



Local Authority
Pension Fund
Forum



ANNUAL REPORT 2013

CHAIRMAN'S STATEMENT

This is my first Chair's statement since taking the role over at the start of 2013 and, with almost a year in the post, there is already plenty for me to report back on.

One of the most significant initiatives LAPFF has been involved in this year is the work on reliable accounts. As you know, the Forum has been concerned for some time about the contributory role that IFRS played in the financial crisis and, latterly, we have also explored the legal underpinning of the standards. We were part of a group of investors that sought counsel's opinion on the interaction between IFRS and company law, and continue to believe that there are significant issues of concern.

Executive pay also continues to be a focus of our work. This spring we published our report '*Expectations for Executive Pay*' which set out our new policy positions for addressing remuneration issues. By publishing the document, we aimed to position the Forum at the cutting edge, and I know that a number of our policy positions go further than other investors are willing to. We have already started talking to companies about our proposals and, whilst we definitely won't agree on everything, I'm encouraged by some of the positive feedback we've had.

As you know, good corporate governance is something LAPFF supports in all markets, and support for improvements at companies outside the UK is an important part of what we do. One of principles that the Forum has been a strong advocate for is the separation of chair and chief executive positions. This year, this has led us to support shareholder resolutions at big US companies like JP Morgan and 21st Century Fox (formerly News Corporation). The separation of roles at US companies is much less widespread than in the UK, but things are changing and I'm hopeful we can help tip the balance decisively.





Of course, we also like to support companies which do the right thing. Four years ago we filed a resolution at Marks & Spencer seeking the separation of chair and chief executive roles, then both held by Sir Stuart Rose, and attended the AGM to speak in support of it. The company did subsequently appoint an independent chair. This year we returned to the Marks & Spencer AGM, again to speak publicly, but this time in support of the company, where governance is much improved.

Beyond our engagement work, membership of LAPFF also continues to improve thanks to the work of the Forum Officer. The latest additions this year are Staffordshire, the Royal Borough of Greenwich, Cumbria and the London Borough of Barking and Dagenham. We now stand at 58 members, and I'm confident that number will continue to rise.

Finally, it would be remiss of me not to thank Ian Greenwood for the work he did in his five years as Chair of the Forum. It has been obvious from the engagement meetings that I have had with companies this year that Ian did a great job in building relationships, and in establishing LAPFF's credentials as a serious and responsible organisation. Chairing a body as influential as the Forum is always going to be challenging, but the legacy Ian left has made my job considerably easier.

I look forward to an exciting year ahead.

COUNCILLOR KIERAN QUINN
CHAIR OF THE LOCAL AUTHORITY PENSION FUND FORUM

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LAPFF EXECUTIVE 2013

CHAIR

**Councillor
Kieran Quinn**
Greater
Manchester
Pension Fund



DEPUTY CHAIR

Ian Greenwood
West Yorkshire
Pension Fund



DEPUTY CHAIR

**Councillor
Cameron Rose**
Lothian
Pension Fund



EXECUTIVE

**Councillor
Peter Brayshaw**
London Borough
of Camden
Pension Fund



EXECUTIVE

**Councillor
Patricia Glasman**
Merseyside
Pension Fund



EXECUTIVE

**Councillor
Toby Simon**
London Borough
of Enfield Pension
Fund



EXECUTIVE

**Councillor
Richard Greening**
London Borough
of Islington Pension
Fund



EXECUTIVE

Councillor John Gray
London Borough of
Newham Pension Fund



EXECUTIVE

Rodney Barton
Director, West Yorkshire
Pension Fund



EXECUTIVE

David Murphy
Chief Executive and
Secretary,
NILGOSC



HON. TREASURER

Geik Drever
Director of Pensions,
West Midlands
Pension Fund



EXECUTIVE

Mike Taylor's
membership ended
on 16 August 2013
following his
retirement from
the LPFA.



