

THE VIEW FROM THE FORUM

Climate Change and Greenhouse Gas Emissions - Implications for Shareholder Value

We seek more information from the Oil & Gas sector and plan to include other sectors in future research.

This subject has been high on our agenda for many years but in the light of recent events, it is becoming increasingly clear that concern about global warming is growing worldwide.

Following the delivery of the research we commissioned from Enviro in January 2005 the Forum has decided to engage with companies on the long-term implications of climate change for shareholder value. The Enviro study provides an analysis of issues common to companies in each sector – from a shareholder engagement perspective. Dialogue with particular companies is focussed on the range of climate change management issues identified by the Study, and which apply particularly to their sector. The aim of the engagement with companies is to have a greater impact than that created by simply targeting disclosure of direct emissions.

The LAPFF Executive agreed that, as a pilot study, the initial

approach would concentrate on the FTSE 350 companies in the Oil and Gas sector. The FTSE definition of the oil and gas industry covers all stages in the supply chain from exploration and production through to refining activities, marketing and retail. The FTSE 350 companies in the oil and gas sector include four FTSE 100 companies and seven mid-cap companies.

Letters were sent to all the oil and gas companies in October containing details of the initial LAPFF assessment of how each company was addressing the impact of climate change, based on publicly available information and employing the framework proposed in the Enviro report. BP was an exception in that its excellent disclosure could be praised and no further engagement sought. Three companies are to be selected for further engagement, with the aim of securing certain commitments for improvement in the way they are addressing climate change.

Once analysis has been undertaken in the oil and gas sector and dialogue undertaken with appropriate companies, further sectors can be tackled. The order of priority will be set after consultation with LAPFF members.

The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of 36 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

Institute of Directors Welcomes LAPFF Support

Simon Bull of the IoD - Manager, Chartered Director, writes

“Conformance Performance: Following the support by LAPFF for Chartered Director, the IoD is working with others in the regulatory and investment community to help raise standards of professionalism and performance in the boardroom. Not surprisingly, registrations for Chartered Director have seen a dramatic growth in the past year, as directors seek a competitive advantage for themselves and their organisations.

The IoD Company Direction programme which underpins the qualification is now being tailored for a variety of industries including engineering and pharmaceutical, as well as in the public and voluntary sectors.

Input and support from LAPFF representatives to further development of the syllabus has been welcomed.”

Company Law Reform: Voting at Annual General Meetings

The Company Law Reform process is reaching its final stage, and on 20 September 2005 the DTI published the final clauses with a tight deadline for consultation.

The LAPFF agreed that a response be made by the Forum to the consultation document, and the issues to be highlighted in the response are:

- **All voting at quoted company general meetings should be by poll rather than by show of hands.**
- **Failing that, shareowners should be able to demand a poll in advance of that meeting and the disclosure requirement needs to cover proxy submissions as well.**
- **Ownership thresholds for the requisition of shareholder resolutions and oversight of polls to be lowered.**
- **Companies should be required to recognise persons other than registered holders as being entitled to exercise voting rights.**
- **All shareholders acting in a fiduciary capacity should be required to disclose how they have exercised their voting rights (or omitted to do so).**

Addressing Social Compliance Issues in China

Teresa Fabian and Caroline Hill from Pricewaterhouse Coopers (PwC) gave a presentation to the October meeting of the Forum on corporate social responsibility and the ethical supply chain in relation to China. The presentation identified best practice elements of responsible supply chain management together with examples of studies that PwC had been commissioned to undertake. Key challenges and points for consideration by LAPFF were outlined in the presentation and these will be brought into the final report on LAPFF's China project which seeks to develop an engagement programme on overseas employment standards focused on UK FTSE 100 companies operating in China.



Meeting with Royal Bank of Scotland



LAPFF representatives recently met with the Bank's Group Secretary and Head of Board and Shareholder Services.

