

LAPFF Newsletter

September 2000

Our mission statement:

"LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest, commensurate with statutory regulations."

Forum Success on Child Labour Standards

All companies in the retail sector have responded to the campaigning pressure of the LAPF Forum to disclose their policies on overseas labour standards, including the use of child labour. In a major letter-writing campaign by the Forum during 1999 and 2000, 54 companies were pressed to reveal their policies on codes of conduct, overseas supply chains and sourcing in response to the Forum's concern over the possible use of child labour by UK retailing companies. Many local authority pension funds have investments in this sector and the companies concerned include many of Britain's popular high street brand names.

Latest figures recorded by the Forum show that 60% now have either a company code of conduct or require suppliers to meet certain standards or are members of the government-sponsored Ethical Trading Initiative.

Forum Chairman Cllr Bob Sowman, who represents the West Yorkshire Pension Fund and Bradford City Council, said "This is a major success for the Forum and indicates the strength of collective action by concerned local authority pension funds".

"The next step is to examine the information companies have sent us and focus on those with little to persuade investors like us of the merits of their own policies."

The Forum is also pursuing meetings with the four largest companies which currently do not have comprehensive policies or a code of conduct. These are WH Smith, Signet, Boots and JJB Sports.

Next Forum meeting:

Friday 15th September 2000 at IDeA, Turnmill Street, London EC1. Please contact the Forum Secretariat for more details. *Observers welcome!*

Contact: Janice Hayward, LAPFF Secretariat, 4th Floor, Cityside, 40 Adler Street, London E1 1EE
Tel: 020 7247 2323 Fax: 020 7247 2457
Email: info@lapfforum.org

www.lapfforum.org.uk

New member for the Forum

The latest pension fund to join the Local Authority Pension Fund Forum is Northamptonshire County Council. Stephen Wood, Director of Finance said, "Joining the LAPF Forum for my pension fund was an obvious way to further our interest in socially responsible investment".

Mr Wood continued, "Northamptonshire pension fund is mindful of its investment responsibilities and saw the Forum as a valuable vehicle to explore their implementation. We favour the shareholder engagement strategy to pursue our SRI policies and the Forum is ideally placed to further our interests."

LAPFF Pay Campaign Propels Reform

The lack of rigorous performance hurdles for the executive pay plans of some of the UK's major companies has been targeted for action by the LAPF Forum, and a quarter of companies lobbied have subsequently improved their performance targets.

The Forum examined the performance targets used by top companies and found some 54 to be wanting compared to best practice.

These pay schemes had performance hurdles which provided no real incentive. Institutional investor bodies are agreed that performance targets should be challenging. Having identified the companies with the weakest schemes, the Forum wrote to them and sought reforms

to improve and toughen the targets. Forum Chairman Cllr Bob Sowman, (of the £3 billion West Yorkshire pension fund), said "We wanted positive responses from those companies to change their targets. We have had good feedback and positive changes from many but some are still lagging in their commitment to implement best practice."

Following the letter campaign, meetings took place with Reuters, Compass and BAA, and the Forum took the issue to the June AGMs of P&O and Hilton.

At its most recent meeting, the Forum received an update on AGMs attended and on companies' responses to questions raised on behalf of the Forum.

It agreed to seek greater support from other local authority pension funds and to address new executive incentive schemes when they are proposed, at any company AGM or EGM in the FTSE All-Share, where they do not meet the Forum's standards.

This approach is partly in response to the appearance of some new share schemes which have the potential to make significantly higher payouts, such as the recent Barclays scheme, and the Forum has also introduced more co-ordination into voting by its members. They will receive a special alert when a pay proposal is made which fails to meet LAPFF criteria.

The latest company to attract Forum attention has been Vodafone (see below). Cllr Sowman said that "We are not going to let these companies get away with flabby performance targets and we encourage all funds to support our approach. If we act together on this we can start to turn the tide against big pay deals for poor or average performance."

The LAPFF campaign will be looked at with interest by the government, which has stated that it favours institutional investors taking more interest in directors' pay matters, although it is still considering whether to introduce an annual AGM vote on directors' pay.

