

# THE VIEW FROM THE FORUM

## Protecting shareholder value

### ‘Strategies for Shareholder Engagement’

### Improving our campaigning role

**T**he Forum has been reviewing its strategy framework for stewardship and engagement so that it can intervene even more effectively in the broad range of governance and corporate social responsibility (CSR) debates, which arise during the annual proxy season and beyond.

We recognise that investment in a company brings rights and responsibilities. It is LAPFF’s view that good governance of the companies in which its members invest is best achieved where directors are held accountable through informed dialogue and the exercise of shareholder rights provided under company law. **LAPFF’s view of the role of a board concurs with the principles set out in the Combined Code on Corporate Governance.**

LAPFF’s policy on shareholder activism supports the principles laid down by the Institutional Shareholders’ Committee in their October 2002 statement on the responsibilities of institutional shareholders and their agents. **At the heart of these responsibilities is the duty to protect shareholder value.**

**The Forum believes that by addressing any neglect of corporate governance and CSR issues, pension funds can contribute to wealth creation.**

At its July meeting the Forum considered a report reviewing the LAPFF strategy framework for stewardship and engagement.

The report identified the main elements of a LAPFF framework covering:

- the context and content of stewardship and engagement;
- the role of dialogue and collaboration with other investor bodies;
- the logistics of developing rapid responses and a more structured intervention.

It identified the priority areas for intervention as:

- board structures
- remuneration
- shareholder rights
- separation of audit and non-audit work
- environmental issues/sustainability/greenhouse gas emissions

As part of adopting a more strategic framework for its governance and CSR activity, the Forum will contribute to debates and developments in the UK and global markets. In particular the Forum will support positive measures to improve best practice, but will not hesitate to express its concern when confronted by poor practice. It will comment on government policy in this context and publish press releases on matters where governance and CSR issues are at stake.

**The Forum is also committed to collaborating with other investor bodies in seeking to achieve best practice in governance and CSR amongst the companies in which its members invest.**

**For more information about the LAPFF contact Forum Officer, Keith Bray on 07811 800612 or Email [k.bray@which.net](mailto:k.bray@which.net) Or visit our website [www.lapfforum.org](http://www.lapfforum.org)**

# Climate change - monitoring greenhouse gas emissions



**D**uring the 2004 proxy season the Forum has attended a number of AGMs to ask companies about their disclosure of greenhouse gas emissions according to the guidelines of the Department for Environment, Food & Rural Affairs (DEFRA). A positive response was received in all instances with the companies committing to look at the issue of reporting. The AGMs attended included **Amvescap, Smith & Nephew, LogicaCMG and Shire Pharmaceuticals**. In the construction and building materials sector, **Wolseley**, has said it will 'consider' using the guidelines. Initially **WPP** said that it would not be reporting according to any of the guidelines but following a meeting with LAPFF in July now intends to include relevant information in its next round of reporting specifically noting the Forum's influence in this decision.

**This campaign, conducted in collaboration with the Environment Agency Pension Fund, has attracted much press interest, with references in a wide range of general and specialist media.**

A further boost to the campaign has come from the decision of the Minister of State at DEFRA, Rt Hon Elliott Morley MP, to meet the LAPFF Chairman to discuss the Forum's concerns about FTSE 100 companies that still do not publish quantified data on their greenhouse gas emissions.

*The campaign to encourage rigorous reporting on greenhouse gas emissions is based on continuing research on disclosure by FTSE 100 companies, according to eight core guidelines published by DEFRA. Looking to the future, the Forum's business meeting in July agreed to the establishment of a LAPFF panel to review the Forum's environmental engagement mechanisms and make recommendations on future work to the next Forum meeting in September.*

## Engagement with Morrisons

In May 2004 a useful meeting was held between LAPFF representatives and two members of the company's board of management to discuss various concerns on corporate governance and corporate social responsibility following the Morrisons' takeover of Safeway. A further meeting is envisaged in September.



## DIRECTOR'S PAY - AN UPDATE

**E**xecutive pay remains a touchstone of corporate governance best practice. Since April 2003, LAPFF has issued weekly alerts on remuneration at companies where there are key concerns. FTSE 350 companies which use a combination of poor performance targets and excessive contracts, or whose disclosure is particularly deficient, have been highlighted.

**In the period April to June 2004, 180 companies were examined and alerts issued on 7 companies. This contrasts with last year when alerts were issued on 14 companies in the first seven weeks of the system's operation.** The change in most cases has related to the contracts' element of remuneration. There is a discernable trend developing whereby companies with executives on two-year notice periods are

either reducing these, or the affected executives retire and new executives are appointed on one-year terms.

**The reduction in the number of LAPFF Pay Alerts in this proxy season demonstrates that the Forum policy, along with pressure from other quarters, is beginning to bite.**

However, the Forum, at its July meeting, agreed an internal review of directors' pay engagement mechanisms in order to ensure policy is kept up to date. This review will also take into account LAPFF's new framework, 'Strategies for Shareholder Engagement', referred to on page 1 of this Newsletter which was approved at that meeting. The new framework is intended to help the Forum intervene more effectively on a range of governance and CSR issues.

