

THE VIEW FROM THE FORUM

Holding Fund Managers to Account

We review and update our Investor Guide on Shareholder Engagement

The LAPFF Investor Guide on Shareholder Engagement has been available to local authority pension fund trustees since 2005, and provides them with guidance on how best to obtain the maximum benefit from shareholder activism. It focuses on the fund's compliance with ISC and Myners' Principles.

The review updates the guidance and aims to integrate more practical engagement aspects. It was initiated in 2005 to take into account:

- H.M. Treasury's review of the extent to which the Myners' Principles had been effective in bringing about behavioural changes (the Government's response to the consultation on this review has not been issued to date).
- The Institutional Shareholder Committee's (ISC) review of the impact that the ISC Principles had on shareholder activism in the UK (published in 2005).
- The statutory Operating and Financial Review due to come into force in 2005. ***(As readers of the previous LAPFF newsletter will recall, to the great disappointment of the Forum, the mandatory status of the OFR for***

listed companies was removed in January 2006, although at least the requirement of the EU Accounts Modernisation Directive relating to the enhanced directors' report – or 'Business Review' – was retained).

The proposed revision of the investor guide (more details of which can be found on the Forum's website: www.lapfforum.org) draws on findings from interviews with seven leading fund managers of local authority pension funds. At these meetings, LAPFF representatives fed back collective issues raised by LAPFF members to the fund managers, and discussed practical aspects of delegated engagement. The fund managers' intended use of disclosures under the then planned OFR was also explored. (The findings from this study will be published later this year.)

The revised Investor Guide will help local authority pension fund trustees to assess the quality and effectiveness of their fund managers' engagement activities. The issues highlighted by the review can be considered as critical to the success of shareholder activism in the UK,

particularly where this has been delegated to fund managers. The underlying study concludes that many of the issues raised in the 2001 Myners Review are still unresolved, such as the lack of persistence in fund managers' shareholder engagement, or the integration of corporate governance or corporate social responsibility into the mainstream investment process.

The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of 39 public sector pension funds based in the UK. LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.

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

Shareholder Activism on Climate Change

– Trustees Briefing

Climate change is now recognised by government, business and investors as a major risk for companies in the medium to long term. LAPFF has for some time been considering the issues connected with climate change and is currently actively engaging with companies from the oil and gas sector on the assessment of sector-specific climate change risks and their mitigation. Going forward, LAPFF will extend its engagement activities to the chemicals, food & beverages, and mining sectors.

Companies, especially those that operate globally, will increasingly face regulations aimed at introducing carbon constraints. Central to this is the Kyoto Protocol and its implementation. The Montreal Conference in December 2005 took forward both the Kyoto Protocol and the Marrakech Accords from policy to implementation. The main outcome of the conference was that there are now legally binding targets, and that a wider review of the entire regime has been set in motion.

The Kyoto Protocol requires the UK Government to reduce aggregate emissions of six greenhouse gases during 2008-2012 to 12.5 per cent below 1990 levels. The Government aims to go even further, by potentially cutting carbon dioxide emissions by up to 18 per cent of 1990 emissions by 2010. **Between half and two-thirds of the cut in UK emissions will come from businesses.**

The EU Emissions Trading Scheme, which came into force in 2005, is one example of how companies will have to internalise the cost associated with their greenhouse gas emissions.

In this ever-changing policy and regulatory environment, it is crucial for pension fund trustees to keep abreast of the various developments in the area, e.g. the role of different Kyoto mechanisms, in order to understand the challenges and opportunities that arise for the companies that they invest in. The Forum will soon produce a climate change briefing that will inform pension fund trustees concisely on all relevant policy and other matters around climate change, with particular consideration of how they affect trustees' fiduciary duties, and will seek to identify opportunities for Funds to take action on climate change.



At the 2005 Investor Summit on Climate Risk, 20 institutional investors (managing 3.2 trillion US dollars) backed a call for capital market regulators to demand more rigorous corporate disclosure of climate risks. Amongst other commitments, they were also seeking to unlock 1 billion US dollars in capital in the next year for investment in clean technology. Further outcomes of the summit are:

- **The Climate Risk Disclosure Initiative (CRDI).** *This is aimed at enhancing corporations' climate risk disclosure. The effort will focus on disclosure of corporate emissions, climate actions, scenario analysis, strategic analysis, and plans to address climate risks and opportunities. It is being developed by CERES (a coalition of over 80 US investor, environmental and public interest organisations united to advance corporate responsibility), and is currently under consultation.*
- **The development of UN Principles for Responsible Investment.** *The Principles, aimed at end-asset owners, have been launched in April and provide a menu of possible actions for investors to use as appropriate to manage environmental, social and governance (ESG)-related risks and opportunities. The LAPFF Executive will circulate details for consideration by individual funds.*

Mandatory Narrative Reporting:

Where are we now?

