

# RESEARCH & ENGAGEMENT REPORT

JANUARY TO MARCH 2012



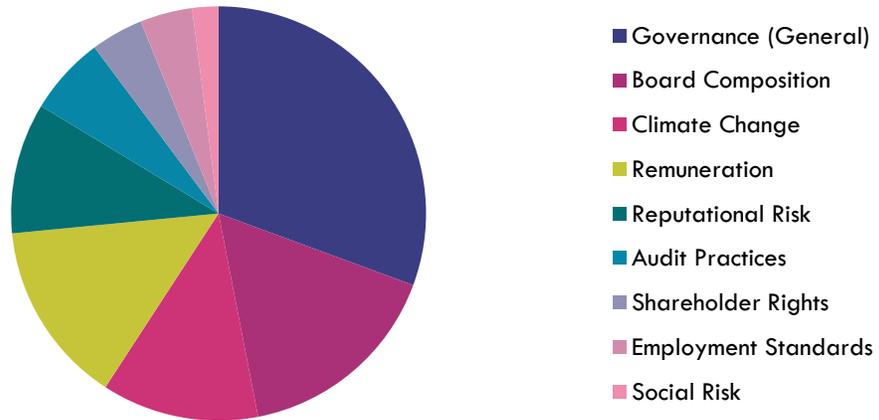
## Local Authority Pension Fund Forum

LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Formed in 1990, the Forum brings together a diverse range of 55 local authority pension funds in the UK with combined assets of over £100 billion.

