

Spring 2008 Edition

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Local Authority  
Pension Fund  
Forum

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

Forum's new Chair looks forward  
with confidence to 2008

Work programme is developed  
and expanded

Membership hits 48 as Haringey,  
Waltham Forest, Falkirk  
and the Corporation of London  
sign up for membership

**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 March 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

# New LAPFF Chair, Councillor Ian Greenwood of the West Yorkshire Fund, looks forward to 2008

This is a particularly exciting and challenging time to take the chair of the LAPFF. We have never had a better opportunity to secure meaningful improvements in the corporate governance (CG) of businesses and in their approach to corporate social responsibility (CSR).



**Ian Greenwood**  
Chair, LAPFF

At the same time the Forum is now exceptionally well-placed to take advantage of these opportunities. During the last five years our membership has doubled, rising from 24 funds in 2003 to 48 funds at present – and we have more potential recruits on the horizon. We now represent 50% of LGPS funds by number and more than 75% of the LGPS when measured by assets under management. As a result our profile has been raised and

we are now widely acknowledged as a key player on these issues both within the UK and internationally.

This was demonstrated most effectively by the coverage we received regarding our engagement with BP during 2007 over their safety record in particular, and more generally with regard to our aim to secure a better linkage between the remuneration of Directors and a series of non-financial performance measures and indicators.

I must at this point pay tribute to my predecessor, Councillor Darrell Pulk of the Nottinghamshire Fund, who chaired the Forum with great distinction during

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2006 and 2007. Darrell demonstrated unbounded energy and enthusiasm for the causes we are pursuing throughout his period of office. We are indebted to him for his inspiring leadership.

Looking forward to 2008 and beyond, we have much to do. In particular, our programme identifies engagement with:

- FTSE 350 companies, US S&P 500 companies and EU top stocks concerning the likely impacts of climate change on industry sectors and companies, and consequent risk to shareholder value;
- UK companies about long-term variable remuneration and its link with non-financial performance;
- FTSE 350 companies regarding audit standards;
- FTSE 100 companies regarding overseas employment standards, particularly those with operations or significant supply chains in mainland China;
- companies in the leisure sector and food producers sector which have been identified as underperformers when considering their workforce practices.



These are key areas of work for the Forum which can have significant implications for shareholder value. We will, of course, seek to secure greater collaboration with other institutional investors in pursuit of our objectives.

I have no doubt that with the enthusiastic support of our members, the Forum will continue to make a significant contribution to securing improvements in CG and CSR. We will continue to strive to make a real difference.

**Ian Greenwood**

(West Yorkshire Pension Fund)  
Chair, LAPFF

# A global engagement strategy

The current LAPFF Strategy for Shareholder Engagement, which forms the basis of the Forum's engagement with companies, was developed in 2004.

Large sections of the strategy document continue to be applicable to the Forum's work today. However, the concepts of CG and CSR standards of best practice have developed since 2004 and the Forum will, therefore, conduct a strategic review of its strategy in the context of recent market changes and the Forum's own experience. These changes include:

- The introduction of the Companies Act 2006 which brought the codification of directors' duties, **including a requirement for directors to "have regard" to factors such as the environment, employees and the supply chain.** It also provides for an expanded business review; the enfranchisement of investors; and provides a reserve power for the Secretary of State to call on institutional investors to disclose how they voted. Aspects of the changes have already found their way into

LAPFF's engagement activities, such as the use of business review disclosures as leverage for change. However, we are now reviewing how the Companies Act could influence LAPFF engagement strategy, in particular the best practice standards it sets.

- The launch of the UN Principles for Responsible Investment. The Forum signed up to the UN PRI in October 2007. While the Principles are closely aligned with the Forum's mission statement and engagement strategy, the Forum will consider exploring more closely how the principles can best inform LAPFF strategy going forward.
- The trend by investors to incorporate sustainability issues (or non-financial issues) into investment decisions runs in parallel with companies who seek to integrate these issues into business

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strategies. The Forum is already responding to the trend, for example by calling for a link between companies' non-financial performance and executive remuneration.

In addition, since 2004, the Forum has conducted a major review of relevant audit issues in the UK. This led to a study of audit practices in the FTSE 350 and an engagement programme targeting both companies and regulators. Some of the recommendations from the LAPFF audit review have since been incorporated into LAPFF alert policy, but the review of the LAPFF engagement strategy will incorporate this aspect.

Also since 2004, the Forum has moved towards a wider base in its engagement activism. Examples of this have been the emphasis on engagement around AGMs during 2007 (such as First Group on union issues in the US, and BP on its safety record and executive remuneration). Another element has been the increased collaboration with other institutional investors on specific issues (including, for example, lending support to a shareholder resolution at Exxon). Experiences gained from these activities will also be considered in the strategic review of the 2004 strategy.

