

THE VIEW FROM THE FORUM

A Message from the Chairman of the LAPFF

Welcome to this first edition of our 'new look' newsletter.

As many of you will know there have been some significant changes both in the way the LAPFF is organised and in our operational arrangements. The aim of these newsletters will be to keep you informed of our current and future activities and any further developments.

All aspects of the management of local authority pension funds have been given a much higher profile over recent years. Following turbulence in world equity markets, funding levels and the need to monitor underlying investment performance remain high on the agenda. Similarly concerns about global warming are growing and the role of shareholders in addressing the problem of greenhouse gas emissions is increasingly under scrutiny. The Myners Report made specific reference to the need for institutional shareholders, such as local authority funds, to review the use of their powers as shareholders by monitoring and reviewing their policies on 'activism'.



*Councillor Bob Sowman, Chair,
Local Authority Pension Fund Forum.*

As funds ponder the implications of Myners' recommendations in this context, the LAPFF provides the perfect customised vehicle to assist local government pension schemes in the development of their policies on corporate governance and corporate social responsibility.

Membership of the Forum affords councillors and officers the opportunity to join with colleagues from 31 local authority pension funds in developing policies in a

coherent and effective way. The effectiveness of individual funds engaging in shareholder activism alone must surely be questionable. **By taking a co-ordinated approach with other local authority funds, your level of effectiveness is increased and improved beyond measure. At the same time membership of the Forum does not in any way impede your ability to act unilaterally whenever you think it appropriate to do so in the interest of your own Fund.**

If you are already members of the Forum please do not hesitate to contact us if you have any suggestions for improvement. Needless to say if your Fund is not currently a LAPFF member, we would be delighted to have the opportunity to spell out the benefits of membership to you in more detail. In either case, please contact Forum Officer, Keith Bray on 07811 800612 or email k.bray@which.net

I very much hope that you find this newsletter and future editions to be of interest and value to you.

**Councillor Bob Sowman, Chair,
Local Authority Pension Fund Forum.**

Our Greenhouse gas emissions campaign gathers pace

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 the Department for Environment, Food & Rural Affairs (DEFRA).

Based on this, the Forum has collaborated with the Environment Agency Pension Fund on a joint shareholder engagement initiative to raise with companies the importance of reporting their greenhouse gas emissions. Communication with companies has primarily been in the form of letters to the chairmen of the FTSE 100 companies.

Our Chairman has also been in correspondence with the Minister of State at DEFRA, the Rt Hon Elliot Morley MP with whom we are now seeking a meeting to express our concerns over the fact that a quarter of FTSE 100 companies do not publish quantified data on their greenhouse gas emissions. Mr Morley has indicated that he

would 'welcome the opportunity to...discuss the consequences of non-disclosure...and to explore further options'. We hope that this meeting will be take place in June. At its April meeting the Forum agreed that:

- a) companies new to the FTSE 100 that were written to and have not responded receive a reminder letter;
- b) meetings are requested with WPP and Wolseley;
- c) questions are asked at the AGMs of Amvescap, Associated British Foods, Capita, Carnival, LogicaCMG, Old Mutual, Reuters, Sage, Shire Pharmaceuticals, Smith and Nephew, and Morrisons;
- d) there is liaison with the Institutional Investors Group on Climate Change (IIGCC) on their related studies and co-ordination of meetings with IIGCC members where possible; and
- e) the Environmental Agency Pension Fund is kept informed and involved.

...THE ROLE OF SHAREHOLDERS IN ADDRESSING THE PROBLEM OF GREENHOUSE GAS EMISSIONS IS INCREASINGLY UNDER SCRUTINY...



LAPFF BACKS IOD INITIATIVE FOR CHARTERED DIRECTOR QUALIFICATION

In February, at the request of the Institute of Directors, the Forum received a presentation at the IoD HQ in Pall Mall, which explained the aims and objectives of the IoD's Chartered Director qualification. This seeks to improve the competencies and skills of directors on company boards.

Over 200 directors have obtained the qualification, which has the backing of the DTI, CBI, NAPF and CIS. At the April meeting the Forum agreed to give full support to this initiative with a request that LAPFF has the opportunity to have some input into certain aspects of the syllabus for the qualification.

