

Spring 2010 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](mailto:postmaster@keithbray.plus.com) or visit our website at [www.lapfforum.org](http://www.lapfforum.org)

## LAPFF membership as at 1 March 2009

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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 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

# A way forward on executive remuneration

The Forum's engagement work on incentivising executives has up to now largely focused on the subject of incorporating non-financial performance metrics when calculating long-term reward.

In addition, focus has been placed on aligning remuneration with long-term strategy on the use of deferrals and clawback arrangements, and on generally increasing the transparency of executive remuneration arrangements.

This engagement work is set against a decade during which CEO and senior executive reward has been increasing dramatically. A counterbalance to this 'runaway' executive remuneration might lie in encouraging companies to consider other ways of retaining, motivating and aligning the interests of executives with the interests of shareholders besides offering increasingly large financial rewards. Consequently, the Forum proposes to conduct survey work on the way in which companies combine non-financial reward systems to deliver their executive retention, motivation and alignment objectives. This work will be done with a view to sharing best practice and highlighting additional engagement targets worthy of consideration.

The Forum has therefore decided to implement a new research project designed to find out the basis on which remuneration committees use their

discretion with a view to using the data to encourage more informative company reporting on this subject. This will include both the processes adopted by remuneration committees and the performance metrics employed.

LAPFF recognises the long-term nature of this subject and how important it is going to be for future engagement on governance issues. It has, therefore, decided to approach the UK FTSE 350 companies initially, to review the results and then to consider further steps in the light of this research. The Forum will seek to involve other institutional shareowners following its assessment of the research results. In addition, the Forum will also be reviewing the role of UK remuneration consultants.



# LAPFF 2010 global focus list

The Forum has adopted a new global focus list, reflecting its member funds' changes in asset allocation and the growing importance of global companies in pension fund equity portfolios.



UK pension funds have steadily moved their equity holdings overseas, with only 42% of assets allocated to the UK in 2008, compared to 70% in 2001. Forum members are now exposed to significantly varying levels of corporate practice in the different markets in which they invest; highlighting the need to adopt a global perspective on activism, whilst at the same time facing the need to take local market variations into account.

The Forum's global engagement strategy provides a focused approach to shareholder engagement, taking into account both governance and financial performance of proposed focus companies. In January 2009, the company focus list for engagement in 2009 was approved by LAPFF members and the global focus list engagement programme has subsequently been successfully implemented.



During 2009, corporate governance reviews were carried out for the UK, US and EU markets. Findings from these reviews and proposed engagement strategies were approved by LAPFF members in September 2009. As in the previous year, the report presented a long-list of companies in each region from which a shorter focus list of companies for engagement in 2010 has been chosen.

The focus list has been drawn up by taking account of the scale and scope of LAPFF members shareholdings, and by establishing detailed research profiles for each of these companies, ie, profiles covering the following criteria

- **Structural and cultural factors** including management and ownership structure - large family holdings or a questionable power structure on the board can be an impediment to effective engagement. While this does not present the deciding factor in the decision whether or not engagement is worthwhile, it has to be taken into account.

- **Market factors** that may impact on the corporate governance performance of the company including legal and regulatory structures; market specific frameworks are a particularly important factor when considering continental EU companies, as they vary widely.
- **Sectoral factors** that may impact company performance and management culture.
- **Financial performance**

The Forum will also build on current collaborative relationships and initiate closer links to US investors with similar objectives, especially where a face-to-face meeting is being sought.

The final target number of 15 companies emerging from this process is split between the markets approximately proportional to asset allocations namely six (UK), five (EU), and four (US). The Forum will in future also be considering the issues of principle and related logistical issues which would arise from engaging with companies in emerging markets and Asia.



# Tar sands resolutions at BP and Shell

The Forum recognises that tar sands projects have the potential to play an important role in meeting a proportion of the world's energy demands of the future. In addition, it is recognised that energy sources in politically stable areas such as Canada are particularly valuable.

However, LAPFF is concerned that the development of the tar sands poses numerous long-term investment risks which may affect the value of the companies involved. LAPFF is aware that shareholder resolutions have been filed at both Shell and BP by a coalition of investors.

The Forum has been engaging with both companies over this issue for some time, as reported to members at the April and October 2009 business meetings. This process began in 2008 and has recently gained momentum due to the shareholder resolutions. For example, letters were sent to Shell and BP last year questioning the viability of tar sands development, and LAPFF has also engaged with both companies (and others) through investor collaboration. Recently, the LAPFF Chair met with both companies to specifically discuss the issue of tar sands and the shareholder resolutions.

The LAPFF Executive will decide whether or not to recommend support



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for shareholder resolutions concerning tar sands projects at a later stage. This decision will be made upon consideration of the opinions of both the proponents and the company. Once a decision has been made, a LAPFF alert will be issued to members stating its voting recommendation. The alerts will be issued approximately three weeks before the proxy voting deadlines. We will continue to keep members up to date with any developments in the meantime.

# Public policy engagement with key individuals

An increasingly important part of the Forum's work is its public policy engagement.

Particularly, as a result of the financial crisis, there have been a number of consultations, such as on the Walker Review proposals and the Financial Services Authority's guidance on remuneration policy at financial institutions, to which LAPFF has responded. There are also ongoing reviews of the Corporate Governance Code and the proposed Stewardship Code for Institutional Investors. Again the Forum will be making submissions.

The Forum has also been engaging directly with a number of key individuals. In January, the LAPFF Chair met with Treasury Select Committee Chair, John McFall MP, to detail the Forum's engagement with the UK banks, and to hear more about how to feed into the committee's work. The Chair also met with Business, Innovation and Skills Minister, Ian Lucas MP, to set out LAPFF's thinking on issues such as remuneration reform and shareholder engagement.

Going forward, the Forum intends to develop its relationships with politicians of all the main parties whose responsibilities are relevant to LAPFF's work.



*John McFall*



*Ian Lucas*

# LAPFF elects Executive to meet the challenges of 2010

This will be a challenging year for the Forum.

LAPFF's raised profile, particularly following our engagement with M&S during 2009, presents the Forum with a unique opportunity to build on our many achievements during 2009, both by direct engagement and by collaboration with others.

The Executive for 2010 was elected at the AGM in January and will continue to be led by the Chair, Ian Greenwood, in directing the Forum's activities, so as to address the increasingly wide range of environmental social and governance (ESG) issues confronting all institutional investors during 2010.

The AGM also accepted the Honorary Treasurer's recommendation to hold membership subscriptions at the current level for another year

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## LAPFF Executive 2010



**Councillor Ian Greenwood**  
West Yorkshire  
*Chair of LAPFF*



**Councillor Cameron Rose**  
City of Edinburgh Council  
*Deputy Chair of LAPFF*



**Councillor Ann McLachlan**  
Merseyside Pension Fund  
*Deputy Chair of LAPFF*



**Councillor Neil Fletcher**  
Aberdeen City Council  
*Forum Executive*



**Councillor Jim Middleton**  
Greater Manchester Pension Fund  
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**Brian Bailey**  
West Midlands Pension Fund  
*Honorary Treasurer*