

Summer 2007 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 40 public sector pension funds based in the UK, with assets of more than £70 billion. 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 May 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
- Lincolnshire County Council
- London Pension Fund Authority
- Merseyside Pension Fund
- Norfolk Pension Fund
- Northamptonshire County Council
- 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
- West Midlands Pension Fund
- West Midlands PTA Pension Fund
- West Yorkshire Pension Fund
- Wiltshire County Council
- Worcestershire County Council

Forum members have their say at BP's AGM

Opposition to BP's remuneration report was over four times greater than last year as LAPFF members join forces with other investors.

At BP's 2007 AGM, more than 17% of BP's shareholders voted against its remuneration report, whereas the average vote against the remuneration reports of FTSE 350 companies during 2006 was only 4%. Moreover, BP itself saw only 4% of votes cast against its remuneration report in 2006. We believe that this dramatic signal of discontent from shareholders will put BP within the top 10% of FTSE 350 companies in terms of opposition levels against remuneration reports during 2007. **If abstentions are included then more than one in five shareholders failed to back BP's remuneration policy.**

The Forum has been actively engaging with BP for many months over the company's response to recent safety failures, including the Texas City



Refinery blast in March 2005 and the Prudhoe Bay oil spill in July 2006. The company has been criticised for its management of safety issues in reports by former US Secretary of State James

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Baker and, more recently, the Chemical Safety and Hazard Investigation Board (CSB).

We recommended that our members vote against the company's remuneration report on the grounds that BP's long-term incentive scheme should contain safety-related and other extra-financial performance elements. Indeed, we believe that extra-financial performance metrics should apply to all executive directors.



BP's 2006 AGM

BP must demonstrate that it is responding to shareholder concerns after this reaction. As our chairman Cllr Darrell Pulk said: "BP has achieved the dubious honour of top decile performance in terms of shareholder opposition to its pay practices. This is a clear message from the company's owners that changes need to be made.



BP Chairman Peter Sutherland at 2006 AGM

The board should not underestimate this signal. But this vote is also an opportunity for a fresh start. BP should show real leadership by responding to concerns both about the general structure of its remuneration arrangements, and the linkage to effective management of safety issues."

The LAPFF will continue to press for reforms to BP's remuneration practices in the wake of the AGM vote, and is seeking further meetings with the company, including the chair of its remuneration committee, DeAnne Julius. Moreover, in recognition of the fact that these issues apply to every company in the sector, the Forum will closely monitor the situation at other oil and gas companies and engage with them as appropriate.

Rail and road transport companies and climate change - a trustee briefing

The climate change impact of transport, including rail and road transport, is a complex issue that cannot be addressed by transport companies alone. This is the stark warning from the LAPFF, whose members are reviewing the ability of pension fund investors to positively assist companies to contribute to carbon reduction solutions.

Companies may be able to gain a competitive edge through showing willingness to adopt new technologies and work in partnership with other agencies seeking to promote new technologies – for example, the trials of hydrogen buses in London which First Group is participating in. The Forum's pension fund members are concerned to understand and analyse what transport companies are doing in this regard and should encourage companies to take pro-active measures to collaborate with other stakeholders, such as local authorities, government agencies and other bodies.

Companies which rely heavily on road transport or distribution within their

business models will be subject to many of the same risks and opportunities resulting from climate change as rail and coach companies, and may in fact be more vulnerable as their core business is not public transport, which in itself is a means of addressing climate change.

However, based on current disclosure it appears that some of these companies have not yet addressed these issues. It will be in shareholders' interests to ensure that such companies are adequately assessing these risks.

