

Local Authority Pension Fund Forum
Annual Report of Activities 2001

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1.0 Introduction

- 1.1 This 2001 Annual Report provides an overview of the activities of the Local Authority Pension Fund Forum during the year, focusing on the campaigns and shareholder initiatives undertaken and the progress made. In addition it provides a complete list of all the agenda issues dealt with at regular Forum meetings.

2.0 Campaigns

- 2.1 At its January 2001 meeting, the Forum agreed the following campaign priorities:

- The environmental campaign should be expanded by analysing the reporting of global warming emissions by major companies and engaging with them to improve the completeness and comparability of such disclosures.

- The labour standards campaign should be expanded by analysing the quality and implementation of codes of conduct in FTSE100 retail companies and by launching a new focus group of high profile companies without an existing policy.

- The directors' pay campaign should be strengthened by redefining unacceptable performance criteria as share schemes based on real earnings per share growth of 3% per annum or less, and schemes which pay out more than 40% of salary for median performance, subject to discretion. New schemes with these criteria should be subject to co-ordinated action.

2.2 *Directors' pay*

Following the Forum's revision of its acceptable performance targets, instances of new share schemes which fail to meet these minimum performance criteria have been identified by the Secretariat and notified to members to enable them to decide on voting strategy. The Forum issued notifications, press releases and also attended the AGMs of Carlton Communications (1 March), Royal Bank of Scotland (11 April), Cable & Wireless (20 July) and Boots (26 July). At both Carlton and Cable & Wireless subsequent discussion took place with the chairman of the company's remuneration committee about the Forum's position. Press coverage is attached.

- 2.3 These schemes varied between executive share option plans and other forms of conditional share plan. The performance targets and potential awards also varied.

- 2.4 The DTI announced is long awaited response to its 1999 consultation document

on Directors? Pay in March 2001. This contained new proposals for disclosure but made no recommendations on shareholder voting. The Forum responded by writing to the new Secretary State Patricia Hewitt to call for the government to address the issue of voting on pay. In October the DTI announced that it would be bringing forward legislation to require an annual vote on remuneration committee reports.

2.5 The Forum has also been corresponding with a group of other investors, led by Hermes Investment Management, over the possibilities for shareholder collaboration on directors? pay issues.

2.6 The September meeting took the decision to develop a new policy position on directors? service contracts and compensation payments with a view to undertaking shareholder activism on this issue.

2.7 ***Environmental reporting***

The campaign initiated in 2000 to persuade companies to start reporting on environmental issues has proved extremely successful. 53 companies were initially identified in sectors with relatively high environmental impacts which did not undertake any environmental reporting. LAPFF wrote to these setting out the shareholder expectation that they should report on their environmental policies, management processes and performance.

2.8 The ?target list? subsequently reduced to 36 due to takeovers, mergers and bankruptcies. However, by September this year, all but three had either published an environmental policy statement, or had made a public commitment to do so in their next annual report.

2.9 Most of this progress was achieved via correspondence. However, the vice chair did attend the AGM of Wiggins Group in September to raise the issue.

2.10 ***Global warming***

Following the January decision, the Forum has also been undertaking research on global warming emissions among FTSE100 companies, focussing on whether they met government disclosure guidelines on the issue. This research is due to be published in December 2001 and will form the basis for further shareholder activity.

2.11 The Forum has also been participating in a network of institutional investors, convened by the Universities Superannuation Fund, looking at how investors can respond to the challenges posed by climate change.

2.12 **Overseas Labour Standards**

LAPFF's campaign, which began in 1999, focuses on encouraging retail sector companies to adopt appropriate codes of conduct dealing with employment standards among their overseas subsidiaries and suppliers.

2.13 The campaign has developed into two phases. First, quoted retail companies have been identified which have no policies on overseas labour standards. An initial group of four was identified last year (Boots, JJB Sports, WH Smith and Signet). Of these, only Signet has yet to publish a code of conduct on the issue, and this is due for publication in January 2002. Meetings took place with both WH Smith and Signet.

2.14 A second target list of four companies was also identified in January. These were Iceland, Blacks Leisure, Clinton Cards and Moss Bros. Blacks Leisure had drafted a policy which is due for board approval. No commitments have been forthcoming from the other companies. The Forum is seeking dialogue with other major investors in these companies on the issue. Meetings took place with Blacks Leisure, Moss Bros and Clinton Cards during the year. And LAPFF representatives attended the AGM of Iceland in September. Following this a meeting has been arranged with Iceland.

2.15 The second phase of the campaign has been to start analysing the quality of corporate policies on labour standards. A research survey was conducted on the policies adopted by retailers within the FTSE100 in June. This showed that policies were variable in coverage and patchy in implementation. We have been seeking meetings with each company in turn to discuss identified deficiencies. The Forum has attended the AGM of Dixons plc and had a subsequent meeting with the company to discuss why it has no published policy at all on the issue.