Janice Lingwood, Director – Assurance at PricewaterhouseCoopers made a presentation to the Forum at its April meeting, reflecting on the implications of the Government's U-turn regarding the mandatory status of the Operating and Financial Review (OFR). She recalled the sequence of events leading up to the Government's decision not to require listed companies to prepare a mandatory OFR, and explored the differences between the mandatory OFR (that had been anticipated) and the Business Review that has been left in its place.

Janice highlighted the omissions from the Business Review when compared with the OFR, for example:

- No explicit requirement for objectives and strategies.
- No explicit references to resources and relationships,

which formed part of the risks and uncertainties element of the OFR.

- No explicit references to trends and factors likely to affect the future development of the business.

In short, she said, "Things are not so clear cut."

The Government itself seems to have recognised the risks from such omissions, which were highlighted in the Forum's own submission to the DTI's consultation on mandatory narrative reporting. On 3 May, in response to this consultation, the government announced a package of measures to support its overhaul of company law including: an explicit statutory purpose for the Business Review; and, for publicly quoted companies, information to the extent necessary on the main trends and factors likely to affect the future development of the business.

Company Workforce Practices:

Gender and Equal Pay

Attraction and retention of skilled employees is one of the core requirements for successful businesses. Yet the Equal Opportunities Commission (EOC) states that organisations 'lose out by failing to properly reward the range of skills and experiences that women bring to the workforce'. The recent report of the Women and Work Commission concludes that increasing women's participation in the labour market could be equivalent to up to £23 billion or 2.0 per cent of GDP.

This makes equal pay a concern for shareholders. As a result of the continuing inequality, companies face the risk of equal pay cases being taken against them. These cases do not only involve actual costs of proceedings (which on average take 20 months, with

individual cases lasting years) and settlements, but also indirect costs relating to reputational damage and loss of credibility in the marketplace. More hidden are the costs arising from lower productivity and absenteeism amongst women workers that feel they are discriminated against by not being paid equally.

The Forum has already established a consensus amongst its members on the core indicators for good company workforce practices. **The promotion of equal pay considerations at investee companies is consistent with the Forum's project in this area and reflects pension funds' long-term investment interest.** These indicators are part of the LAPFF Investor Guide on Reporting on Employment Practices, published in April 2005.

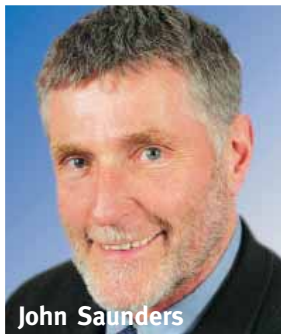
In developing this policy, the Forum has now decided to adopt the best practice set out by the EOC, in its Code of Practice on Equal Pay. The LAPFF Investor Guide on Company Workforce Practices will include the requirement for a group-wide employment policy including a policy on equal pay, for the disclosure of group programmes with targets on equal pay, and for the monitoring and evaluation of the company's equal pay performance by way of a periodic equal pay audit.

The Forum will write to the Chair of each FTSE 350 company to ascertain the company policies on these matters and to establish specifically which companies have conducted equal pay audits, and to request copies of such audits.

Forum Chairman stands down

John Saunders, our Chairman for the past two years, has stood down following his decision not to seek re-election at the recent local elections in London.

John has been an inspirational and energetic leader for the Forum, steering us through a period which has seen real growth and expansion for the LAPFF. Under his chairmanship, our numbers have grown by 50% and our member funds now control assets approaching £70 billion. He has made a particularly strong contribution to our environmental campaigns and our profile and influence have increased immeasurably with the corporate sector, central Government and the investment world in general. We are truly indebted to John; we wish him well for the future and extend our thanks to him for his pivotal contribution in helping to achieve this.



John Saunders



Councillor Darrell Pulk
(Nottinghamshire)



Councillor Ian Greenwood
(West Yorkshire)

Pending the election of a new Chairman, John's role will be fulfilled by our two deputy chairmen, Darrell Pulk of the Nottinghamshire Fund and Ian Greenwood of the West Yorkshire Fund.

LAPFF membership as at 1 May 2006

- Avon Pension Fund
- City of Edinburgh Council
- Clwyd Pension Fund
- Derbyshire CC
- Devon CC
- Dyfed Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Lancashire County Pension Fund
- LB Bexley
- LB Brent
- LB Camden
- LB Croydon
- LB Hackney
- LB Hammersmith & Fulham
- LB Harrow
- LB Hillingdon
- LB Hounslow
- LB Islington
- LB Newham
- LB Southwark
- Lincolnshire CC
- 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

Trustee Seminar – Manchester 30 June 2006

Our next trustee training seminar will be held at the Co-operative Insurance Society, Miller Street, Manchester, M60 0AL, on 30 June.

The Seminar will focus on the investor implications of mergers and acquisitions.

Speakers will include **Guy Dawson** of Tricorn Partners (non-executive director, Boots plc and BOC plc) and **Michael Fox**, CIS Sustainable Leaders Trust.

Attendance is free for LAPFF Members. For non LAPFF members the attendance fee is £75+VAT.

To book a place or for more details, contact Janice Hayward, PIRC Ltd, Cityside, 40 Adler Street, LONDON E1 1EE

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