Directors' remuneration - we remain vigilant

The Alert system has operated for the last three proxy seasons and takes the form of monitoring for company remuneration disclosure, poor balance between performance targets and awards, and contractual provisions that allow for excessive compensation. PIRC, the Forum's research and engagement advisers, monitors companies for breaches of LAPFF policy and reports to Members on such breaches. An Alert is then generated and sent to each member fund to consider these issues when determining proxy voting on the directors' remuneration report at these companies. During 2003 more than



500 companies were monitored and 19 alerts issued including GlaxoSmithKline, HSBC and EMI. By the date of the 2nd April Forum a further 90 companies had been examined but no additional alerts issued.

We are now, however, entering the 'AGM season' and during the past few weeks alerts have been issued regarding **Pearson; Pendragon; Carnival; Reuters; Schroders** and **Xstrata**.

(Concerns have usually centred on weak performance targets and excessive contractual provisions, with detailed analysis provided in each case.)

OVERSEAS EMPLOYMENT STANDARDS: FOLLOW-ON.

At its April meeting the Forum agreed that a watching brief be established on FTSE 100 retailers' implementation of their respective Codes of Conduct on the overseas employment standards of their suppliers.

The Forum also agreed that a new research and engagement study be embarked upon to ascertain how UK FTSE 100 companies are addressing and managing the risks relating to operating in China. The study will primarily focus on labour standards in the supply chain.

Our latest survey - Fund managers and good practice in corporate governance

A questionnaire was sent in January 2004 to all the Local Authority Pension Funds and to the top ten fund managers of UK equities for Local Authority funds.

At the April meeting of the Forum it was reported that 55 completed questionnaires had been received from Local authority pension funds and nine from the fund managers. The questionnaire is intended to review the compliance by fund managers with the principles of engagement as set out in 'The

Responsibilities of Institutional Shareholders and Agents - Statement of Principles' - issued by the Institutional Shareholders' Committee (ISC) in October 2002.

The responses are now being analysed. The Forum agreed that an interim report be prepared in May 2004, and a final report be published by LAPFF in September/October 2004 to coincide with the date of the ISC's planned review of its principles.

OUR MISSION

“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.”

2003/04 - A year of progress for the Forum!

In 2002, under the leadership of LAPFF Chair, Bob Sowman, the Forum decided to appoint an Executive (see right) and a Forum Officer, with the objective of developing and promoting its activities.

Stuart Imeson of the West Yorkshire Pension Fund was appointed Honorary Secretary, Brian Bailey of the West Midlands Fund was appointed Honorary Treasurer, and Keith Bray, formerly Director of Finance at Cardiff was appointed Forum Officer. Also following a competitive tender (and a rigorous and independent evaluation of quality and price by procurement specialists from Wolverhampton City Council) PIRC have been re-appointed as our partners for research advice and assistance for a period of 2 years from 1 April 2004.

In the 16 months since 1 January 2003 membership has increased by 30%.

We now draw our membership from all parts of the UK, from funds of all sizes, and from funds administered by county councils, metropolitan authorities, London boroughs and unitary authorities. This augers extremely well for the aim of the LAPFF to increase its influence both within the UK and internationally. Latest recruits are the Tyne and Wear Pension Fund and London Borough of Brent Fund.

Martin Spriggs from the London Borough Brent said **“We joined because engagement with companies and other institutions cannot be done effectively by one small fund alone - we needed experts and a shared approach”.**

THE EXECUTIVE

- Chair: Cllr Bob Sowman, West Yorkshire
- Vice Chair: Cllr John Saunders, Newham
- Cllr Don Yates, Lancashire
- Cllr Maureen Child, Edinburgh
- Cllr Dan Wicksteed, Worcestershire
- Hon Sec: Stuart Imeson, West Yorkshire
- Hon Treasurer: Brian Bailey, West Midlands

A DATE FOR YOUR DIARY!

The LAPFF Annual Conference will be held in Bournemouth as usual, on 1st, 2nd and 3rd December. Last year's event was a great success. Speakers included Lord Christopher Haskins; Keith Jones, CEO, Morley Fund Management; and Terry Crossley from the ODPM.

More details will be announced later in the year.

Remember! Whilst all are welcome to attend, member funds are allocated two free places at the conference

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