

THE VIEW FROM THE FORUM

Research and Engagement

Forum looks ahead and approves a two year work programme

At its quarterly meeting at the Farmers & Fletcher's Hall on 18 July, the Forum approved an outline programme of research and engagement work for 2007/08 and 2008/09.

The controversial Government decision to abolish the statutory OFR (Operating and Financial Review) creates a less favourable climate for improving the quality of corporate reporting. However, the LAPFF response to the DTI (Department of Trade & Industry) consultation on the Business Review underlines the Forum's continuing commitment to this objective. At least the role of the ASB (Accounting Standards Board) Reporting Standard 1 (now 'converted' into a Reporting Statement) remains intact, as the only available best practice guidelines for either voluntary OFRs or mandatory business reviews. **The Government's response to the DTI consultation on 3 May partly accepted the Forum's case by restoring an explicit requirement for forward-looking information and for other non-financial information, as contained in the original OFR, albeit with**

proposals for a 'safe harbour' provision that LAPFF does not support.

Hence, it follows that the purpose of the LAPFF Trustee Guides remains unchanged. It aims to equip trustees with the knowledge and skills to call fund managers to account for their handling of any corporate responsibility issues that might affect long-term shareholder value – especially those identified through the OFR/ Business Review process. In addition, the guide can also be used for direct engagement with investee companies. The aim would be to concentrate scarce resources for engagement in the most efficient and effective manner.

We propose to continue to issue our LAPFF alerts which draw the attention of member funds to corporate governance concerns. During the second quarter of 2006 **we have issued alerts covering a total of 82 companies** relating to remuneration issues; to matters of concern regarding board issues/ structures; to audit matters and to failures to disclose greenhouse gas emissions as required by DEFRA.

Our work on monitoring overseas employment standards and company workforce practices will continue. The Forum will also continue to monitor studies of the link between varying standards of corporate governance and share price performance.

We will, of course, maintain our activity in engaging with companies on greenhouse gas emissions and climate change issues in general.

The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of 38 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 amongst 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 or visit our website www.lapfforum.org

Shareholder Engagement

Holding fund managers to account – the LAPFF Trustee Guide

As reported in the last edition of the 'View from the Forum', the LAPFF has now approved for publication, a revised Trustee Guide which aims to assist local authority pension fund trustees in the regular assessment of their fund managers' engagement strategies, policies and activities. It does this by setting out assessment criteria for all aspects of delegated shareholder engagement, and by integrating best practice into this revised version. The guide gives trustees an insight into the relevant issues, and sets out pertinent questions to ask their fund managers (or themselves).

The guide has been written with due attention to the resource and time constraints that funds face. It will enable fund trustees and officers to conduct periodic reviews of their fund managers' engagement activities, in order to:

- enable the assessment of engagement progress along with quality and effectiveness.
- initiate a dialogue between funds and fund managers on engagement.
- develop a better understanding of the practical aspects of their fund manager's engagement activities.
- open up opportunities for improvements to current strategy, policy and practice.
- become more activist by identifying opportunities for funds to get involved.
- get the most out of fund managers' engagement services.

Trustees can read this guide in its entirety or, if they do not require a great deal of background information, refer to individual sections separately.

The assessment criteria are set out in seven sections, in keeping with the ISC Principles:

- 1) Principle on Activism
- 2) Policy on Engagement
- 3) Monitoring companies
- 4) Engagement with companies
- 5) Evaluation of fund managers' engagement
- 6) Reporting of engagement activities
- 7) Review

Each section sets out the responsibilities of funds and their fund managers, based on the Myners or ISC Principles, and best practice considerations. This is then illustrated with an example of how a fund might attempt to discharge its responsibility. This is followed by a set of assessment criteria in the form of questions, many of which require simple 'yes/no' answers. For further explanation of the questions, the user can refer to the appendix, where the assessment criteria are collated in table format and where additional commentary for each question is also provided.

Other News in Brief

Councillor Darrell Pulk appointed Chairman

At its July meeting, the Forum appointed Councillor Darrell Pulk of the Nottinghamshire Fund as Chairman of LAPFF for the remainder of the year.

Study of Mergers & Acquisitions (M&A)

LAPFF has previously agreed to develop guidance, in the form of a LAPFF Trustee Guide, on strategic and other issues to be considered by pension fund trustees when assessing M&A documents, with particular emphasis on aspects of corporate governance (CG) and corporate social responsibility (CSR). The guidance will also cover private equity transactions. An M&A disclosure framework has been drawn up, which will form the basis for compilation of the Trustee Guide

Audit Quality Forum (AQF)

We continue to be involved in the AQF in support of our aim to improve the audit process in the UK. A report on possible future work of the Forum on audit issues will be prepared for the January 2007 LAPFF Executive and business meeting.

Intercontinental Hotels Group (IHG)

Forum representatives met with representatives of IHG on 7 June 2006. The engagement with IHG is part of the Company Workforce Practices project. Both parties to the engagement felt that the meeting had been useful. LAPFF had gained a better understanding of the IHG business model and CSR issues, and the IHG representatives had been able to disclose more of their human resource strategy and how it linked to their business strategy.

