and seek to gauge the motivations behind asset managers' current strategy on pay, which generally results in support for the status quo.
- Seek alliances with other asset owners to find where LAPFF may have common ground with other shareholders, and make efforts to maximise influence when meeting companies and through LAPFF members' and other investors' voting power in the 2014 proxy season.
- Engage and file shareholder proposals on complexity in order to force the issue of pay complexity into the spotlight. It is proposed that LAPFF identify three companies in the UK with egregious examples of complex pay practices.

The Forum will seek to engage those companies with the clear message that it wants the company to simplify the pay structure.

- In keeping with the 2013 strategy (and based on the outcome of engagement with institutional investors) it is proposed that LAPFF formulate a 'watch list' of companies that had high pay votes in 2013 or where we expect there to be concerns or controversies in 2014. Engagement with these companies should be initiated from October onwards, prior to the 2014 AGMs. Where there is no satisfactory change or commitment to change, LAPFF will consider issuing a voting alert accompanied by a press release. LAPFF may also want to attend and ask a question about remuneration at these companies' annual meetings.



# Quarterly Engagement Report



## During the July to September quarter, the Forum...

- attended the annual meeting of Marks & Spencer to express support for the Chairman Robert Swannell and the CEO, Mark Bolland. Held meetings with three companies identified in our annual global focus list: Burberry, Bellway and Imagination Technologies.
- met with Sainsbury's to enquire about the impact of the Bangladesh factory tragedy on its supply chain and sourcing practices. Met with Lonmin to discuss ongoing challenges at the Marikana mine and the efforts by the company to settle the union dispute and improve working conditions.
- raised carbon emission management with National Grid chair, the company subsequently improved its CDP scoring, as did Rio Tinto, with whom the Forum met earlier in the year.
- received responses from Lloyds, HSBC and Standard Chartered on their views on the impact of the Bompas QC opinion on the legality of IFRS. Barclays replied last quarter.
- corresponded with Kier Group about the recent concerns that UK companies were involved in blacklisting staff that raised health and safety concerns with management.
- and other investors have called on **The Competition Commission** to promote mandatory rotation of auditors. The Commission has so far only backed mandatory tendering of audit work.



## LAPFF membership approaches 60 as Cumbria and Barking & Dagenham join the Forum

Councillor Kieran Quinn, Chair of the Local Authority Pension Fund Forum, has welcomed decisions by the Cumbria Pension Fund and the London Borough of Barking and Dagenham Pension Fund to join the Local Authority Pension Fund Forum.

**Councillor Quinn** said: "Fifty eight of the LGPS funds are now members of the LAPFF – and we are delighted to welcome Cumbria and Barking & Dagenham as our newest members. This is a very challenging time for local authority funds with many changes in prospect, but the Forum's profile has never been higher and our ability to influence events has never been greater. By working and acting together, we can achieve so much more on any issue confronting LGPS funds as well as on the environmental, social and governance issues that we have always focussed on, and which can have such a major impact on shareholder value."

**Fiona Miller, senior manager for the Cumbria Pension Scheme**, said: "The Cumbria Pension Fund is keen to ensure that

it discharges its responsibilities with regard to corporate governance in the most appropriate and effective manner. We believe that through membership to the LAPFF, our aim of maximising shareholder value through active engagement can be supported by leveraging the collaborative voting power behind the LGPS."

**A spokesperson for the Barking and Dagenham Fund** said: "By joining LAPFF, the London Borough of Barking and Dagenham Pension Fund is able to take advantage of LAPFF's expertise to develop its corporate governance strategy, as well as seek to influence companies the Fund is invested in through collaborative engagement with other pension funds"

## 18th Annual LAPFF Conference 4, 5 & 6 December 2013

**Brandon Lewis MP, Parliamentary Under Secretary of State for Communities and Local Government** will be the headline speaker at this year's annual conference. Other confirmed speakers include **Lord Myners**, chairman Cevian Capital (UK) LLP; **Tom Dobell**, M&G Recovery Fund; **Sacha Sadan**, Legal and General; **Jack Dromey MP**; **Amy Borrus**, deputy director, The Council of Institutional Investors (USA) and **Martin Hickman**, the independent representative from *Hacked Off*.

**REMEMBER -  
LAPFF members receive  
TWO FREE PLACES!**

**The conference takes place at our usual venue, the Bournemouth Highcliff Marriott Hotel, from 4 to 6 December.**

To book your place, contact Janice Hayward at [JaniceH@pirc.co.uk](mailto:JaniceH@pirc.co.uk) or telephone 020 7392 7894



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