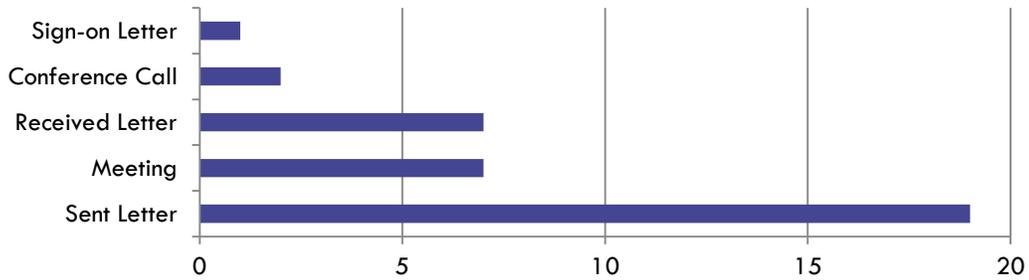
# ENGAGEMENT SUMMARY

JANUARY TO MARCH 2012

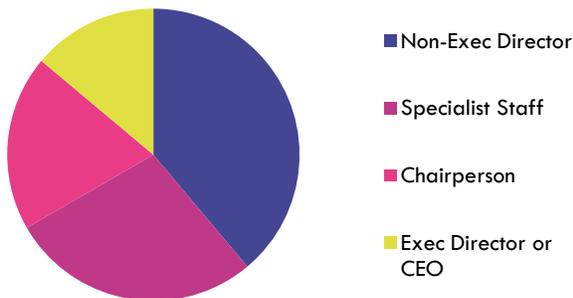
## Topics



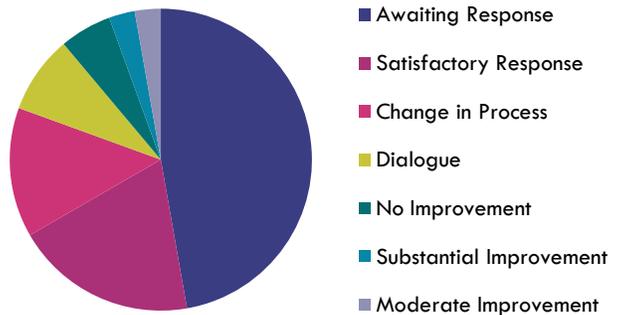
## Activities



## Company Contact



## Outcomes



# ACHIEVEMENTS

- Met with **Pearson** and the CEO of the **Financial Times** to discuss the company's response to the phone hacking scandal and wider questions of media ethics.
- Held a positive discussion with African oil firm **Afren** following shareholder rejection of the company's remuneration report in 2011. Afren is proposing a number of changes to how it pays executives as a result of dialogue with LAPFF and other shareholders.
- Discussed climate change risk management with **easyJet**. The company has relatively good performance due to the use of new aircraft and more efficient technology. LAPFF is seeking the company's response to the 2012 Carbon Disclosure Project.
- Eight companies including **Gazprom**, **Total**, **Lafarge** and **Yum! Brands** demonstrated substantial improvement in disclosures related to water risks as part of the CDP Water initiative, to which LAPFF is a signatory.
- **Cable & Wireless Worldwide** intends to modify remuneration due to shareholder concerns and the ongoing financial difficulties facing the firm. The company met with LAPFF to discuss its remuneration strategy, board governance, and the recent departure of its CEO and CFO.
- **Heineken** responded positively to LAPFF's letter requesting more information the company's on board structure, remuneration and audit practices. It is changing its remuneration performance criteria to better reflect fundamental business performance.
- Regarding the **International Financial Reporting Standards (IFRS)**, the House of Lords Economic Affairs Committee ("EAC") has written to the Ministers at BIS questioning why BIS and the **Financial Reporting Council** have stated that IFRS is in conformity with the law. LAPFF is concerned that IFRS does not currently comply with UK or EU law.

## THE FORUM IN THE NEWS

[Bad loans were legally hidden as Lenihan made pledge](#)

- *Irish Times, 6 February 2012*

[LAPFF support for the 30% Club](#) – *The Times, The Guardian*

[Broken Instruments \(IFRS\)](#) – *Chartered Secretary, March 2012*

# COMPANY ENGAGEMENT

## LEADERSHIP ON KEY CAMPAIGNS

Following participation in a joint engagement dialogue with oil companies operating in Sudan, LAPFF signed a joint letter to **Schlumberger** asking for information on how it ensures the safety of employees since the separation of South Sudan.

Engagement on the issue of phone hacking continued as LAPFF met with the CEO of the **Financial Times** and a representative of **Pearson** to discuss the company's response to the

"I do not consider freedom of expression or freedom of speech extends to the intervention of mobile phone messages or invasion of privacy or confidence."

LORD JUSTICE LEVESON

phone hacking scandal. We discussed the governance practices used by the Financial Times to ensure journalist integrity. The meeting also covered the risks posed to the firm by potential future regulation of the media. Following significant shareholder dissent and continued engagement by LAPFF, James Murdoch has announced his resignation from **News International**. He continues to play a key role in News Corp's television business, and has maintained his position on the boards of **News Corp** and **BSkyB**.

**Carnival** responded positively to a Forum letter expressing condolences and requesting a meeting to discuss health and safety issues following the tragic Concordia accident off the Italian coast. We will seek to arrange a meeting with the Chief Operating Officer later this year.

LAPFF was represented on a call with Valery Musin, a non-executive director of Russian oil giant **Gazprom** to discuss remuneration, board structure and sustainability reporting.

## PROMOTING GOOD GOVERNANCE

### Global Focus List

Engagement with companies on our Global Focus List focusing on corporate governance issues is in full swing. A positive discussion was held with **Afren** regarding the challenges it faces on executive remuneration and independence of the board. We met the company for second time in two years following shareholder rejection of its remuneration report. After meeting with the Chair of the Audit and Remuneration committee, we are assured that additional changes will be made to how the firm awards pay. We also expect to see some upcoming governance changes.

The Forum had a similarly positive meeting with **Cable & Wireless Worldwide**, which is also facing challenges with its remuneration practices. In 2011, two senior executives left the firm and in our meeting, we discussed governance in the context of the company's struggle to return to profitability.

**Heineken** provided a detailed response to a letter requesting more information about how the board functions, and the company's remuneration policies. We are pleased that Heineken is modifying its long term incentive plan to better align pay with fundamental company performance and to move from one to four indicators of performance when awarding pay.

LAPFF contacted **15 companies** on critical governance issues for the **Global Focus List**. We have received substantive responses from **11 companies** to date.

**JP Morgan** also provided LAPFF with further explanation of its remuneration practices following a more than 1,000% increase in executive pay. The huge increase last year was largely due to the company reinstating bonuses that were withdrawn during the financial crisis while the firm was subject to US TARP requirements. Insight was also gained into the company's approach to independence and oversight of the board of directors.

At a meeting with **Colt Group**, the Forum welcomed the overall improvement in the balance of independent directors, but explored the nature of risk procedures with regard to directors with ties to Fidelity, the company's controlling shareholder. The Chairman, CEO and Finance Director all have ties to Fidelity.

