



Local Authority
Pension Fund
Forum

LAPFF Newsletter

November 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."

Companies respond to Forum on green reporting

Nearly two thirds of the companies approached by LAPFF to improve their environmental reporting have made a positive response.

The Forum initially identified 50 such companies operating in sectors with a potentially high environmental impact such as engineering, construction and electronics, but which provide shareholders with little or no information on environmental issues.

During the summer the Forum wrote requesting details of any policies which may be in place or which are being considered. After reminder letters were sent to company chairmen, 65% either provided information on the environmental aspects of their activities, or pledged to do so in the near future.

Companies which have now published environmental information in their annual reports include Laird, Renold and Chloride. Those which have given a commitment to report in future include Abbot Group, Wolseley, First Technology and Ultraframe.

The LAPFF Secretariat will be monitoring further company responses and annual reports. Companies which do not commit to reporting will be considered for further shareholder action.

LAPFF members consider that all companies, and particularly those in high impact sectors, should, as a minimum, provide a statement of environmental policy, and that this policy should be supported by comprehensive reporting on performance.

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JJB Sports adopts code of conduct

One of the UK's top sporting goods retailers, JJB Sports, has adopted a code of conduct on overseas labour standards, following lobbying by the Forum.

JJB was one of four companies highlighted for further activity by Forum members after a letter-writing campaign aimed at over 50 listed retail companies conducted during the past year. By September, the Forum's survey showed that 60% of retail companies had joined the Ethical Trading Initiative (ETI) or had adopted their own code of conduct or required standards to be met from suppliers. Following this encouraging result, LAPFF decided to focus attention on the four largest companies without a clear policy or code. The other focus companies were WH Smith, Boots and Signet.

Forum representatives met with all four companies in August and September. While discussions with the others continue, JJB is the first of the group to publish a new policy statement on labour standards issues.

Cllr Bob Sowman, LAPFF chairman, welcomed JJB's move. "This is a very positive development and shows that the company has responded to shareholder concerns and is taking its responsibilities seriously".

JJB's code is based on the Ethical Trading Initiative (ETI's) base code which incorporates all core labour standards. Suppliers to JJB, which include the big name sports goods manufacturers such as Nike and Reebok, will be asked to sign up so that they comply with the code's principles.

The development is particularly significant since the company's code and implementation plan have been developed very quickly in the two months since the Forum met the company in September. The adoption follows the appointment of a Risk Control/Internal Audit Manager, Nigel Demkiw, who will be speaking at the LAPFF annual conference in Bradford on 1 December.

LA funds back campaign priorities

LAPFF distributed a 'Priorities Ballot' with the last newsletter to all local authority pension funds. This asked for views on current LAPFF campaign areas and ideas for new issues.

There was overwhelming backing (92%) for the general principle of pension funds using their position as owners to influence company policies.

On corporate governance issues directors' share schemes and directors' contracts were the clear issues of main concern with over 90% of respondents agreeing that they were very or quite important. Shareholder rights and reform of the proxy voting process was also highlighted as very important by 54%.

Funds raised several other potential issues including concentration of executive power; independence of non-executive directors, the number/role of non-executive directors, remuneration committees and the investment stance of companies' own pension funds.

On Socially Responsible Investment (SRI) issues, the Forum's focus areas of the environment and overseas labour

standards received very high support at over 90%, but work on the issue of repressive regimes and UK employment standards also received backing from a similar number of respondents.

Funds were split about the importance of issues such as tobacco (29% saying it was very important and 42% saying it was not important), animal rights and the arms industry. Among other issues raised, sustainability and relationships with trade unions were mentioned.

Stuart Bell of the LAPFF Secretariat commented on the results, "The responses show strong support among the wider local authority pension fund community for LAPFF's existing areas of work, but also indicate scope to widen the campaign agenda".

The Forum will be considering the result of the Priorities Ballot in its work planning for 2001.

Local authorities lead way on SRI

New research shows that the majority of leading pension funds have adopted statements of investment principles (SIPs) which incorporate a positive view of socially responsible investment (SRI) and that, of these, the most active are local authority pension funds.

In a survey of the top 500 UK pension funds, the UK Social Investment Forum has found that only 14% of funds state that concerns about social responsibility will not be taken into account and these tend to be the smaller funds accounting for only 4% of assets.

Overall, 48% of funds state that they will request or require their fund managers to take account of SRI issues when assessing the financial performance of companies. An additional 12% state that they will pursue a policy of engagement with companies to promote social responsibility either by themselves, through a professional third party such as PIRC or through an association such as LAPFF.

Only eight out of the 171 funds mentioned having set up a segregated SRI fund managed by a SRI specialist manager or allocating a portion of their assets to an ethical fund.

The engagement route is clearly the most popular for local authority pension funds with 71% mentioning engagement compared to only 23% of private sector pension funds. Sometimes, engagement is combined with a requirement to consider SRI issues as part of stock selection or financial analysis of companies. But 34% of local authority pension funds had statements which are based on engagement alone, including twenty funds which disclosed having adopted the PIRC model SIP statement or similar.

Overall there is also a greater propensity by local authorities to take account of SRI by whatever method with 74% having a broadly positive approach compared to 51% of company pension schemes.

According to Penny Shepherd from UKSIF the findings demonstrate that "the UK's major pension funds are concerned about social, ethical and environmental issues. The fund management industry must now respond...to develop greater expertise in assessing companies' social and environmental performance".

Backing for share option accounting reforms

The Forum has written in support of proposals from the Accounting Standards Board (ASB) to require cost accounting for share option awards for the first time.

Currently, option awards, which form a substantial part of directors' pay, do not have to be shown in the company's profit and loss account. Some commentators estimate that if the true cost of options was shown, company profits would be 10-15% lower. Thus the current way of reporting profits is potentially distorted.

The ASB proposes that an option pricing model is used to show a 'fair value' for options. It argues that options awards are in effect, part of remuneration, as they are given in return for the performance of services.

According to a paper discussed at the last LAPFF meeting "Moving towards a fair view of option values should encourage incentive policies which are targeted at achieving value-for-money, rather than being based on the false assumption that share awards have no cost".

More new members for the Forum

Two new members have joined the Local Authority Pension Fund Forum - North Yorkshire County Council and Norfolk County Council.

This brings Forum membership to 24, with collective assets of over £40 billion.

Meeting with DETR

Following the Forum's campaign to improve environmental reporting (see page 1), a meeting has been held with DETR officials to discuss possible collaboration with various government initiatives.

The results of the LAPFF campaign were presented and discussed in the light of government encouragement to companies report.

The DETR is currently publishing various guides for companies on how to report on carbon and waste emissions and emission to water.

It is also promoting its Make a Corporate Commitment Campaign (MACC2) which invites leading companies to sign up to quantitative and consistent reporting on these areas.

Cllr Greg Vincent, vice-chair of the Forum and chairman of the £400 million LB Newham Pension Fund said "Our campaign complements what the government is trying to achieve. We think there are ample opportunities for working together".

