

Autumn 2007 Edition

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Local Authority
Pension Fund
Forum

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

Climate change and
greenhouse gas emissions:
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and drink sector

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UK asset managers

Defence briefing

The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of 43 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

Climate change and greenhouse gas emissions: engagement with the food and drink sector

The majority of companies now report on greenhouse gas emissions, although this reporting is not always in line with DEFRA or other relevant guidelines.

LAPFF membership as at 1 September 2007

- Aberdeen City Council
- Avon Pension Fund
- City of Edinburgh Council
- Clwyd Pension Fund
- Derbyshire County Council
- Devon County Council
- 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 Pension Fund
- West Midlands Pension Fund
- West Midlands PTA Pension Fund
- West Yorkshire Pension Fund
- Wiltshire County Council
- Worcestershire County Council



The Forum will continue to encourage companies to fully disclose both direct and indirect emissions, and to expand their reporting beyond data related to energy usage. Additionally, while target setting is widely recognised as a key aspect of best practice, the degree to which targets for emissions reduction are disclosed is less than would be

hoped. Several companies have established targets related to energy usage, but these are insufficient as they do not encompass the full spectrum of emissions sources or greenhouse gases. Additionally, several companies have yet to disclose clear targets.

The food and drink sector is subject to distinct risks and opportunities arising from climate change on issues such as the impact of water shortages, crop failure impacting on supply chains, and changes to consumer demand resulting from weather changes. The sector also presents a range of opportunities related to the update of renewable energy sources.

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There are fourteen FTSE 350 food and drinks companies, and the Forum has assessed their climate change disclosure profiles against criteria determined by our specialist consultants, Enviro, in February 2007. We subsequently contacted all the companies requesting feedback on the profile and further information on the company's approach to climate change. Each company was asked six questions:

1. Has the company examined the risks and opportunities presented by emissions throughout the life cycle of its products?
2. Has the company identified potential physical risks due to changing weather patterns and their impact on infrastructure and the supply chain?
3. Has the company taken steps to reduce the energy intensity of its supply chain and manufacturing operations? In the case of retailers, have they sought to increase the energy efficiency of stores?
4. Has the company considered the potential impact of future climate change regulation/emissions trading/carbon dioxide monitoring?

5. Does the company disclose greenhouse gas emissions and is this reporting in line with DEFRA guidelines?
6. Has the company established adequate, stretching emissions reduction targets and do they disclose a strategy to reach these targets?

Replies were received from seven companies and four of the companies have indicated that they will respond. This leaves three companies as not responding, but we will persist.

Four companies have now been identified for further detailed engagement based on:

- **size of LAPFF investment;**
- **quality of company response;**
- **assessment of company's level of activity; and**
- **the need to have a balance across companies in the beverages, food producers and food retailers sectors.**

Proxy voting disclosure by UK asset managers

The websites of 40 asset management houses have been reviewed to assess the current extent of public disclosure of shareholder voting records by UK asset managers.

The key findings were:

- 15% of the sample disclose full voting records;
- 22.5% disclose reasonably comprehensive data;
- 40% of the sample disclose some data;
- Data can be hard to locate on websites;
- A number of managers' records are not regularly updated;
- At least one record contains an inaccurate and misleading disclosure on a high profile issue;
- Overall disclosure by the market is limited.

Based on the findings, the Institutional Shareholders Committee (ISC) were recommended to ensure best practice is adopted by asset managers in the ISC's principles on voting disclosure. The ISC



has subsequently issued its framework document on voting disclosure which states that public disclosure of voting records is desirable, but provides no guidance on either the level of disclosure or frequency of reporting. The survey will be repeated in future in order to assess changes in the level of disclosure.

Defence briefing

Last year, the Forum agreed to develop a briefing on the UK defence industry.

A copy of the updated briefing was presented to the July Forum meeting.

The briefing has been undertaken in a careful and neutral manner, focusing on the defence industry's industrial and employment impact.