In discussing remuneration concerns with **Whitbread**, the Forum noted the company's addition of a metric in the long-term incentive plan, and we received a commitment from the company to re-evaluate certain aspects of remuneration disclosure. The process of auditor re-appointment and the role of women on the board were also discussed.

## Financial Reporting & Audit

As part of the **IFRS** project, LAPFF is undertaking a review of the major differences between "true and fair view" UK GAAP accounting standards and IFRS. For the first bank to report, **Barclays**, the numbers are substantially different. Further it is clear that Barclays have not accounted for £2bn of deferred bonuses. LAPFF will be conducting this analysis for all UK banks, where we expect the accounting problems to be worse due to the adoption of IFRS in companies' own accounts, and not merely group accounts.

Things are heating up at the government level. Meeting notes from the FRC suggest that officials knew that standards did not comply with the law as far back as 2005, and then again in 2008. LAPFF is concerned that complying with IFRS does not give the **true and fair view** required by both UK and EU law.

## International Securities Lending

LAPFF continues to be represented on the International Securities Lending Association by Gerard Moore. Members can access his latest report from the LAPFF website at <http://www.lapfforum.org/system/files/SecuritiesLendingFebruaryupdate2012.pdf>.

## MANAGING ENVIRONMENTAL ISSUES

### Climate Change

After contacting the company a number of times, LAPFF secured a meeting with **easyJet** to discuss the company's climate change management practices. easyJet has relatively low emissions compared to the airlines industry as a whole due to their high passenger loads and use modern air craft. The discussion covered the company's approach to new European regulations as well as the UK's per-passenger carbon taxes. Overall we were satisfied with the

company's approach, but pressed it on the issue of disclosure, specifically asking easyJet to respond to the 2012 Carbon Disclosure Project.

In February, the **Carbon Disclosure Project (CDP)** sent out its annual information request to more than 3,000 companies. LAPFF has been a long-term supporter of this initiative, along with 655 other institutional investors representing a total of \$78 trillion in assets.

The Forum also wrote to leading European car manufacturers regarding climate change risks. Meetings are scheduled with **Daimler**, **Renault**, **Stobart** and **Fiat** to discuss how each company approaches climate change risk.

LAPFF is a member of the **UNPRI CDP Leadership Index (CDLI)** engagement group. This group focuses on improving the climate change management practices of the top Global 500 carbon intensive companies with high scores for disclosure. 25% of the

companies contacted by the group improved their Carbon Disclosure Score. Eighteen of the 96 companies increased their Disclosure Score by more than 20 percentage points. At least twelve of these companies were held by Forum members including **Incitec Pivot Ltd**, **Thales**, **Hays**, **Peab AB**, **Wincanton** and **Carillion**.

Since LAPFF's decision to join "Aiming for A" (the low carbon transition shareholder resolution project developed by CCLA) the project has evolved to (a) incorporate feedback from other confirmed and likely participants (including corporate pension schemes) and (b) the potential evolution of CDP's Carbon Performance Bands to the sector level. The main change is to timing, with 2012 dedicated entirely to engagement, 2013 to a pilot resolution and further engagement, and then a suite of shareholder resolutions for 2014. It is highly likely that the number of collaborators will match the number of companies (i.e. eight). The most recent confirmed participant is the Church of England's Ethical Investment Advisory Group, which acts on behalf of the Church's three National Investing Bodies.

## Environmental Risk Management

The Forum has secured a meeting with the Chair of **BP**, Carl-Henric Svanberg, to discuss ongoing clean up of the Gulf of Mexico, as well as health and safety reforms for offshore drilling rigs. A meeting with **Shell** to discuss the recent UN Environment Program report on environmental liabilities in Nigeria has been postponed due to a scheduling conflict. This will be rescheduled next quarter.

As part of collaborative initiative, LAPFF has been supporting engagement with companies regarding disclosure of water-related risks through the **CDP Water Project**. The concern is that global water sources will become increasingly strained due to pollution, loss of natural habitat and climate change, which will have a material impact on companies' ability to operate. The CDP invited 315 companies from the Global 500 to respond. The CDP received 190 responses, with 59 companies demonstrating significant improvement in their disclosure of water risks. The energy sector had the lowest response rate of all sectors and reported the lowest rate of board-level responsibility for water related policy and strategy.