Forum allies with government on environmental reporting

The Local Authority Pension Fund Forum has written to Michael Meacher, Minister for the Environment, to seek a meeting to discuss collaboration between the Forum and the government's initiative to persuade better environmental reporting by Britain's top companies. Cllr Greg Vincent, Vice chair of the Forum and chairman of the LB Newham £400 million pension fund said, "We welcome the government's initiative and look forward to seeking ways in which company improvement can be achieved in partnership with the Minister."

The government is calling for more extensive green reporting through its Make a Corporate Commitment (MACC2) initiative.

The Forum is also pressing 50 companies in 'high impact' sectors to start reporting. Currently these companies do not report on their environmental impacts or have only a minimal statement of policy to adopt best practice. The list has been drawn from PIRC's Environmental Reporting Survey 2000.

LAPFF will be looking for commitments to greater reporting in future covering policy, environmental management structures, and environmental performance.

Responses will be monitored and companies which fail to move towards more comprehensive reporting will be targeted for meetings and AGM activity.

LAPFF votes No to Vodafone pay deal

Forum members with over £20 billion in assets contributed to a huge No vote on directors' pay policy at the Vodafone AGM on 27 July. Nearly 30% of shareholders either opposed or abstained on the resolution.



Financial Times 28 July 2000

The vote had sparked controversy following disclosure that several executive directors had received large cash bonuses without performance conditions following the Mannesmann merger, including chief executive Chris Gent, who was awarded a £5 million cash bonus plus a further £5 million in shares.

The company was also proposing a new executive pay policy involving new share schemes. However, the shareholder material failed to disclose the performance targets to be used or any significant details of the new plans.

Stuart Bell from the LAPFF Secretariat said "The special bonuses breached LAPFF guidelines on the need for challenging performance targets to be met

before payments are made, and the new share schemes are so poorly described it is impossible for pension funds to know whether they will have tough targets".

At the AGM, chairman Lord MacLaurin apologised for mistakes in presenting the pay policy but failed to quell a significant vote from institutional investors concerned over the issue.

The Forum's strong position of voting No to the resolution received widespread press coverage and contrasted with that of the NAPF, which advised abstention.

Local Authority Fund Forum Annual Conference 2000

New shareholder values: Investment and responsibility

29 November - 1 December 2000
Cedar Court Hotel, Bradford, West Yorkshire

There will be sessions on:

- Stakeholder responsibilities and the new corporation
- Genetically modified foods
- Socially responsible investment in the USA
- The responsibilities of the public sector pension funds
- Preparing a shareholder action strategy
- Monitoring environmental reporting; pension funds and overseas development
- Overseas labour standards and codes of conduct
- Directors' pay and incentive schemes

Invited speakers include:

- Alan Hevesi (Comptroller, City of New York)
- Mike Weaver (Worcestershire County Council)
- Brian Bailey (Wolverhampton MBC)
- Roger Latham (Nottinghamshire County Council)
- Kayla Gillan (CalPERS)
- Robert Napier (CEO, WorldWide Fund for Nature)
- Brian Wigg (Norfolk County Council)
- Fred Green (Teeside Pension Fund)
- Peter Kinder (KLD, Boston)
- Ritu Kumar (Council on Economic Priorities)

Have Your Say on Governance & SRI: LAPFF canvasses all local authority pension funds

A 'priorities ballot' is being conducted by the Local Authority Pension Fund Forum. The Forum is seeking the views of each local authority pension fund on what they see as the priority issues on governance and SRI for the 2001 proxy season.

Forum Chairman Cllr Bob Sowman said "We want every local authority fund to identify their own priorities for campaigning and shareholder engagement over the next six months, in the run up to the Forum's annual conference in December. In this way we hope to have the Forum's finger on the pulse of the local funds' own agendas: what the funds themselves want to see happen."

Please complete the Ballot Form attached to this Newsletter.

The results of the ballot will be presented to the annual conference of the Forum on 29th November/1st December at the Cedar Court Hotel, Bradford (see box for more details).