3.0 **Responses to consultation documents**

3.1 **Company Law Review**

The Forum has taken a close interest in the ongoing Company Law Review and made a full response to the Company Law Review consultation document 'Completing the Structure' in January. This covered issues of directors' duties, companies' stakeholder responsibilities, corporate governance reform, improved reporting and shareholder rights.

3.2 The September meeting considered the Final Report of the Company Law Review and decided on priority areas for further lobbying during the legislative process.

3.2 ***Globalisation White Paper***

The Forum discussed the government's white paper on Globalisation in January in the context of its section dealing with corporate social responsibility (CSR). The Forum supported government initiatives to improve reporting on CSR but suggested that a voluntary approach may be inadequate to ensure a level playing field.

3.3 ***EU consultation on CSR***

The European Commission issued a green paper on corporate social responsibility in July. The Forum was invited to make a response to it by the DTI as part of the UK's overall response.

4.0 **Conference 2000**

The last annual conference was held at the Cedar Court Hotel in Bradford on 29/30 November and 1 December 2000 and was very successful, over 100 delegates attended over the three day period.

Speakers from the USA, Peter Kinder, CEO of Kinder Lydenberg & Domini and Ken Sylvester from the New York City Pension Fund gave delegates the background on SRI developments within the US market.

The Forum's views were represented on various panels by members including the Vice Chairman, Cllr Greg Vincent speaking on the LAPFF campaign on Overseas Employment Standards, Roger Latham, County Treasurer at Nottinghamshire speaking on the environmental agenda, Brian Bailey, Co-ordinating Director for Financial & Physical Resources at Wolverhampton MBC presenting on shareholder action and Fred Green, Loans and Investment Manager at Teeside participating in the Directors' Pay panel.

5.0 **Shareholder Resolutions**

- 5.1 LAPFF members were approached by Greenpeace to support a proposed shareholder resolution on climate change strategy at the AGM of BP. The resolution was discussed at the January meeting of the Forum and the Forum wrote to BP seeking clarification on various points. Correspondence with BP chairman Peter Sutherland was circulated to all LAPFF members as well as the PIRC corporate governance report as background. Two LAPFF members sponsored the ensuing resolution. At the AGM it received backing from 7.4% of shareholders. After the resolution was lodged, the company held an

unprecedented series of briefings on climate change issues with institutional investors.

- 5.2 Following this experience and others, LAPFF has been investigating methods of facilitating the lodging or responsible shareholder resolutions. It has expressed disappointment that the Company Law Review has failed to recommend a lowering of the ownership thresholds required to lodge a shareholder resolution which effectively mean that LAPFF collectively nor individual members are in a position to lodge a resolution at most large companies.

6.0. Speakers and presentations

- 6.1 Forum meetings have been addressed by guest speakers during the year as follows:-

Meeting	Speaker	Subject
June	Raj Thamothoram, Universities Superannuation scheme	USS shareholder engagement programme
September	Allen White, Global Reporting Initiative	The GRI principles

7.0 Company Meetings

- 7.1 As part of the various campaigns, meetings have been held with the following companies:
WH Smith, Signet, JJB Sports, Blacks Leisure, Clinton Cards, Moss Bros, Dixons, Kingfisher

8.0 AGM attendance

- 8.1 The following company annual general meetings have been attended:
Carlton Communications, Royal Bank of Scotland, Cable & Wireless, Boots, Wiggins Group, Dixons, Signet Group, Iceland, Clinton Cards

Appendix

List of written reports and items discussed at LAPFF meetings 2001

19 January 2001

- Proposed Work Programme 2001
- Overseas Labour Standards Campaign Update
- Environmental Reporting: Company Responses June-December 2000
- Company Law Review, Completing the Structure Consultation Document
- DFID Globalisation White Paper
- Proposed Resolution to BP Amoco plc
- Report of meeting with DETR
- LGPS Investment regulations Consultation Document

29 June 2001

- Directors? pay: Recent Developments
- Environmental Reporting: Company Responses January-June 2001
- Overseas Employment Standards: Campaign Update
- Overseas Employment Standards: A Comparative Study of FTSE100 Retailers
- The Myners Review of Institutional Investment
- SRI Forum Guidelines for Reporting on Social, Environmental and Ethical Matters
- Outcome of Climate Change Resolution to BP Amoco plc

21 September 2001

- Overseas Employment Standards: Campaign Update
- Environmental Reporting: Update
- AGM Activity on Directors? pay
- LAPFF fees Questionnaire
- Shareholder Engagement: AGM Resolutions
- Company Law Review: Final Report
- Investment in Burma
- LGPS Stocktaking Exercise
- Performance Fees for Fund Managers