

LAPFF Annual Report of Activities 2003

1. This 2003 Annual Report provides an overview of the activities of the Local Authority Pension Fund Forum during the year. It covers the Forum's various campaigns and shareholder engagement initiatives undertaken in relation to companies and the progress made on these campaigns, together with other Forum initiatives and activities
2. 2003 has been another very busy year for the Forum. Last year's report made the point that that unprecedented international concerns about corporate governance set against the backdrop of extreme market volatility made our role more important and relevant than ever. This has very much remained the case in 2003.
3. The Forum exists to serve the investment interests of local authority pension funds. In particular, it seeks to maximise their influence as shareholders in promoting the highest standards in corporate governance amongst the companies in which they invest and in promoting corporate social responsibility. In short, it seeks to co-ordinate shareholder activism amongst LA pension funds.
4. LAPFF members believe that by actively encouraging companies to comply with best practice on corporate governance and SRI issues, shareholder value is improved over the medium and longer term. This view is increasingly supported by independent research and held by a growing band of institutional investors. It is a view also held by some of our most successful companies, by central government and by many City fund managers.
5. The LAPFF was formed in 1990 and now has 29 local authority fund members with combined assets of more than £40 billion. Membership is open to all pension funds that operate under the Local Government Pension Scheme.
6. Throughout its development the LAPFF has been closely associated with PIRC Ltd, the independent consultancy that provides research and advisory services to institutional investors. Indeed, it could be said that, to some extent the two organisations have 'grown up' together. So much so that it became increasingly apparent that the distinction between the two organisations was not as clear, as it should be.
7. This led to an internal review of the LAPFF during 2002, aimed at securing more organisational transparency and developing the Forum's work into the future as an independent association of local authority pension funds. As a

result, on 1 April this year, the role of Secretary to LAPFF passed to Stuart Imeson at West Yorkshire Pension Fund and the role of Treasurer to Brian Bailey at the West Midlands Pension Fund. At the same time a new post of Forum Officer was created to assist with the development and promotion of LAPFF. This post was subsequently filled by the appointment of Keith Bray (formerly Director of Finance at the City and County of Cardiff).

This is a particularly opportune time to develop the influence of local authority pension funds and LAPFF is the perfect vehicle for this purpose. Following the Myners Report, the Higgs and Smith Reports and the Company Law Review, and statements supporting shareholder activism from the Office of the Deputy Prime Minister (ODPM) and the Department of Works and Pensions (DWP), we are now operating in a very favourable climate. There has never been a better opportunity to seek improvements in corporate governance and SRI since the Forum was formed.

8. We currently pursue our agenda via three main areas of activity.

9. First boardroom governance, which has, of late, been focussed on the subject of directors' remuneration. The public interest and 'media frenzy' surrounding 'fat cat pay' has been intense for many months. Most recently we have had the DTI consultation document 'Rewards for Failure' on this issue. The LAPFF has agreed a wide-ranging series of best practice guidelines on boardroom pay and has been assessing how far company remuneration reports comply with this policy. Where companies fall short, the LAPFF is issuing 'Alerts' so that members can consider a co-ordinated voting response. Issues covered have included companies making excessive awards, the use of weak performance targets for long term schemes, and the continuing use of contractual provisions in excess of one year. Of the 500 companies examined against the best practice policy so far, 19 have been the subject of alerts. Examples have included GlaxoSmithKline, HSBC and EMI

10. We were instrumental, along with others, in securing the much-celebrated defeat of the GlaxoSmithKline proposal on Directors remuneration. Indeed the LAPFF Vice-Chair, John Saunders was one of the speakers from the floor at the GSK AGM and was widely commended for the eloquence with which he argued our case. Time will tell, but many observers saw the GSK case as something of a 'watershed event', with a major international company having to reconsider its proposal due to shareholder pressure

11. Second, we are robustly maintaining our campaign to encourage rigorous reporting on greenhouse gas emissions by FTSE 100 companies, in line with DEFRA guidelines. In April 2002 letters were sent to 85 companies identified as making no disclosure and to 34 companies, which were partially compliant. By September 2003 we had received responses from 82%. Thirty-nine companies that did not previously report, now report fully or substantively according to DEFRA guidelines.

12. Pressure on climate change issues has also come from other institutional investors groups such as the Institutional Investors Group on Climate Change

(IIGCC) and the Carbon Disclosure Project (CDP) –both of which the LAPFF supports.

13. Of course, climate change is a global issue. Most recently LAPFF has agreed to support an initiative launched by CERES (a coalition of US institutional investors) and several key US State Treasurers to organise an institutional investor summit on climate change. The LAPFF agreed to be a co-convenor of the summit on 21st November in New York.

The agenda for the Summit included a review and discussion of

- The different forms of climate risk embedded in large diversified portfolios
- The challenge of obtaining and assessing information from companies on their exposure to climate risk
- The emergence of climate risk as an essential component in the review of corporate performance and portfolio design.

Other signatories included the treasurers of 11 American states (including California, Florida, Massachusetts & New York), Goldman Sachs, and the Universities Superannuation Scheme.

14. Third, the Forum continues to monitor overseas labour standards of leading UK companies. One signal success has been with Dixons, the electrical retailer. After three years of company meetings and AGM attendance, Dixons has finally produced its policy relating to labour standards amongst its overseas suppliers. Whilst Dixons claimed to have standards on such issues as child labour and health and safety, it had previously declined to disclose them. Engagement and lobbying by the LAPFF appears to have persuaded the company of the benefits of transparency in reducing the risk of reputational damage in this context.

15. In short we pursue our campaigns by engagement with companies, by lobbying, by attendance at AGM's and of course by voting our shareholdings. Our strategy is to be focussed on issues that will improve shareholder value in the medium and longer term.

16. In addition to these three main campaign areas, the Forum has been actively involved in responding on any issue of interest to local authority pension funds. We get closely involved with issues such as the ODPM Stocktake including the recent proposals for a Funding Strategy Statement; the Higgs and Smith Reports and the DTI consultation paper 'Rewards for Failure'.

17. Membership of the LAPFF affords funds the opportunity to join with a large group of local authority pension funds in developing their policies in a coherent and effective way. The effectiveness of individual funds engaging in shareholder activism alone must surely be questionable. By taking a co-ordinated approach with other local authority funds their level of effectiveness is increased and improved beyond measure. At the same time membership of the Forum does not in any way impede their ability to act unilaterally whenever they think it appropriate to do so in the interests of their own Fund.

Our membership includes funds from all parts of the UK, and represents all types of administering authorities under the political control of all the major parties. The City and County of Swansea joined us in September and the Flintshire Fund and Greater Gwent Fund joined in November. The Forum hopes that others will follow - we are certainly very eager to maintain a dialogue with all LGPS funds over the months ahead.

18. In this context our 8th Annual Conference will be held at Bournemouth in December 2003. The theme is 'Shareholder activism – results and prospects'. Contributors include Keith Jones and Iain Richards, respectively CEO and Head of Corporate Governance Policy at Morley Fund Management; Dr Alan Knight, Head of Social responsibility at Kingfisher Group plc; Gavin Grant, Head of Global Corporate Governance Research at Deutsche Bank; Lord Haskins, former Chairman of Northern Foods and Terry Crossley from the ODPM.

19. Anyone wanting more information about any aspect of the LAPFF's activity's can visit our website at www.lapfforum.org or contact Forum Officer Keith Bray at k.bray@which.net

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