LAPFF is also a member of the **Forest Footprint Disclosure** (FFD) initiative which is in its third year of engaging with companies regarding the total amount of deforestation they cause directly or indirectly. This year 87 companies completed the disclosure request, 15 more than the previous year. However, it still faces challenges in increasing the number of participants.

## TARGETING SOCIAL ISSUES

### Employment Standards & Sustainable Supply Chains

LAPFF is also engaging with retailers regarding the sustainability of supply chains and employee labour standards. LAPFF met with **Marks and Spencer** to discuss governance practices and its commitment to sustainability through 'Plan A'. The meeting provided a catch-up on developments in board strategy and business initiatives in the seven months since we last met with the company. The discussion also covered the living wage, labour standards audits and sustainability of the company's palm oil supply chain. The Forum is planning to write to companies within the retail and consumer goods sector on similar issues.

The Forum last communicated with **Deutsche Telekom** in 2010 on employee practices in the US and the issue of employee unionisation at T-Mobile. Since then, labour union body UNI has filed a case with the National Contact Points of Germany and the US alleging violations of the OECD guidelines regarding labour relations. The Forum has written to the company requesting a meeting to improve LAPFF's understanding of the company's approach to labour-related risks.

# CONSULTATIONS & PUBLIC POLICY

## ENGAGING POLICY MAKERS

The **Department for Business, Innovation and Skills** (BIS) and the **Financial Reporting Council** (FRC) issued a consultation regarding the future of the FRC and the proposal for the FRC to acquire more powers from operating bodies. LAPFF wrote to the Minister at BIS expressing concerns about giving more powers to the FRC, given the problems LAPFF has raised regarding the FRC's role in setting accounting standards, as well as the FRC's own governance. In Brussels, a question has been tabled to the **European Parliament** concerning whether IFRS are in fact in accordance with the law and process set out in the IAS Regulation of the Council.

LAPFF followed up with the **Department of Energy and Climate Change** regarding a request for a meeting with bureaucrats in advance of an approach to the Minister. In addition, we expect to schedule a conference call with the new Chair of the **Institutional Investor Group on Climate Change** (IIGCC), Donald MacDonald.

## CONSULTATION RESPONSES

After a busy fall season of preparing consultation responses, this quarter has been relatively quiet. As part of a consultation launched by BIS on proposals for refocusing and streamlining the FRC, LAPFF wrote to BIS outlining a number of concerns, most notably the BIS/FRC consultation as referred to above. On 29 February Professor **John Kay** published the Interim Report of his review which is looking into the issue of long-termism in UK capital markets, in which he quoted from LAPFF's written submission. A final report is expected from the Kay Review this spring.

“The long term public goal for equity markets is in securing the public purposes of high performing companies and strong returns to savers through an effective asset management industry”

JOHN KAY

KAY REVIEW INTERIM REPORT

# NETWORKS & EVENTS

- LAPFF participation in UNPRI organised News Corp webinar
- Forest Footprint Disclosure Report Launch
- Board Effectiveness: Why Diversity Matters (30% Club)
- Towers Watson's Great Debate: Getting Executive Pay Right
- Better Access to Food and Nutrition Seminar: GAIN, UKSIF, MSCI

A webinar to discuss investor pressure for corporate governance reforms at **News Corp** was held at the beginning of February. A representative from the Forum presented webinar participants the scope of the inquiry by the Department of Culture, Media and Sport (DCMS) select committee into whether Parliament had been previously misled about phone-hacking. The presentation also focused on other investigations affecting News Corp, including those into payments to police and into allegations of computer hacking

Representatives of LAPFF attended the **Forest Footprint Disclosure's Report Launch** in February. The project engages with companies to ask them for disclosure relevant to five key commodities – soy, palm oil, timber, beef and palm oil. Speaking at the event were representatives from Barclay's Capital Corporation, L'Oreal and UKSIF.

The Forum has announced its participation in the **30% Club Investor Working Group**, which seeks to improve gender diversity in UK board rooms through voluntary actions undertaken by board chairs and nomination committees. LAPFF was in attendance at the one year anniversary event of the initiative, which featured prominent speakers including Sir Roger Carr, Chairman of Centrica and Baroness Hogg, Chairman of the Financial Reporting Council.

