

THE VIEW FROM THE FORUM

Fund Managers and Good Practice in Corporate Governance

The LAPFF Investor Guide incorporating best practice guidelines was published in April and circulated to all local authority pension funds, following a detailed survey conducted during 2004. The objectives of this part of the LAPFF work programme were as follows:

- To analyse current guidelines and arrangements, and identify best practice.
- To publish a guide on the issues to be considered by pension fund trustees when reviewing compliance of their Fund Managers with the principles of engagement as outlined by the Institutional Shareholders' Committee's (ISC) statement.

The detailed guidelines are therefore based on applying the relevant Myners or ISC Principles to the regular (usually quarterly) reports received from fund managers at meetings of the fund investment committee (or equivalent). The table here summarises just some of the main features of the guide.

For more information about the Forum, contact Forum Officer, Keith Bray on 07811 800612. Alternatively, you can email postmaster@keithbray.plus.com or visit our website www.lapfforum.org

THE SUMMARY

Guideline Factors	Benchmark	Some Key Questions
A. Myners Principle on Activism	US Department of Labor Interpretative Bulletin intervention strategy. When, how & criteria for measuring effectiveness.	1. Is the strategy on intervention clear? and 2. Are the criteria for judging effectiveness of intervention clear?
B. Policy on Engagement	ISC Statement outlines: <ul style="list-style-type: none"> • How companies will be monitored • Policy for compliance with standards • Policy on company meetings • How conflicts of interest are managed • Strategy on intervention • Action to be taken • Voting policy 	3. Agreement on who will discharge engagement responsibilities? 4. Has the Fund delegated responsibilities to more than one fund manager?
C. Monitoring Investee Companies	Identify problems at companies. Monitor board structures; and maintain audit trail of meetings, voting etc.	5. Is monitoring information useful in assessing effectiveness of strategy?
D. Intervention with Investee Companies	Circumstances of intervention and how effectiveness will be measured.	6. Is intervention predetermined? 7. Is there an escalation strategy? 8. Is there any conflict of interest?
E. Evaluation of Fund Managers on Engagement	Mechanisms for monitoring and assessing the results of intervention.	9. Is there evidence of improvement in evaluation of engagement activities?
F. Public Reporting of Engagement Activities	Transparent reporting on voting, outcomes and results of intervention.	10. Are reports meaningful in evaluating success of intervention strategy? 11. Are cases in progress available?
G. Review	ISC to monitor the impact of its Oct 2002 Statement	12. Are changes required in the way fund managers report to the Fund?

Individual pension funds are encouraged to try out the best practice guidelines at their regular meetings with fund managers. LAPFF members are invited to offer comments and feedback to the Honorary Secretary, at any time during 2005, concerning the use of the Investor Guide and any collective issues they may wish the Forum to raise with fund managers.

These comments will then be taken into account in updating the guidelines.

Climate Change and Greenhouse Gas Emissions:

The Forum moves forward following completion of Enviro's study

The study, commissioned by the Forum, has now been completed by our consultants Enviro and arising from this, it is proposed to engage with companies about the long-term implications of climate change for shareholder value.

The LAPFF agreed that, as a 'pilot' exercise, in the first instance engagement should be with FTSE 350 companies in the Oil and Gas Sector. In the light of progress with this pilot, and further consultation with LAPFF members about their largest shareholdings, a decision can then be taken on which other Sectors to engage with.

The Forum readily recognises that several other investor bodies are involved in the climate change issue (e.g. Institutional Investor Group on Climate Change and the Environment

Agency Pension Fund), and that there is a need for close collaboration between LAPFF and those bodies to avoid duplication of work on climate change. The Enviro's study will therefore be made available to other organisations to help joined-up consideration of the issues.

The engagement strategy will be formulated to provide trustees with a convincing set of arguments as to:

- why climate change is an issue;
- how it will impact on portfolio investments; and
- what changes companies should be adopting to mitigate these impacts.

The primary goal is to influence companies to make a positive response to the challenge of climate change in their long term R&D practice to change the way in which they undertake their business.

Myners Review – LAPFF Chairman meets with HM Treasury

On April 25, Councillor John Saunders, the Chair of the Forum, met with Peter Green, Head of Capital Markets at HM Treasury and his colleague James Templeton, to discuss the Treasury review of progress of the Myners Principles (published in December 2004).



Councillor John Saunders

The meeting, which was most useful and constructive, focussed on the activities of the Forum and in particular, the relevance of the LAPFF reports of July 2004 and November 2004 (on fund managers and corporate governance), and the possibility of LAPFF representation on the proposed working party suggested in the Review. John Saunders, (who was accompanied by LAPFF Treasurer, Brian Bailey; Forum Officer, Keith Bray and our consultants Alan MacDougall and Peter Southwood of PIRC) also emphasised the Forum view that both the US Department of Labor (DoL) guidance and the Institutional Investors' Committee (ISC) statement should be used to guide shareholder engagement. Both Peter and James appeared to be very interested in, and impressed by, the Forum's activities and indicated their desire to maintain contact with us.