Discussions surrounded the Bank's lack of transparency over the current and proposed incentive plans for its US Chief Executive. Other matters of interest discussed were:

- i) *evaluation and succession planning with regard to the Board;*
- ii) *remuneration issues;*
- iii) *auditor issues; and*
- iv) *corporate responsibility issues.*

We will follow up on these issues when the Bank publishes its accounts for this year in February 2006. The Forum will be interested in both the level of disclosure and the substance of the Bank's remuneration policy.



We Develop Our Relationship with the Audit Quality Forum

Representatives of LAPFF recently met with Deborah Chaplin of the Audit Quality Forum (AQF). The main areas of discussion were:

- a) rights of shareholders to raise concerns about the audit process;
- b) identifying the audit partner;
- c) disclosure of contractual terms;
- d) auditor resignation statements, and
- e) competition and choice.

The AQF's future agenda was also discussed and how LAPFF may be involved in some aspects of the work. In future, LAPFF plans to be represented at all regular meetings of the AQF.

Reporting Guidelines for UK Business – LAPFF responds to DEFRA Consultation on Reporting Guidelines for Environmental Key Performance Indicators

In September, LAPFF provided a detailed response to DEFRA's consultation on its proposed guidelines for company reporting on key environmental performance indicators. The draft document clearly sets out common principles and processes for reporting on environmental issues and is considered by the Forum to be a helpful overview, especially for companies with limited experience in environmental reporting.

The guidelines note that an Environment Agency study of annual reports and accounts of the FTSE All Share companies found that the majority of reports lack depth, rigour or quantification.

During 2001 and 2002, LAPFF looked at FTSE 100 companies' disclosure on greenhouse gas emissions, according to the DEFRA guidelines. This initially gave grounds for concern and a period of engagement followed. We think that reporting at the end of this process, showed that more companies were reporting against the DEFRA guidelines for reporting greenhouse gas emissions or had committed to doing so.

However LAPFF's analysis does show a parallel with the Environment Agency's conclusion on the lack of depth and quantification. This showed that even by the end of this period, over a quarter of FTSE 100 companies did not publish quantified data on their

greenhouse gas emissions and over 10% did not even mention climate change as an issue at all.

LAPFF's current engagement work in this area has moved towards engagement with companies in sectors with medium to long-term research and development programmes and the consequent risk to shareholder value. The direct indicator of greenhouse gas emissions is thus important, but there are other aspects of climate change – such as business strategy – that companies could provide more information on, to build a more informed picture on the challenges to companies proposed by climate change.



2005 sees more progress for the LAPFF

Lincolnshire Fund is latest recruit, taking members' assets to £6obillion

Under the leadership of Chairman John Saunders, ably supported by the newly elected Executive Committee, the Forum has flourished during 2005. We now have 36 member funds (an increase of 50% since the beginning of 2003), with combined assets of around £6obillion. **In other words, we now have more than a third of the LGPS funds as members, but as the list includes most of the larger funds, the LAPFF now represents approaching two thirds of the Scheme when measured by the value of assets under management.** The £0.9bn



Councillor John Saunders
Chairman, Local Authority Pension Fund Forum

Lincolnshire Fund joined us in October following a presentation to the Lincolnshire Pensions Committee by Forum Officer, Keith Bray

The additional 'muscle' that this growth affords the LAPFF has meant that we have been able to enhance our engagement strategies on several fronts as set out in this winter edition of our newsletter. We have also continued to develop our relationship with central government, other institutional investors, fund managers and the Institute of Directors via our support of the Chartered Director qualification and, of course, with companies in which our members invest.

As John Saunders puts it: "Over the past two years we have seen significant growth in both our membership and our activities. This has been a stimulating period for the Forum and we are confident that this will continue as we recruit more member funds and develop our activities further. Awareness of the importance of good corporate governance and corporate social responsibility has never been greater. **As public and media interest grows, all parties involved – central government, the corporate sector, investors and fund managers – are increasingly collaborating in the search for improvement in these areas and the LAPFF is determined to play its part to the full.**"

We hold our first Trustee Training Seminars

Our Seminars at Sheffield and London on 2 & 4 November were well attended and well received. The Executive will now consider how best to develop this new initiative during 2006.

LAPFF membership as at 1 November 2005

- 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 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

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