

Winter 2007 Edition

www.lapfforum.org



Local Authority
Pension Fund
Forum

the **f** the view from **forum**

Forum signs up to the PRI

Engagement in Continental
Europe and the US

Networking initiative

Dorset joins the Forum

The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of 44 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 at www.lapfforum.org

LAPFF membership as at 1 November 2007

- Aberdeen City Council
- Avon Pension Fund
- City of Edinburgh Council
- Clwyd Pension Fund
- Derbyshire County Council
- Devon County Council
- Dorset County Pension Fund
- Dyfed 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 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
- 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 Passenger Transport Authority
- 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

The Forum signs up to the UN Principles for Responsible Investment (PRI)

There is a growing view among institutional investors and investment professionals that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios.

Investors fulfilling their fiduciary duty, therefore, need to give appropriate consideration to these issues and the PRI provide a framework to assist with this approach. The principles are voluntary and aspirational. They are not prescriptive, but instead provide a menu of possible actions for incorporating ESG issues into mainstream investment decision-making and ownership practices.

Clearly this approach aligns totally with the long-established aims and objectives of the LAPFF and signing up to the PRI opens up a new and potentially effective route for the LAPFF to disseminate information. There will also be a real benefit to collaboration



and it will help bring in other organisations in supporting the work and initiatives of LAPFF, particularly as LAPFF has decided to extend its activities to continental Europe and US companies as reported later in this newsletter.

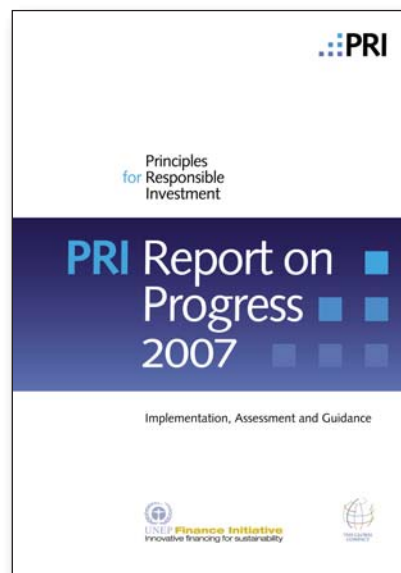
Continued on page 4 ►►

◀ continued from page 3

At its meeting in October, the LAPFF unanimously agreed that the Forum should sign up to the PRI as a professional service partner.

The UN Principles for Responsible Investment

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the principles within the investment industry.



5. We will work together to enhance our effectiveness in implementing the principles.
6. We will each report on our activities and progress towards implementing the principles

A professional secretariat has been set up to help signatories implement the principles. There are four key support activities:

- Providing guidance
- Building networks
- Enhancing collaboration
- Evaluating progress

Members are encouraged to view the PRI website at www.Unpri.org

Engagement in continental Europe and the US

The Forum's engagement activities have so far focused on the UK market. As local authority pension funds have, on average, almost a half of their equity portfolios invested in overseas equities, it is felt appropriate to extend LAPFF's engagement activities to overseas companies.

Europe

Top European stocks have been surveyed on major corporate governance and CSR issues, and a number of significant corporate governance concerns were identified on board independence, audit practices, shareholder rights and executive remuneration:

- **Board independence.** There is still a substantial number of companies that fail to meet best practice in this area: for example, only 28% of the companies in our sample had a majority of independent directors on the board and overall the average percentage of independent directors on European boards was 39%.
- **Audit practices.** LAPFF has a commitment to seek ongoing improvement to the audit function

which would particularly benefit companies in continental Europe: for example, only half of the committees in our sample have a majority of independent directors.

- **Shareholder rights.** Traditionally a higher proportion of continental European companies are controlled by large block holders compared to companies in the UK, and the use of control enhancing mechanisms is a significant concern.
- **Executive remuneration.** As in other markets this remains an area of concern in continental Europe, although practice between markets and companies can vary significantly.

Continued on page 6 ▶▶

« continued from page 5

Full disclosure of basic remuneration details is still far from common practice at Europe's largest companies, for example, a quarter of companies do not disclose individual directors' remuneration.

LAPFF agreed that an engagement campaign be undertaken with European companies on remuneration and that it would extend its work on climate change by engaging with European companies within the oil & gas, food & drink and transport sectors.

United States

The Forum has in the past been more active in the US than in continental Europe. Most recently, it has been actively engaging with FirstGroup on freedom of association at its US subsidiary; it has responded to the consultation by the US Securities and Exchange Commission on director nominations in the US; and has lent its support to US investors in their engagement with ExxonMobil on climate change issues.

