

Autumn 2008 Edition

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Local Authority  
Pension Fund  
Forum

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**The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of 48 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](mailto:postmaster@keithbray.plus.com) or visit our website at [www.lapfforum.org](http://www.lapfforum.org)

## LAPFF membership as at 1 September 2008

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- Aberdeen City Council
- Avon Pension Fund
- City of Edinburgh Council
- City of London Corporation
- Clwyd Pension Fund
- Derbyshire County Council
- Devon County Council
- Dorset County Pension Fund
- Dyfed Pension Fund
- Falkirk 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 Haringey
- 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
- London Borough of Waltham Forest
- 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

# Update on corporate governance issues at M&S

Several lessons have been learnt from the Forum's recent experience in pursuing a shareholder resolution at the 2008 AGM of Marks and Spencer.

The first lesson learnt was that in order to avoid costs in submitting a shareholder resolution, the resolution must be submitted by the financial year-end of the company prior to the AGM, which in this case was by 31 March 2008. This gave us virtually no time to prepare and submit a shareholder resolution by the due date, as details of the Board's proposed changes and appointments were only made known on 10 March 2008. Consequently, it would have cost the LAPFF £150,000 to submit the shareholder resolution.

The second lesson was the problems for LAPFF in meeting either of the two methods for submitting the resolution i.e. the 5% of shares rule or the 100 company members rule. It transpired that only 25 of LAPFF member funds held shares in Marks and Spencer, thus obviating the 100 company member route, and the proportion of shares held by them was less than half of the 5% requirement. As a result, LAPFF had to



seek additional support from other shareholders who were organising a parallel campaign. In future, therefore, unless LAPFF has its own mechanism for the 100 company member route, it will continue to need support from non-local authority shareholders.

## **Therefore, the Forum has agreed:**

- to pursue a shareholder resolution for the 2009 AGM of Marks and Spencer in relation to the substantive governance concerns about the timetable and process for selecting a successor to the current chairman/ chief executive.

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- to receive an urgent report from our research partners PIRC setting out reform proposals to amend the statutory timetable for submission of shareholder resolutions. These proposals will then be submitted to both the Financial Reporting Council which has responsibility for the Combined Code and to central Government with regard to the working of the Companies Act 2006
- to explore other mechanisms to ensure appropriate submission of shareholders' resolutions in the future (for example, establishing 100 different companies);
- to seek a further meeting with Marks and Spencer to continue the dialogue about the Forum's concerns.

## Other news

**Greenpeace: Hidden costs and carbon liability of palm oil** – the Executive agreed that a short scoping report be produced on the implications of supporting the Greenpeace initiative to campaign against the suppliers of palm oil to the international market, who are exposing consumer companies to high levels of hidden risk, due to the massive carbon dioxide emissions that are resulting from the destruction of Indonesia's rainforests and peatlands.

**Review of engagement and voting activities of passive managers** – the Forum's research and engagement partner PIRC will liaise with the Lothian Pension Fund, to see how this might be progressed.

**Establishment of a trustees' training website** – the Executive agreed to consider this in due course after reviewing LAPFF members' existing arrangements and practices.

**Guidance on voting and responsible investment** – a draft report has been prepared for the CIPFA Pensions Panel on behalf of LAPFF

**LAPFF member holdings** – LAPFF members are to be surveyed with a view to each member providing a list of their holdings on a quarterly basis to ensure LAPFF's engagement programme is relevant to members' investments and is based on up-to-date information.

# Engagement on climate change in the EU and US

The Forum wishes to develop an international engagement strategy, with a focus on climate change, particularly with the EU and US markets in mind.



Essentially, this engagement will follow the same strategy as we used in the UK, which is based on a sectoral approach engaging with sectors in the same order as in the UK.

More specifically we propose to move towards active engagement in continental Europe once the UK campaign is mature. This is currently the case with engagement in the oil and gas, food and drinks, and transport sectors. The mining sector will follow later. This approach will enable lessons learnt in the UK to be applied to the

engagement in Europe. Engagement activities will follow the same pattern as in the UK – i.e. this would encompass research, letter writing, identification of focus targets, and company meetings, with escalation where appropriate.

There are seven oil and gas companies in the FTSE Eurofirst 300 (excluding UK). The analysis of these companies leading up to active engagement will represent a significant investment of research time. The Forum will, therefore, seek to intensify its search for possible collaboration in Europe – for example, via the Carbon Disclosure Project (CDP). LAPFF can also build on existing ties with European investors by way of the UNPRI (the UN Principles for Responsible Investment) platform.

