



Thomas Deinet
Hedge Fund Working Group
13th Floor
The Adelphi
1/11 John Adam St
London
WC2N 6HT

14 December 2007

Dear Mr. Deinet

Comments on HFWG proposal for “Hedge Fund Standards”

The following comments are submitted by the UK Local Authority Pension Fund Forum, which comprises 45 local authority pension funds with aggregate assets of over £80 billion. In the 17 years since its inception, LAPFF has worked consistently to improve corporate governance best practice in the UK. Our member funds have a fiduciary duty to act in the best interest of their scheme members, and as recent changes to the LGPS have increased the permissible asset allocation by local authority pension funds to alternative investment classes, including hedge funds, the issue of best practice at hedge funds is pertinent to our members.

The Forum’s mission statement suggests a balance between promoting the investment interests of its members whilst promoting corporate social responsibility and high standards of corporate governance amongst investee companies. In line with the remit of the LAPFF policy and strategy, we submit a response targeted in particular at HFSG proposals on activism.

Market issues and activism; proxy voting of stock owned

(58) To what extent would consultees value this new requirement?

LAPFF supports the introduction of a best practice guideline encouraging hedge funds to adopt a proxy voting policy. We warn, however, against the adoption of such policies without corresponding contractual obligations to regularly report to clients on how voting rights are exercised. The Forum has publicly called for disclosure principles which require the quarterly disclosure by fund managers of voting records for all investee companies (i.e. votes for,

against and abstentions).¹ We propose that the HFWG consider the inclusion of these principles into its standard, to guide hedge funds on the disclosure of voting records to their clients.

Market issues and activism; shareholder conduct: disclosure of derivative positions

(60) Would other consultees be prepared to enter a debate about improved disclosure (e.g. of contracts for difference)?

LAPFF agrees that companies have a right to know who owns them and strongly supports the introduction of expanded disclosure requirements corresponding to different means of acquiring economic exposure to shares. The 2006 Companies Act (Section 793) provides companies with the means to require such information from “any person whom the company knows or has reasonable cause to believe” to be or to have been in the past three years interested in the company’s shares. By putting the onus on companies to identify potential owners, the Act in our view severely limits companies’ ability to obtain full information on who owns them, e.g. via Contracts For Difference. We concur that regulation is required; however, in the absence of further regulatory changes we would strongly recommend the voluntary adoption of enhanced disclosure requirements by hedge funds. We believe that if such disclosures are limited to companies, i.e. not publicly available, this would not lead to market distortions.

Market issues and activism; shareholder conduct: voting of borrowed stock

(62) Would other consultees value a wider debate aiming at voting being restricted to those holding economic interest?

The Forum rejects the HFWG proposal not to vote stocks where hedge funds are not economically exposed, because we consider that the exercise of voting rights is an integral part of a fiduciary’s duty. LAPFF recognises the need for a wider debate on this matter. We would point out in particular the issue of separation of the AGM timetable from the period in which investors qualify for dividend payments. LAPFF considers that in order to strike the appropriate balance between voting and lending, pension fund trustees should consider the likely incidence of vote/lend conflicts. Companies can help reducing the conflict by moving the ex-dividend date away from the AGM date. Investor bodies such as the International Corporate Governance Network (ICGN) and the Stock Lending Associations (SLA) have been calling on companies to separate the AGM timetable from the period which qualifies investors for dividend payment, and the Forum proposes the HFWG join these bodies in their call.

¹ LAPFF, Proxy Voting Disclosure by UK Asset Managers, June 2007; available at <http://www.lapfforum.org/pubs/reports/Voting%20disclosure.pdf>

We hope this letter will be helpful. Feel free to contact Ebba Schmidt at PIRC Ltd. (contact details below) if you have questions or need additional information.

Yours sincerely,

A handwritten signature in black ink that reads "Darrell Pulk". The signature is written in a cursive style and is underlined with a single horizontal stroke.

Darrell Pulk
Chairman
Local Authority Pension Fund Forum

Please reply to:
Ebba Schmidt
Consultancy Services Executive
PIRC Limited
40 Adler Street
London E1 1EE

Tel: 020 7392 7876
Fax: 020 7247 2457
E-mail: EbbaS@pirc.co.uk