We recognise that the size of the allocation by LAPFF members to US equities warrants a more systematic

approach to the US market than has been applied to date. The first step towards this approach will be to gain an in depth understanding of the main corporate governance failings at US companies, and to identify opportunities to extend existing engagement activities to the US market. It has therefore been agreed that the engagement campaign be extended to a review of top US stocks.

Networking initiative

Graham Chidlow, Head of Finance (Treasury & Exchequer) at Shropshire County Council, gave a presentation on 'Property - The Move to Europe'. In his presentation, Graham outlined the reasons why Shropshire has moved to investing in European property, and gave details of the outlook for European property investment and the risks associated with it. He also covered the approach adopted by Shropshire in investing in European property, and the type of property funds used. Graham's talk was extremely well-received and stimulating a lively discussion amongst members.

news in brief

LAPFF alerts

33 alerts were sent out during the last quarter.

Climate change and greenhouse gas emissions

– following on from the launch of the Carbon Costs Paper at the House of Commons in May by the Aldersgate Group, the Forum has agreed to be a signatory to an open letter to be sent to Government supporting the need for companies to report clear and comparable information on their greenhouse gas emissions and other factors relating to climate change.

Mergers and acquisitions – the revised final draft of the LAPFF Trustee Guide on Mergers and Acquisitions has been agreed and will be published shortly.

Obesity – a survey of 23 food and drinks companies has been carried out on the basis of criteria agreed by the Forum at its January 2007 meeting. The process of consolidating the findings and conducting a gap analysis is under way, and the results will be presented to the Executive in November.

Overseas employment standards, China project – no formal response has yet been received from Tesco regarding the initial 'call for information' on its employment practices in China. Separately, under the auspices of UKSIF, a group of investors are looking at the role investors have to play in developing guidance on what retail companies should be reporting on.

Company workforce practices

– a planned meeting with Carnival in the autumn, which had previously been agreed in principle, did not go ahead. Other routes for continuing a dialogue with Carnival are being explored. Future engagement with target companies in the hotel sector will focus on the issue of low pay in the sector.

Outsourcing - risks and opportunities for investors

The Forum has considered a report outlining the strategic challenges, potential benefits and reputational risks involved for companies with outsourcing operations to foreign countries. The report will be extended to include further case studies and will examine how the information obtained can be translated into further action.

Marathon Club

At its October meeting, the Forum received an interesting presentation from Marathon Club Chairman, Peter Scales. Peter explained that the Marathon Club had been formed to stimulate institutional funds to be more long-term in their thinking and actions, and to place a greater emphasis on being responsible and active owners.

Actuarial valuations – a short survey on the outcome of the 2007 valuation will be undertaken and shared amongst LAPFF members.

Dorset joins the Forum

The Dorset County Pension Fund is the Forum's latest recruit following a presentation to the Dorset Pension Fund Investment Committee by Forum Officer Keith Bray during mid September.

Paul Kent, the Dorset Fund administrator said: "It is considered best practice for funds to engage with the companies in which they invest and membership of the LAPFF would help the Dorset Fund to achieve this."

"We are delighted that Dorset are joining us, taking our membership to 44

funds." said Forum Chair, Darrell Pulk. "It means that we now have almost half of the LGPS funds as our members and, of course, as our membership includes most of the larger funds, we represent a much higher proportion when measured by assets under management. It makes us very significant players in the arena in which we operate, but it is not just about numbers – each new fund that joins us brings with it its own perspective of institutional shareholder activism and that must enhance our effectiveness."

If any non-member readers of this newsletter would like to receive a presentation about our work or would just like to learn more about us, please get in touch with Keith, whose contact points are on page 2.

Listening to shareowners

Our 12th Annual Conference will be held on 28-30 November 2007, at Bournemouth

Delegates will hear from a range of speakers including Terry Crossley, DCLG; Mike Taylor, LPFA; Joanne Segars, NAPF; Frank Curtiss, Railpen; Gavin Grant, Deutsche Bank; David Diamond, Credit Agricole; Olivier de Guerre, Philtrust and Stuart Overend of Aberdeen Asset Management.

For a conference flyer and registration form please contact Janice Hayward at janiceh@pirc.co.uk

**Contact details for LAPF Forum are:
LAPFF Secretariat, Stuart Imeson,
West Yorkshire Pension Fund,
Britannia House, Hall Ings,
Bradford, BD1 1HX
Tel: 01274 432317
Fax: 01274 437700
Email: stuart.imeson@bradford.gov.uk**



Text printed on FSC Greencoat Silk 130gsm, 80% recycled post-consumer fibre, 10% TCF (Totally Chlorine Free) virgin fibre 10% ECF (Elemental chlorine free) fibre