Developing our links with the Institute of Directors (IoD)

John Saunders is to write to the Institute of Directors (IoD) and suggest a possible meeting between LAPFF and IoD representatives to discuss whether LAPFF can contribute further to the work of the IoD, following LAPFF's successful contribution to the Chartered Director qualification syllabus.

Overseas Employment Standards

The China Project progresses



Five FTSE 100 companies have agreed to participate in the China project and it is anticipated that other companies will participate during later stages of the project.

Engagement with Wm. Morrisons Supermarkets

A further meeting has been held with senior management representatives of Morrisons – following the meeting held in 2004. Overall, the LAPFF representatives came away feeling quite positive about the outcome. The impending appointment of a CSR (Corporate Social Responsibility) manager was seen as a real breakthrough and provides evidence that these issues are being taken seriously. On the other hand, as last year, there are still concerns about the overall approach to corporate governance within the company.

Developing our involvement in the Audit Reform agenda

Following the presentation to the LAPFF in January the Forum agreed that:

- we should make contact with the Audit Quality Forum to ensure that our views are represented
- LAPFF alerts should cover audit related issues on which the Forum can act collectively
- we will keep a watching brief on the Financial Reporting Council's (FRC) proactive monitoring and report back on any matters of concern; and
- and engage with companies as appropriate.

Directors' Remuneration

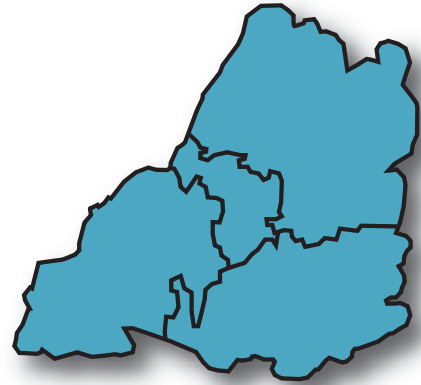


In the period between January 2005 and the Forum meeting in April, a total of 74 companies were looked at against LAPFF criteria, and only one company was the subject of an alert.

Since April the new style expanded LAPFF alerts (i.e. covering a wider set of corporate governance and corporate social responsibility issues) have been issued for 18 companies including:

- Schroders
- Hanson
- Royal Bank of Scotland
- Persimmon
- Reuters
- AstraZeneca
- Unilever
- GlaxoSmithKline
- Wm Morrison Supermarkets
- HSBC
- King Fisher
- Royal Sun Alliance Insurance Group.

£1.5 billion Avon Pension Fund is our latest recruit



The Avon Pension Fund, administered by Bath and North East Somerset Council joined our ranks on 1 April, taking membership of the Forum to 33 funds, with total assets approaching £50 billion.

This followed a presentation to members of the Avon Pension Fund Committee in February by LAPFF Chairman, John Saunders and Forum Officer, Keith Bray.

Councillor Saunders said “We are delighted to welcome the Avon Fund to the Forum. I am sure that the addition of such a progressive fund to our membership will be mutually beneficial to both Avon and the LAPFF.”

On behalf of the Avon Pension Fund, Committee Chair, Councillor Keith Kirwan said “We regard membership of the LAPFF as a cornerstone of our corporate governance policy. We believe that its collective approach will help achieve good governance more effectively than if the Fund acts independently.”

Freedom of Information Act

The LAPFF will seek to liaise with the CIPFA Pensions Panel on the production of a joint guidance note for use by local authority pension funds. Forum members receiving further requests for information under the Act are being encouraged to share the request with all other LAPFF members.

“Trustee Training” seminars planned for the autumn

At the Forum meeting in April, it was agreed that a ‘Trustee Training Seminar’ would be held during October (probably at two venues – London and Sheffield). Final details will be considered by the Forum at its July meeting and announced shortly afterwards.

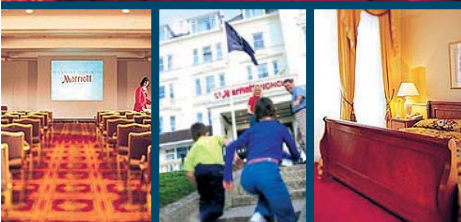
LAPFF membership as at 1 April 2005

- Avon Pension Fund
- City of Edinburgh Council
- Clwyd Pension Fund
- Derbyshire CC
- Dyfed Pension Fund
- 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

ANNUAL CONFERENCE 2005 - A DATE FOR YOUR DIARY!



Our much acclaimed annual conference will be held as usual at the **Bournemouth Highcliff Marriott Hotel**, on **November 30 2005** and **December 1 & 2 2005**.



More details of the programme and booking arrangements will be announced later in the summer.

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