# Overseas Employment Standards: we focus on China

**T**he next stage of the Forum's long term commitment to improve overseas labour standards is now well under way. At its July meeting, the Forum agreed to focus on a sample of industry sectors and UK companies with interests in China. The aim is to ascertain how they are addressing and managing the risks related to operating in China, with particular regard to labour standards in the supply chain.

The first part of the research involved identifying FTSE 100 companies with substantial portions of their supply chains in China and which have operations that are more open to risks. Criteria included: turnover (percentage in China); employee figures (direct and indirect); principal

subsidiaries or joint ventures; sites of main operations; and supplier information. LAPFF's reliance on publicly disclosed information might have led to the unintended omission of certain companies which reveal little of their investment in China. Hence consultation will now take place with stakeholders about the approved sample and also the method of assessing how companies are managing their risks in China.

The next phase of the project will be to seek interviews with the companies concerned in the period October 2004 to February 2005. The intention is to publish the findings as case studies and provide a guide to best practice for UK FTSE 100 companies with supply chains in China.

## International Forum for Active Shareowners (IFAS)

**A**t the July meeting it was reported that a proposal has been received from the **International Forum for Active Shareowners (IFAS)** to participate in their organisation on cross-border collaborative and joint shareholder engagement.

The LAPFF agreed that an exploratory meeting be held between representatives of the Forum and the IFAS, and then to report-back to the September meetings of the Forum Executive Committee and the LAPFF on IFAS membership.

## Fund Managers and Good Practice in Corporate Governance

**A**n interim report has been issued to LAPFF members, containing the results of the two postal surveys conducted earlier in the year with local authority pension funds and fund managers. Details were also provided of the next steps in the survey, which will include interviews with a selected number of local authority pension funds and, possibly, fund managers.

The Forum intends that this report should provide a significant contribution to the debate on shareholder engagement.

In particular it should reveal how institutional investors and their fund managers can best contribute to improving investee companies' performance on corporate governance and corporate social responsibility, with the ultimate aim of better investment performance.



Councillor John Saunders

## A new Chairman for the LAPFF

At the July Forum Meeting, **Councillor John Saunders** was elected as Chairman. Normally we elect our Chair at our AGM in December but the previous Chairman, Councillor Bob Sowman, was not re-elected at the local elections on June 10. John has been Deputy Chair of the LAPFF for several years and therefore steps up into his new role very easily and readily.

Of course, we owe a real debt of gratitude to **Bob Sowman** for the inspirational and energetic leadership he has provided to the Forum over many years. During **Bob's Chairmanship** the LAPFF has flourished and now has a vibrant momentum which augers well for the future. We wish him well, and extend our thanks to him for his pivotal contribution and for all his invaluable efforts in past years.

# Our membership continues to grow!

The LAPFF now has 32 pension fund members (see side panel) with combined assets of over £45 billion. Our latest recruit is the London Borough of Hackney who believe that membership of LAPFF will "have the advantage of demonstrating Hackney's commitment to Socially Responsible Investment by means of maximising shareholder value."

The Forum 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. In addition the LAPFF:

- Provides a forum for information exchange and about investment issues.

- Facilitates the commissioning of research and policy analysis of issues in a more effective manner than individual members could achieve.
- Provides a forum for consultation on shareholder initiatives.
- Provides a forum to consider issues of common interest to all pension fund administrators and councillors.

**9th ANNUAL CONFERENCE  
AT BOURNEMOUTH -  
1, 2 & 3 December 2004  
'Engagement and  
stewardship towards a  
new investing culture'**

*Including presentations on:*

- *The Local Government Pension Scheme*
- *Shareholder activism*

- *Activism for value*
- *What investors need companies to disclose: the Operating and Financial Review (OFR)*
- *Takeovers: Who gains, who loses?*
- *Engagement: Who does it best?*

To reserve your place contact Conference Organiser, **Janice Hayward** at PIRC Ltd, Cityside, 40 Adler Street, London E1 1EE  
Email: [JaniceH@pirc.co.uk](mailto:JaniceH@pirc.co.uk)  
Fax 020 7377 1936

### LAPFF membership as at 1 August 2004

- City & County of Swansea
- City of Edinburgh Council
- Clwyd Pension Fund
- Derbyshire CC
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Lancashire CC
- LB Bexley
- LB Brent
- LB Camden
- LB Croydon
- LB Hackney
- LB Hammersmith & Fulham
- LB Islington
- LB Newham
- London Pension Fund Authority
- Merseyside Pension Fund
- Norfolk Pension Fund
- Northamptonshire CC
- North Yorkshire CC
- Nottinghamshire CC
- Shropshire CC
- Somerset CC
- South Yorkshire Pension Fund
- South Yorkshire PTE Pension Fund
- Teeside Pension Fund
- Tyne and Wear Pension Fund
- West Midlands Pension Fund
- West Midlands PTA Pension Fund
- West Yorkshire Pension Fund
- Wiltshire CC
- Worcestershire CC

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