

Summer 2008 Edition

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Local Authority
Pension Fund
Forum

the the view from 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 or visit our website at www.lapfforum.org

LAPFF membership as at 1 June 2008

- 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

Concerns about corporate governance at M&S.

LAPFF says: "It's risk, not Rose, that concerns us."

The Forum has told Marks & Spencer that its members do not support the company's decision to appoint Sir Stuart Rose as executive chairman.

In March 2008, M&S announced a significant change to its governance structure, whereby Sir Stuart Rose will combine the roles of chair and chief executive. This is in clear breach of the Combined Code.



The company proposes to revert to the existing structure of an independent non-executive chairman and a separate chief executive by July 2011.

Councillor Ian Greenwood, the Chair of LAPFF, has written to M&S stating the Forum's concerns over Sir Stuart's role as executive chairman. The letter highlighted the following concerns:

- the company's inadequate response to addressing the issue of concentration of power at the head of the company;
- why the incumbent chief executive could not continue in his current role, and an interim chair be appointed;
- the company has provided insufficient grounds for a breach of best practice that will last three years;
- the company is setting a bad example and an unhelpful precedent for the market as a whole.

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In short, the Forum has stated that it does not believe that the company has provided sufficient justification for this significant breach of the Combined Code. In his letter to the current M&S chair Lord Burns, Councillor Greenwood has put forward the Forum view that whilst investors might tolerate a temporary combination of the roles of chair and chief executive, it is not convinced that the company has provided grounds for a breach of best practice that will last three years. It has also queried why Sir Stuart cannot remain as chief executive whilst the company continues to plan for succession.

The Forum also takes the view that the announcement that Sir Stuart Rose will face annual re-election, whilst welcome in ordinary circumstances, may personalise the governance issue in an unhelpful way. We believe that this could frustrate investors who wish to maintain the focus on the importance of good governance.

In taking this stance, the LAPFF chairman has stressed that, "As far as the LAPFF is concerned, this is about risk,



Sir Stuart Rose
Chief Executive of M&S

not box-ticking. The recommendation that there should not be a concentration of power at the head of a company is in the Combined Code because of previous governance failures. In addition, there is a significant risk for investors that the decision to breach a key principle will send a message to the market as a whole. As such, welcome as the company's recent letter is, it does not provide sufficient justification for us to support the proposed approach. We want the focus to remain on the importance of good governance, rather than turning into a personal referendum on Sir Stuart Rose. We are therefore exploring alternative routes to addressing our concerns."

Investor network on climate risk

The UN Investor Summit on Climate Risk took place at the UN headquarters in New York during February and was attended by the LAPFF Chair.

The purpose of the summit was to review progress following the last summit in 2005, which itself followed the founding summit in 2003. The 2003 meeting founded the Investor Network on Climate Risk (INCR), a network of institutional investors and financial institutions that promotes better understanding of the financial risks and investment opportunities posed by climate change.

The summit was co-hosted by the United Nations Foundation, the UN Fund for International Partnerships and CERES. The forum was a co-convenor of the 2008 event and was also a convenor of the 2005 event. The INCR comprises predominantly US public pension funds including CalPERS, CalSTRS, New City, New York State, Connecticut, Florida and New Jersey, as well as various state treasurers including California, New York, Pennsylvania, Maryland and Massachusetts.

The summit focussed on how investors could advocate solutions to climate change with a particular emphasis on the

benefits of energy efficiency. The summit agenda covered an examination of recent scientific findings on climate risk and technological solutions; assessed potential capital flows into energy efficiency and clean technologies; heard from institutional investors, state treasurers and leading financial services firms worldwide on how they are factoring climate risk into their policies and strategies; and considered the prudent steps investors could take to address climate risk opportunities. A copy of the agenda is available at www.incr.com/summit

In addition, the summit approved a new action plan for investors on 'capitalising the new energy future of minimising climate risks and seizing opportunities' (an assessment of the action plan with the Forum's activities is attached). As a result of the summit's successful launch of the action plan, USS, BT Pensions Scheme and ABP pension fund have all indicated their in principle support.

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As a result of the 2005 Climate Risk Summit, a range of achievements were made that were reviewed by the 2008 meeting. An investment goal of over \$1 billion in companies developing or exploring green technologies has been reached over the three year timeframe. A record 43 climate-related shareholder resolutions have been filed at US companies, 15 of which led to successful outcomes with companies including ConocoPhillips, Wells Fargo and Hartford Insurance. In addition, a model climate risk policy for institutional investors was published specifically addressing shareholder resolutions, proxy voting and corporate dialogue on climate risk, available at <http://216.235.201.250/NETCOMMUNITY/Document.Doc?id=73>

One of the presentations featured the current state of scientific knowledge on climate change from Professor John P Holdren, Professor of Environmental Policy at Harvard University and a former chair of President Clinton's Committee of Advisors on Science and Technology. His presentation on global climate disruption, risks and opportunities was a devastating resume of what do we know about climate science, what we can do about climate technology, what our economic options are in terms of what we can afford and whether we can afford not to act, and the

risks and opportunities for companies and investors. The PPT is available at:

<http://www.ceres.org/NETCOMMUNITY/Document.Doc?id=282>

Professor Holdren will be invited to speak at the LAPFF 2008 Annual Conference which is to be held as usual at Bournemouth in December.