RESEARCH AND ENGAGEMENT PARTNER:



FORUM OFFICER:

Keith Bray
Local Authority Pension Fund Forum

ACHIEVEMENTS

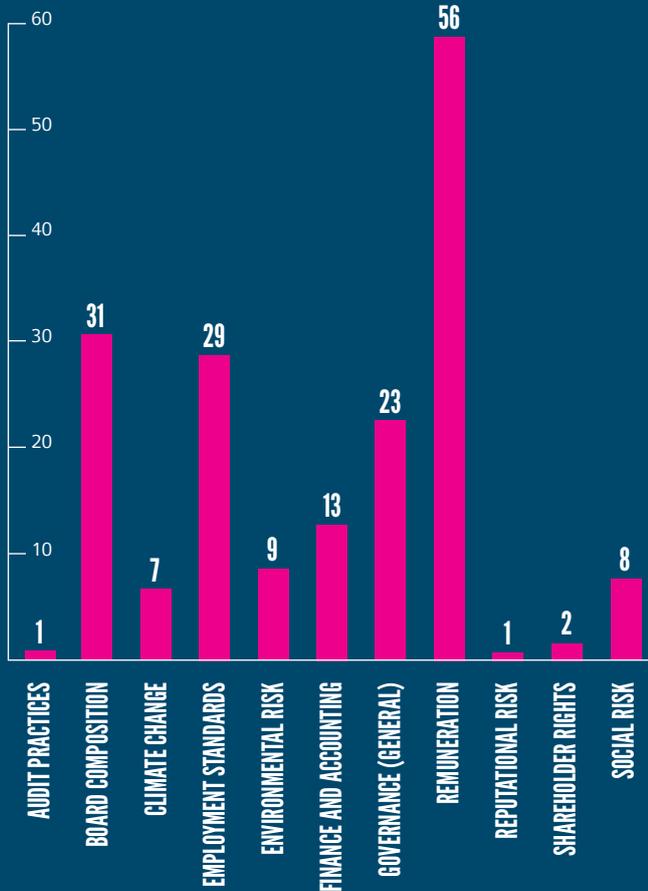
MEDIA HIGHLIGHTS

This year LAPFF has received significant media coverage on issues ranging from international accounting standards, executive pay, carbon emissions, labour standards to audit practices and director elections. The Forum has been featured in global press reports from media organisations such as the *Financial Times*, *Bloomberg*, *Reuters*, and *The Wall Street Journal*. In addition, LAPFF has been approached frequently by journalists and commentators for our views on issues related to accounting standards, governance, investor stewardship and corporate responsibility. Here are some highlights from the year.

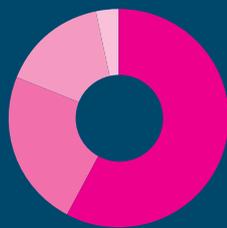
Review of International Financial and Reporting Standards (IFRS) <ul style="list-style-type: none">• The Telegraph• The Times• The Guardian• The Washington Post• Reuters• Bloomberg	Expectations for executive pay document <ul style="list-style-type: none">• The Independent• Bloomberg• Financial News• Responsible Investor	LAPFF opposes remuneration at WPP <ul style="list-style-type: none">• The Wall Street Journal• Daily Mail• The Telegraph• The Guardian• The Independent• London Evening Standard	LAPFF backs Marks & Spencer's board <ul style="list-style-type: none">• Scotsman• The Telegraph• The Herald Scotland
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ENGAGEMENT TOPICS GRAND TOTAL 180



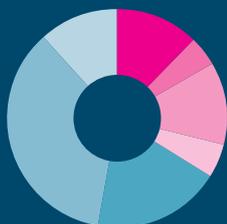
POSITION ENGAGED



CHAIRPERSON
SPECIALIST STAFF
NON-EXECUTIVE DIRECTOR
EXECUTIVE DIRECTOR OR CEO

104
42
28
6

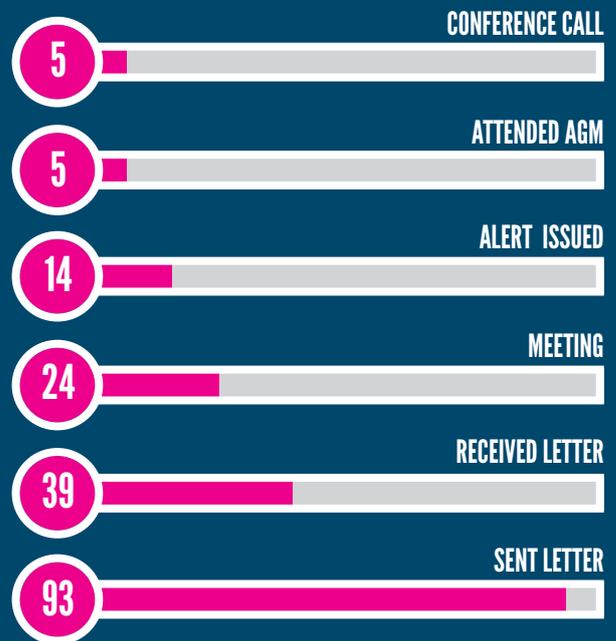
OUTCOMES



SUBSTANTIAL IMPROVEMENT
MODERATE IMPROVEMENT
SATISFACTORY RESPONSE
CHANGE IN PROCESS
DIALOGUE
AWAITING RESPONSE
NO IMPROVEMENT