A representative of LAPFF attended a **debate on the issue of executive pay** featuring a number of experts including a corporate recruiter, company director, journalist and governance expert. The debate centred on the fact that corporate value creation has not kept pace with executive pay and there was a lengthy debate about the best approaches for curbing high pay. In the end, it was clear that investors and companies are facing a collective action problem, with all parties hesitating to tackle the issue head on.

Following on from its work on obesity, the Forum has been monitoring the development of the **Access to Nutrition Index** and a related investor statement. LAPFF was represented at a seminar which presented some of the major drivers of poor nutrition globally as well as some innovative initiatives developed in response to this.

# COMPANY PROGRESS REPORT

Company	Topic	Outcome
Afren	Remuneration, Board Composition	Change in Process
Berkeley Group	Governance (General)	Awaiting Response
Cable & Wireless Worldwide	Remuneration, Board Composition	Change in Process
Carnival Corp	Reputational Risk, Employment Standards	Dialogue
Colt Group SA	Governance (General)	Satisfactory Response
ConocoPhillips	Governance (General)	No Improvement
Daimler	Climate Change	Awaiting Response
Danone	Governance (General)	Awaiting Response
Deutsche Telekom	Employment Standards	Dialogue
easyJet	Climate Change, Governance (General)	Change in Process
Fiat Spa	Climate Change	Awaiting Response
Flir Systems	Governance (General)	Awaiting Response
Gazprom	Remuneration, Board Composition	Satisfactory Response
Goldman Sachs	Shareholder Rights, Audit Practices	Awaiting Response
Heineken NV	Board Composition, Remuneration	Moderate Improvement
JP Morgan	Board Composition, Audit Practices	Satisfactory Response
Marks & Spencer	Governance (General), Social Risk	Satisfactory Response
Meggitt	Governance (General)	Dialogue
Nokia	Governance (General)	Awaiting Response
Pearson	Reputational Risk	Satisfactory Response
Qualcomm	Board Composition, Remuneration	No Improvement
Renault	Climate Change	Awaiting Response
Repsol	Governance (General)	Awaiting Response
Schlumberger Ltd	Reputational Risk	Awaiting Response
Stobart Group	Climate Change	Awaiting Response
Unicredit	Shareholder Rights, Remuneration	Awaiting Response
Whitbread	Governance (General)	Substantial Improvement



# Local Authority Pension Fund Forum

**The Local Authority Pension Fund Forum** was set up in 1991 and is a voluntary association of 55 local authority pension funds based in the UK. It 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. The Forum's members currently have combined assets of over £100 billion.

Report prepared by PIRC Ltd. for the  
Local Authority Pension Fund Forum

**PIRC**

[www.lapfforum.org](http://www.lapfforum.org)

Aberdeen City Council  
Avon Pension Fund  
Bedfordshire Pension Fund  
Brent LB  
Camden LB  
Cheshire Pension Fund  
City of London Corporation  
Clwyd Pension Fund  
Croydon LB  
Derbyshire CC  
Devon CC  
Dorset County Pension Fund  
Dyfed Pension Fund  
Ealing LB  
East Riding of Yorkshire Council  
Enfield  
Falkirk CC  
Greater Gwent Fund  
Greater Manchester Pension Fund  
Gwynedd Pension Fund  
Hackney LB  
Haringey LB  
Harrow LB  
Hillingdon LB  
Hounslow LB  
Islington LB  
Lancashire County Pension Fund  
Lewisham LB  
Lincolnshire CC  
London Pension Fund Authority  
Lothian Pension Fund  
Merseyside Pension Fund  
Newham LB  
Norfolk Pension Fund  
North East Scotland Pension Fund  
North Yorkshire CC Pension Fund  
Northamptonshire CC  
NILGOSC  
Nottinghamshire CC  
Rhondda Cynon Taf  
Shropshire Council  
Somerset CC  
South Yorkshire Integrated Transport Authority  
South Yorkshire Pensions Authority  
Southwark LB  
Surrey CC  
Teesside Pension Fund  
Tower Hamlets LB  
Tyne and Wear Pension Fund  
Waltham Forest LB  
Warwickshire Pension Fund  
West Midlands Pension Fund  
West Yorkshire Pension Fund  
Wiltshire CC  
Worcestershire CC