The UN summit proved to be a valuable opportunity to network and review the progress made amongst predominantly US investors on climate change engagement in all its facets, The LAPFF has therefore decided to join the INCR to support the development of this relationship.

Company investment in Burma

At its April meeting, the Forum received a report which looked at company involvement in Burma and presented an option for engagement.

Companies face various risks associated with operating within the jurisdiction of Burma/Myanmar's military regime, not least of which is the instability of contractual obligations associated with the legitimacy of the regime. In addition, companies face legal action on the grounds of being accused of sponsoring human rights violations and crimes against humanity.

Due to the significance that the oil and

gas sector has to the Burmese military regime and the new EU sanction restricting activities of companies in other sectors, it is considered that the focus of engagement should be within the oil and gas sector. Total is the only European oil and gas company still operating in Burma, and appears on both the UK Burma Campaign and the Human Rights Watch list of companies to watch.

The LAPFF agreed that the focus of engagement should be with Total, and that a letter be sent by the Forum to Total to ask what measures the company has taken to prepare for the possibility of restrictive EU sanctions being applied to the oil and gas sector. The letter will also ask the company to explain the strategic significance of its operation in Burma. As Total also has links with Sudan, it was agreed that the letter should also cover the company's operations in Sudan.

The LAPFF also seeks to collaborate with other institutional investors who are active on this issue.

2007 actuarial valuation: survey of results

A survey of LAPFF members has been undertaken on the results of the 2007 actuarial valuation, and 29 members have responded. The survey did not include Scotland where the next triennial

actuarial valuation will be undertaken in 2008. The main points arising were as follows:

- all but two funds have seen an improvement in their funding level in 2007 compared with 2004;
- the average funding level for the 27 pension funds in 2007 is 83.6% compared with 74.9% in 2004;
- the recovery period to 100% funding ranges for 12 years to 27 years at the 2007 actuarial valuation, with 20 years the most common period;
- in terms of employers' contribution rates, the majority of pension funds have experienced increases in 2007, although a few have either maintained or slightly reduced the rates;
- the vast majority are phasing-in increases in employers' contribution rates over three years;
- gilt yields in 2007 were around 0.2% to 0.3% p.a. less than they were in 2004. Gilt yields are used to value liabilities, and as yields fall so liabilities rise;
- in terms of the other various financial assumptions there are no overall discernible trends, and in the main all pension funds are operating within a narrow comparable range;
- one of the key outcomes is that all pension funds (except one) are using new mortality rates which translate into increases in life expectancy being used in 2007 compared with 2004. This has increased the liabilities of pension funds significantly.

Forum to review its management structure

Following our growth in membership over recent years and the consequent higher profile that we now enjoy, the Forum is conducting a review of its management structure. The Executive has considered how the review of the overall structure and basis of research, marketing/ communication, secretarial and financial services provided to LAPFF should be progressed.

As a first step, the Forum has accepted the Executive's proposal that a chief operating officer post be established to replace the current honorary secretary position. The officer would undertake all the administrative work currently undertaken by the honorary secretary plus reviewing, determining and facilitating the arrangements for the discharge of all LAPFF work. Also following appointment, the chief operating officer would look at the legal implications of LAPFF being reconstituted as a company limited by guarantee.

It was also agreed that the review should cover the governance arrangements of LAPFF in terms of who takes the decisions on specific issues. Due to the increasing size of the LAPFF membership, the possibility of creating 'interest groups' within LAPFF – whereby members can choose to get involved more closely with specific work projects – will be examined.

Annual Conference

The 13th LAPFF Annual Conference will take place as usual at Bournemouth on 3rd, 4th & 5th December. For more details and to discuss opportunities for sponsorship, contact **Janice Hayward** on **020 7392 7894** or email JaniceH@pirc.co.uk

Other news

Networking initiative: At April's meeting of the Forum, Clare Scott, investment manager of the Lothian Fund gave a short presentation on her fund's approach to environmental, social and governance (ESG) issues. The talk was very well-received and stimulated an interesting and useful discussion.

The Forum's work is acknowledged by German government: The German Federal Ministry of Labour and Social Affairs invited the Forum to make a presentation about our work at a conference held in Berlin at the end of April, to launch a German national corporate social responsibility (CSR) strategy. The presentation was made by Forum officer, Keith Bray.

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



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