In light of these implications, the Forum is asking the following questions of companies through its engagement

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programme with this sector:

- What measures has the company taken to increase the fuel efficiency of its vehicles?
- Does the company have challenging targets in place for reduction of carbon dioxide emissions?
- Has the company made any steps toward the adoption of new technologies to reduce emissions in its vehicle fleet?
- To what extent have companies taken steps to develop partnerships with other stakeholders such as local government and other members of industry?
- What particular potential regulatory or legislative obstacles has the company identified related to its particular business?
- How does the company intend to respond to future regulatory risks, such as the potential inclusion of surface transport in the EU ETS, or more stringent vehicle emissions targets?
- To what degree has the company evaluated the investment risks attached to the level of capital required to address and respond to these risks?

UKSIF Sustainable Pensions project

Background

The LAPFF have nominated the LPFA to represent them on the United Kingdom Social Investment Forum Sustainable Pensions Project (UKSIF SPP). Mike Taylor, Chief Executive of the LPFA, attended meetings on our behalf.

This project aims to persuade occupational pension funds to support the delivery of the low carbon economy and sustainable development by using their supply chain pressure to encourage more environmentally responsible corporate behaviour, making this a natural part of strategic supply chain management for sustainable development in both the public and private sectors. Specifically, it aims to change the approach used by a realistic but challenging number of the occupational pension funds of the 286 FTSE All-Share companies in the FTSE4 Good UK Index and/or Carbon Disclosure Project's Climate Leadership Index and of the 99 members of the UK local government pension scheme.

The project aims to respond to the UK government's commitment to become a leader in sustainable public procurement by 2009. The initial intention is to collate

and publish an overview of UK current practices. The CIPFA Pensions Panel (of which Mike is a member) has also agreed that the Secretariat should work alongside Mike and UKSIF in developing guidance in this area. The methodology suggested to inform the overview is to develop a self-assessment questionnaire

designed to answer the question: **How well does the pension fund address environmental, social and governance issues?**

And LAPFF members are being invited to assist in developing the questionnaire and identifying funds which may be demonstrating best practice in this area.

news in brief

LAPFF alerts

22 LAPFF alerts have been issued so far this year, reflecting the increasing number of AGMs in the 'busy period'. These include:

Shell: LAPFF urged its members to oppose Shell's remuneration report at the company's AGM on 15 May, recommending that Shell's long-term incentive plan should contain safety-related and other non-financial business performance elements.

BG: LAPFF will be meeting with BG Group's CEO in June to discuss its concerns over the lack at its emission reduction targets.

Food & drinks sector: The Forum has written to 14 companies in the food & drinks sector requesting information on their approach to climate change.

Whitbread: LAPFF met with Whitbread's company secretary to discuss employment issues.

Morrisons: The Forum continues to press a commitment by Morrisons to publicly disclose its code of conduct relating to overseas employment standards. Forum representatives met with the company's senior independent director and the dialogue continues.

Tesco: The Forum wrote to Tesco in March to ascertain the company's full level of operations in China as well as relevant measures it is taking to address labour issues in the country, following the analysis of the company's disclosures on the basis of the Forum's Trustee Guide on Labour Standards in China. Engagement continues.

Audit issues: As part of the Forum's plans for direct company engagement and targeted shareholder voting on audit issues, it met with representatives of ABI and NAPF to discuss the campaign.

Membership hits 40 as Aberdeen and Lewisham join the Forum

Two more local authority pension funds have joined us. The City of Aberdeen joined in March, and at the end of the month, the London Borough of Lewisham became our 40th member following a presentation by Forum Officer Keith Bray.

Joanne Hope, Pensions Manager for Investments at Aberdeen City Council said: "Aberdeen City Council has been impressed by the work undertaken by the LAPFF in encouraging companies to comply with best practice and thereby seeking to improve shareholder value. The Fund is looking forward to working

with other local authorities in furthering that objective."

Forum Chairman, Darrell Pulk said: "We are delighted to welcome Aberdeen and Lewisham into the Forum. We have increased our membership by 66% since 2003 – and our 40 member funds have assets of more than £75billion under their management."

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.

Trustee training seminars

Seminars are planned for 2007 focussing on private equity investment and fixed interest investment strategies. More details will be announced shortly and in future editions of this newsletter.

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