



Local Authority
Pension Fund
Forum

LAPFF Newsletter

November 2001

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 steps up scrutiny on labour standards

LAPFF is engaging with nine major retailers to improve the quality of their practices on overseas labour standards following detailed analysis of their current policies. The engagement exercise represents the third stage of the Forum's two-year long campaign to improve supply-chain employment standards among the UK's retail sector (see article overleaf on other campaign developments)

The policy analysis reveals that many labour codes have patchy coverage and unclear implementation mechanisms. Only two companies (Safeway and Tesco) cover all seven of the International Labour Organisation's (ILO) core conventions which are generally considered as the minimum range of issues for labour codes. Furthermore, only 57% of codes have been adopted on a group-wide basis. The two most commonly excluded ILO core conventions are the right to freedom of association and the right to organise and bargain collectively. This has implications for how effectively codes are implemented as trade unions offer companies potential partnerships for companies in communicating and implementing codes.

On implementation, none of the companies reports that it communicates its code to all employees but all did with suppliers. Four companies identify board level accountability for ethical supply chain issues.

LAPFF chairman, Councillor Bob Sowman commented "our survey shows codes are often unsystematic and weak. We will be pressing these major companies to extend coverage and demonstrate effective implementation. This is an important risk management issue".

Sixth LAPFF Annual Conference Shareholder Engagement: Strategies for action - where next for SRI

5,6, 7 December 2001, Bolton Lancs

*How has SRI developed since the July 2000
SIP changes ?*

What practical strategies can be adopted?

What are the key issues for action?

Details from LAPFF secretariat 020 7247 2323

Shops targeted over labour codes

Following initial work on 50 retailers undertaken during 1999, for the past year the Forum has been targeting seven retailers identified as having no public policy regarding overseas employment standards in their supply chains.

A positive response has been obtained from most companies:

- three have subsequently adopted codes of conduct (Boots and JJB Sports in November 2000 and WH Smith in October this year) ,
- Signet has a draft code expected to be made public in January 2002;
- Blacks Leisure Group has a draft code awaiting approval from its board of directors
- LAPFF is pursuing discussion with the remaining two companies, Clinton Cards and Iceland.

These outcomes are the result of what started off as a letter writing campaign, and has developed into a full engagement process.

During 2001, LAPFF has met corporate executives at all the above companies and has attended the AGMs of Signet, Boots, Iceland, Clinton Cards and Dixons, to quiz directors on the status of their overseas employment standards policies.

Councillor Greg Vincent, LAPFF Vice chairman said "we recognise that developing these policies can be a complex and slow process, however, we have found that our activities have encouraged companies to concentrate on these important issues. Engagement has paid off".

Boardroom pay: shareholders win right to vote

The government has announced shareholders will get the annual right to vote on directors' remuneration reports, following pressure from institutional investors, including LAPFF. The move, announced in October, followed a consultation exercise on directors' remuneration originally launched in July 1999. The DTI's decision came as a surprise since the department's March 2001 response to the consultation deferred any such decision until it had considered the wider recommendations of the Company Law Review.

Following this, LAPFF chairman, Cllr Bob Sowman, wrote to DTI Secretary of State Patricia Hewitt welcoming moves towards enhanced disclosure but expressing disappointment "that the Department has rejected any immediate move to give shareholders a greater say in approving remuneration policies or reports via an annual vote at the AGM. We believe this is the one single reform which could enable shareholders to exercise their responsibilities as owners in holding directors accountable for remuneration packages".

Under the DTI's proposals, quoted companies will have to publish a report on directors' remuneration which will have to disclose individuals' packages, the role of the remuneration committee, the remuneration policy and information on company performance. This report will have to be put to shareholders at the AGM.

LAPFF is developing detailed guidelines on directors' contracts to go alongside its existing policy on share scheme performance conditions (see below).

AGM alerts on directors' pay

As controversies mount over boardroom pay, LAPFF members continue to be alerted to new share option schemes which fail to meet the Forum's policy guidelines on performance targets, agreed in January 2001, and to take a lead in tackling particular schemes.

In the most high profile example, LAPFF vice chairman Cllr Greg Vincent attended the Cable & Wireless AGM in July to raise concerns over a new share scheme portfolio which could make option pay-outs equivalent to 300% of salary for only median performance. A conditional award scheme could add another 40% of salary and an additional 25% of salary was added via the deferred bonus scheme. In total awards valued at 365% of salary would vest at median performance.

LAPFF representatives at the meeting supported the calling of a poll which showed that 30% of shareholders opposed the plan, not the 19% originally suggested by the company chairman. The vote represented an unprecedented expression of opposition against a management proposal.

Following the meeting Cllr Vincent took the opportunity to talk to the remuneration committee chairman, Sir Winifrid Bischoff, and his advisors over the scheme.

LAPFF also attended the AGM of Boots to oppose a new share option scheme based on real earnings growth of only 3% a year. The scheme was opposed by 8% of shareholders.

90% success rate on green reporting campaign

Over 90% of companies approached by the LAPFF a year ago to start reporting on environmental policy have now done so. Following letters and discussions with the Forum, of the 36 companies originally identified as making no environmental policy statement, only three have failed to start reporting on environmental issues.

LAPFF chairman, Councillor Bob Sowman, said "This level of positive response to shareholder concerns is very welcome. As long term investors, we need to know that companies have the policies in place to manage their environmental impacts. The next step is to improve quantitative reporting of environmental impacts".

Forum research initially identified 50 companies in 'high impact' sectors such as engineering, transport and chemicals in the FTSE All Share Index with no published environmental policy statement. Mergers and restructurings reduced this target list to 36. The Forum wrote to all these companies and, over an eighteen month period, has followed this up with further letters, meetings with corporate executives, and finally AGM activity.

Most recently Forum Vice-Chairman Cllr Greg Vincent attended the Wiggins Group AGM in September and secured a commitment from the company chairman to report on green policy in the next annual report.

The three target companies which remain without a published policy are: Ultra Electronics, Pressac, and Prowting. The Forum will continue to press these companies to make progress.

Investor coalition on climate change

The Forum is participating in a new network of institutional investors concerned about the effects of climate change. The network arises out of debate sparked by the shareholder resolutions to BP in 2000 and 2001 as well as heightened public concern over the issue since the USA failed to ratify the Kyoto Protocol.

It also follows the commissioning by the Universities Superannuation Scheme (USS) of a major study of how climate change might impact on investors and how they could respond.

The Forum took a decision in January this year to expand its environmental work to encompass carbon emissions, and has been working on a comparative study of greenhouse gas reporting among FTSE100 companies looking at how far they have adopted government reporting guidelines. This is expected to be published in December 2001.

The new investor grouping co-ordinated by USS, will be looking at how a variety of areas, including property portfolios, company reporting on their exposures to the risks of climate change, engagement with companies and public policy activity by investors.

Corporate responsibility in Europe consultation

The LAPFF has been invited by the DTI to respond to the European Commission's Green Paper on Corporate Social Responsibility (CSR). The Green Paper,

issued in July, makes numerous proposals aimed at companies, NGOs, public authorities and other stakeholder groups.

The paper argues that the EU should take a greater overall role as part of its strategic goal to "become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion".

The paper also suggests that there is a need for greater transparency and coherence in standards of CSR and also quality standards in SRI analysis. It asserts that 'companies seem overloaded with excessive and divergent information requests' and that there is a need for greater convergence between indicators used by companies and more transparency in evaluation methods used by screening agencies. It envisages that the EU could facilitate the development of partnerships among the main actors to promote greater awareness of CSR issues. Responses are required by 31 December 2001.

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