As far as the US is concerned, we similarly propose that climate change engagement should follow the same strategy as applied in UK. The order of

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sectors to engage with will be the same as in the UK, and again we propose to move towards active engagement in the US once the UK campaign is mature.

There are 30 S&P 500 oil and gas companies. As for the EU targets, the analysis of these companies leading up to active engagement will take a substantial amount of time. Consequently, to make engagement more effective, the Forum will intensify its search for possible collaboration in the US. Opportunities will arise in the case of climate change shareholder resolutions and again LAPFF can also build on existing ties with US investors by way of the UNPRI platform, the Carbon Disclosure Project (CDP), the INCR roundtable, and its previous

involvement in activism directed at Exxon in conjunction with CERES. Consequently, until the US climate change engagement is formally initiated, the focus will be on seeking collaboration and case-by-case engagement. The time requirement for engagement to start in 2008/2009 has been taken into account in the 2008/09 work plan budget for climate change.



## Affiliation with the Australian Council of Superannuation Investors (ACSI)

The ACSI is the leading Australian superannuation fund body for governance and investor activism on the continent. The similarity of organisation and activities between LAPFF and ACSI provides the basis for strong links and partnership on mutually relevant agendas of governance and CSR best practice. Accordingly, the LAPFF agreed that the two bodies should affiliate through mutual recognition.

# Issues pertaining to extractive industries

The LAPFF signed the investor statement of support of the Extractive Industries Transparency Initiative (EITI) in March 2005.

This initiative supports the development and promotion of improved governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas and mining, believing that extracting resources within a system of good governance can foster growth and reduce poverty.

The EITI has recently finalised its validation methodology which is used to measure a country's compliance against established indicators. To date, there are 23 candidate countries which are currently going through the steps of becoming compliant, but no country has been yet deemed compliant.

The Forum has been a joint signatory (alongside fund managers) to a letter to companies operating in countries that have become EITI candidate countries, asking for the companies' support of EITI by becoming involved within the candidate countries. The EITI Business Guide, which provides an outline of



what the EITI expects from companies in resource-rich countries can be viewed at <http://www.eitransparency.org/document/businessguide>

Further guidance to institutional investors, as a companion to this guide will follow soon.

The LAPFF has also agreed to advise members of the ESG issues being raised by the CAFOD/Fair Pensions campaign on mining groups which seeks to highlight business risks relating to environmental and social issues surrounding mining operations. The campaign is looking for assurances that pension funds take these issues into account and carry out appropriate due diligence when making investments in such companies.

## New members for the LAPFF Executive

Councillors **Neil Fletcher** of Aberdeen City Council, **Ann McLachlan** of Merseyside Pension Fund, and **Jim Middleton** of Greater Manchester Pension Fund have been co-opted onto the LAPFF executive.

## Forum to create new post of Chief Operating Officer

Following a significant increase in membership over recent years, the LAPFF has given consideration to how the enlarged organisation can best manage its affairs going forward. The current arrangements have worked well, but need to be reviewed to ensure they meet the future requirements of a much expanded LAPFF membership and work programme. Also, the Honorary Secretary will be retiring during 2009 and it is uncertain whether or not comparable replacement facilities are practical or feasible.

A proposal to create a position of Chief Operating Officer has been approved and the job description for this post will reflect the Hon. Secretary's current role and expand it to provide relevant support to the Chair and the Executive, as well as giving capacity for more involvement with the LAPFF work-plan issues.

When the Constitution is reviewed to accommodate this appointment, consideration will be given to allowing officers of those LAPFF member funds who do not have elected members to become members of the LAPFF Executive.

## Networking initiative

Phil Triggs from Warwickshire County Council gave an excellent presentation on hedge funds at the Forum meeting in July. He gave a detailed description of the various hedge fund categories and their characteristics including levels of risk, fees and returns. The presentation covered this technically challenging subject with exceptional clarity and was very well received by Forum members.

## Annual Conference

### *Market Risks for Responsible Investors – From Sub-Prime to Climate Change*

The 13th LAPFF Annual Conference will take place, as usual, at the Highcliff Marriott, Bournemouth on 3rd, 4th & 5th December.

Keynote speakers will include **Martin Gilbert**, Chairman, FirstGroup plc and **Mark Burgess**, Head of Equities, Legal & General Investment Management.

For more details and to discuss opportunities for sponsorship, contact **Janice Hayward** by telephone on **020 7392 7894** or email [JaniceH@pirc.co.uk](mailto:JaniceH@pirc.co.uk)

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