External Investor Initiatives

Participation with other investors

The last five years have seen a growth in the use of shareholder action initiatives by pension funds and other investors. Alongside the Forum's own efforts, other pension funds and investors, including asset managers, are increasingly willing to use their ownership of shares to promote best practice in CG and CSR, not only in the UK, but also in other global capital markets.

The Forum has received invitations to participate in various investor initiatives from lobbying market regulators (such as the US Securities & Exchange Commission), pursuing investor-led climate change resolutions (at US companies) and occasionally for support on specific company-based shareholder proposals.

A recent initiative by USS (Universities Superannuation

Scheme), to which the Forum Executive responded positively, was the submission of a letter to the US Securities and Exchange Commission consultation on the disclosure of voting records by mutual fund managers in the US.

We also participated in the various climate change initiatives led by the CERES coalition and the US Investor Group on Climate Change. The Forum agreed to support various shareholder proposals at US companies targeted at reducing climate change impacts, and increased environmental disclosure.

The Forum has now approved a streamlined process for LAPFF to participate with other investors in various shareholder initiatives that arise from time to time on matters of corporate governance and corporate social responsibility.

The Development of the Corporate Health and Safety Performance Index

Bill Callaghan, Chairman of the Health and Safety Commission, gave a presentation on the Corporate Health and Safety Performance Index (CHaSPI) to the July meeting of the Forum.

The CHaSPI is a benchmarking tool to measure and compare how seriously companies and organisations take their health and safety responsibilities. Performance is measured by companies and organisations completing a survey, on a voluntary basis, covering five, weighted indicators (e.g. rates of sickness within the workforce, health and safety management, serious incidents, etc.)

To date 350 companies and organisations have registered for CHaSPI, and 39 reports have been

published by companies and organisations on their health and safety results against the Index.

The Chairman thanked Bill for an interesting and informative presentation, and confirmed that LAPFF would continue to support the Health and Safety Commission in their development of the CHaSPI. A letter sent by the Health and Safety Commission to a number of chief executives of companies operating in the UK that are considered to be more exposed to occupational health and safety risks, has been endorsed by LAPFF.

It was agreed that it would be useful for LAPFF to receive feedback in twelve months time on how the CHaSPI had progressed.

Bill Callaghan, Chairman of the Health and Safety Commission



New LAPFF Networking Initiatives

The Forum already provides an excellent networking opportunity for all members and officers involved with the management of a Local Government Pension Scheme (LGPS) fund. Forum Officer, Keith Bray, has proposed that this facility be further developed by LAPFF members participating in a rota of presentations to future meetings. Participation will be voluntary; presentations will be brief and will be followed by a short discussion.

The initiative is still at a formative stage, but could include topics such as:

- the structure of the fund, i.e. the pros and cons of 'doing it our way'.
- how the fund determines its strategic asset allocation.
- balanced v specialist; active v passive; customised benchmark v peer group.
- currency management – why and how we do it.
- a recent management experience e.g. a fund manager selection process
- communications with stakeholders.

Trustee Training Seminar – Hedge Funds Birmingham 15 September 2006

Our next trustee training seminar will be held at the Hilton Birmingham Metropole (Birmingham NEC) on 15 September. The seminar will focus on the case for and against hedge funds as an investment vehicle for pension funds.

Speakers will include **Kurt Schacht** of the Chartered Financial Analyst Institute (USA); **John Plender**, FT leader writer, broadcaster and author; **Angus Woolhouse** and **Niall Quinn** of Gartmore Investment Ltd; **Patrick Dewez** of Knight Vincke; **Brian Bailey** of the West Midlands Pension Fund and **Dave Bamber** of the Clwyd Pension Fund.

Attendance is free for LAPFF Members. For non-LAPFF members the attendance fee is £75+VAT.

To book a place or for more details contact **Janice Hayward, PIRC Ltd, Cityside, 40 Adler Street, LONDON E1 1EE**

Telephone: 020 727 2323 or email: JaniceH@pirc.co.uk

Annual Conference 2006 - A date for your diary!

Our 2006 annual conference will be held as usual at the **Bournemouth Highcliff Marriott Hotel, on November 29, 30 & December 1**

The Forum is pleased that the **Minister for Local Government and Community Cohesion, Phil Woolas MP, is our keynote speaker, and Paul Myners will speak on the role of non-executive directors.**

More details of the programme and booking arrangements will be announced later.



Phil Woolas MP



Paul Myners

LAPFF membership as at 1 August 2006

- Avon Pension Fund
- City of Edinburgh Council
- Clwyd Pension Fund
- Derbyshire CC
- Devon CC
- Dyfed Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Lancashire County Pension Fund
- LB Brent
- LB Camden
- LB Croydon
- LB Hackney
- LB Hammersmith & Fulham
- LB Harrow
- LB Hillingdon
- LB Hounslow
- LB Islington
- LB Newham
- LB Southwark
- Lincolnshire CC
- London Pension Fund Authority
- Merseyside Pension Fund
- Norfolk Pension Fund
- Northamptonshire CC
- North Yorkshire CC
- Nottinghamshire CC
- Shropshire CC
- Somerset CC
- South Yorkshire Pensions Authority
- South Yorkshire Passenger Transport Authority
- Teeside Pension Fund
- Tyne and Wear Pension Fund
- West Midlands Pension Fund
- West Midlands PTA Pension Fund
- West Yorkshire Pension Fund
- Wiltshire CC
- Worcestershire

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