The Forum's membership has also made changes to asset allocation resulting in equity portfolios becoming

more global in their investments as evidenced in the most recent WM annual local authority report. (Only 54% of the investment in equities by UK local authority pension funds is now allocated to UK equities, 46% is allocated to overseas equities. Within the overseas equities, 26% is allocated in the US and 32% in continental European stocks.) The 2004 strategy will be reviewed to reflect this increasingly global focus.

In summary, the LAPFF will be:

- **developing a global vision of its role;**
- **introducing a focused approach to shareholder engagement alongside the current issue-based approach;**
- **taking into account the financial performance of target companies.**

The review will, therefore, draw on

- Changes to the corporate governance regime in the UK since 2004;
- Market developments with regard to corporate governance and corporate social responsibility best practice since 2004;
- Developments in the Forum's own engagement activities with companies and regulators since 2004; and
- Findings of the CG and CSR reviews of continental Europe, US and UK.

The latter requires a review of CG and CSR standards in the UK and this will be the first step in the process looking primarily at FTSE 350 companies.

# news in brief

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## **LAPFF alerts**

Ten alerts have been issued since the publication of the last newsletter.

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## **Globalisation and responsible investment: a LAPFF response to 'corporate dualism'**

There is growing concern about UK company operations and practices overseas, with allegations based on varying standards of governance and corporate responsibility (e.g. labour standards). The LAPFF will develop a coherent response to this challenge of 'corporate dualism' by carrying out an analysis of cases identified to date, and by developing an appropriate framework in which UK investors can assess substantive issues of the different approaches UK companies seem to be taking in US subsidiaries and elsewhere.

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## **Incentivising executives**

Research has shown that United Utilities is the leading company within the FTSE 100 that embraces non-financial performance measures in its executive long-term incentive scheme. We will now seek to meet with this company with a view to using the insight gained in addressing laggards in the FTSE 100 on a case-by-case basis.

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## **NAPF's review of the implementation of the Myners' principles**

Forum members have received a critique of the NAPF's review, suggesting that the review tells us very little about actual practice amongst pension schemes and their fund managers.

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## **Obesity and the food and drinks industry**

Views are being sought on the findings of

research commissioned by the Forum from all companies within the food and drinks sector.

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## **FTSE 350 activities in Sudan**

Companies face various operational risks when operating in Sudan and could also face reputational risk that could be detrimental to the company's image and potential value. The Forum will engage with Weir Group and Petrofac and with other European companies expressing concerns about their operations and the management of human rights issues in Sudan.

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## **Climate change: engagement with transport companies**

Further engagement with three 'rail and road' companies, namely Stagecoach Group, Arriva and National Express has been approved and it has been agreed that airline companies will be reviewed as a second stage of engagement during 2008/09.

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## **Improving the quality of audit committee reporting**

The Forum will continue its engagement with FTSE 350 companies and will respond to the FRC (Financial Reporting Council) consultation on revised guidelines for audit committees in 2008, including a recommendation for a statutory shareholder vote on audit committee reports.

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## **Work plan**

The Forum has approved a work plan for 2008/09 for its research and engagement partner PIRC.

# Haringey, Waltham Forest, Falkirk and the Corporation of the City of London join us - taking our membership to 48 funds

Following presentations by our Forum Officer, Keith Bray, the London boroughs of Haringey joined us (in December), Waltham Forest (in January) and the Corporation of the City of London (in February). This takes our London membership to 16 Funds. Then, also in February, following a presentation from our Chair, Councillor Ian Greenwood and Keith, the Falkirk Pension Fund decide to become a Forum member, taking our representation north of the border to three funds.

Ian said: "During our financial year 2007-08, we have recruited ten new member funds – a truly remarkable achievement – and one which serves to improve our effectiveness very significantly. We can now rightfully claim to be a leading voice on the subject of CG and CSR for the Local Government Pension Scheme, representing as we do, all parts of the UK and all types of local authority funds."

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.

## Executive 2008

At the AGM in January, the Forum elected a new Executive Committee as follows:

### Chair:

Councillor Ian Greenwood - *West Yorkshire*

### Deputy Chairs:

Councillor Andrew Cornwell - *Islington*

Councillor Winston Vaughan - *Newham*

### Members:

Councillor Don Yates - *Lancashire*

Councillor Sue Brown - *Merseyside*

Councillor Cameron Rose - *Lothian*

Stuart Imeson (Honorary Secretary)

Brian Bailey (Honorary Treasurer)

### Honorary Auditor:

Nottinghamshire County Council

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