The Forum was asked to consider factors favouring an engagement strategy with the UK defence industry in the light of the main corporate responsibility (CR) risks and opportunities identified in the briefing. In particular, the briefing suggested that engagement with BAE Systems would appear propitious, in that the newly revamped business review has provided an ideal framework for engaging with the company in a manner that is comprehensive whilst remaining balanced and politically neutral.

Consequently the LAPFF approved an agenda for engagement with BAE Systems to include:

- a forward-thinking strategy to obviate future difficulties arising from CR risks and to make the most of CR opportunities; and

- a separate discussion on the alleged corruption/bribery issue; both elements to include partners in a collaborative approach.

Networking initiative



Mike Taylor,
Chief Executive of London
Pensions Fund Authority

Under the networking initiative, Mike Taylor, Chief Executive of London Pensions Fund Authority, gave a short presentation to the July Forum, Mike's topic was 'Investment Beliefs'. In his presentation, he outlined how investment thinking and asset allocation trends have changed over recent years. Mike suggested that investment beliefs in 2007 are that equities will outperform bonds and cash, with a diversification into alternative assets and global bonds as the main hedge of liabilities. This approach will be underpinned by the requirement to pursue environmental, social and governance issues. Needless to say, Mike's contribution stimulated an interesting discussion.

news in brief

LAPFF alerts

62 alerts were sent out during the last quarter, plus three special alerts relating to Shell, Exxon and Tesco.

BP health and safety concerns:

Following significant opposition to BP's remuneration report at its AGM, the Forum is to develop proposals that can be put to BP later this year. This will involve seeking collaboration with other investors active in this area and consulting with remuneration consultants;

Tesco: The Forum has initiated a dialogue with Tesco based on the 'Labour Standards in China Trustee Guide', with a view to Tesco providing an example of best practice on supplier audits and thus a benchmark to inform the Forum's dialogue with other companies;

Audit: Arising from direct company engagement, one company has no audit committee and 145 companies have audit committees that pose significant risks to the defence of shareholders' interests. The Forum will write to all these companies with the support of CIS and USS (Universities Superannuation Scheme).

First Group: At the July Forum, details were provided of an investor meeting with the company's senior management

relating to the implementation of a workplace strategy regarding allegations of anti-union activity in its US subsidiary. In response to a request by LAPFF that the company should disclose information to investors on the action that the company is taking, the Chairman of First Group said that he would be communicating his proposals to shareholders by September 2007.

Overseas employment standards:

The CIS (Co-operative Insurance) has contacted the Forum to progress engagement with companies on overseas employment standards with particular reference to China. **With regard to Morrisons, it was noted that the company has shown notable and encouraging progress in its climate change reporting.** The Forum will, however, continue to pursue engagement with Morrisons on the fact that the company has made no commitment to public disclosure of a code of conduct on overseas employment standards;

Company workforce practices: Details of the continued engagement campaign were provided. A meeting with Carnival had focussed on working conditions for seafarers from developing countries and labour relations. On engagement with hotel companies, the single most significant employment problem is low pay.

Forum now 'a national organisation' as Warwickshire, Tower Hamlets and NILGOSC join us.

Three more local authority pension funds have joined the Forum. The Warwickshire fund took our total membership to 43 funds and became the thirteenth county fund member following a presentation to the Fund's Board on 3rd August by Forum Officer, Keith Bray. The London Borough of Tower Hamlets and the Northern Ireland Local Government Officers Superannuation Committee (NILGOSC) joined the Forum in June.

"This clearly reinforces the fact that the LAPFF has something to offer all local authority funds, and that by acting together, we can achieve so much more," said Keith. "The NILGOSC decision to join us is particularly pleasing as it means that we can now rightfully claim to be a national organisation representing all parts of the UK."

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 company speakers about how they manage their disparate shareholder voices, and shareholder representatives will relate their experience of dealing with companies following communicating their concerns on governance and CSR matters. **For a conference flyer and registration form, please contact Janice Hayward at janiceh@pirc.co.uk**

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