22
8
22
9
34
64
21

ENGAGEMENT ACTIVITIES GRAND TOTAL 180



ENGAGEMENT HIGHLIGHTS

93 letters written on ESG issues

16 voting alerts issued

5 annual meetings attended

73 companies undertook focussed engagement

30%

of all engagement had a positive outcome

19%

resulted in LAPFF establishing an ongoing dialogue

29

meetings with chairman, non-executive directors and specialist staff held

20

consultation responses and submissions to regulators made

RELIABLE ACCOUNTS

Since the launch of its 2011 report into why the UK and Irish banking system collapsed, LAPFF has made significant progress raising concerns about the detrimental impact of International Financial Reporting Standards (IFRS). In its paper, LAPFF asserts that IFRS allowed banks to overvalue their assets and leave liabilities

and contingent liabilities off the balance sheet. This can make a non-going concern company (unprofitable and insolvent) appear to be profitable and capitalised. LAPFF strongly believes that IFRS does not give a 'true and fair' view of company accounts and calls into question the extent to which company directors can properly, legally and effectively discharge their duties. This has serious consequences for institutional investors that rely on director oversight of company accounts to make informed investment decisions.

“LAPFF STRONGLY BELIEVES THAT IFRS DOES NOT GIVE A 'TRUE AND FAIR' VIEW OF COMPANY ACCOUNTS.”

“These are extremely significant issues, given that they directly affect the accounting practices of systemically important financial institutions, and in turn affect the decisions made by those institutions, including the legitimacy of dividends paid since 2005.”

Kieran Quinn,
LAPFF Chairman

LAPFF's concerns were affirmed in a legal opinion commissioned by LAPFF and several other institutional investors. In his opinion, George Bompas QC suggests that directors must override IFRS in order to comply with existent company law. The opinion also finds that directors may need to ignore the legal advice obtained by the Financial Reporting Council (FRC) in April 2008 on this issue.

Given the significance of the opinion, it was submitted immediately to the Parliamentary Commission on Banking Standards (PCBS). LAPFF and its investor partners agreed not to make it public until the Commission produced its final report. Since its publication, LAPFF has worked to lobby regulators and government representatives in both London and Brussels to undertake a full review of how IFRS were adopted into UK and EU law, and whether the existing financial reporting regime requires fundamental reform.

Despite LAPFF's repeated attempts to convince regulators of the severity of the problem, the FRC commissioned a second legal opinion in October 2013 aimed at defending its previous position. Unconvinced by the arguments presented by the FRC and the International Accounting Standards Board (IASB) in favour of IFRS, LAPFF continues to push for changes to the legal framework governing accounting standards. Feedback we have received from investors and company directors indicate we are beginning to make progress and that more questions are being raised as to the distortive effects of IFRS on company accounts.

“Auditors and accounting standards have a duty to ensure the provision of accurate information to shareholders and others about companies' financial positions. They fell down in that duty...Audited accounts conspicuously failed accurately to inform their users about the financial condition of banks.”

Report of the Parliamentary Commission on Banking Standards, 19 June 2013

EXECUTIVE PAY

“LAPFF HAS LONG HELD CONCERNS ABOUT THE ESCALATING LEVELS OF PAY IN THE UK, AS WELL AS HOW PAY IS STRUCTURED AND DISCLOSED TO SHAREHOLDERS”

Executive pay has been a topic of much scrutiny in the last couple of years. LAPFF has long held concerns about the escalating levels of pay in the UK, as well as how pay is structured and disclosed to shareholders. In 2013, LAPFF took the opportunity to examine some of the common myths about executive pay, which we used to articulate a clear public position on the issue. The outcome of our work was published in April 2013 in a paper entitled Expectations for Executive Pay – a short document outlining fifteen key expectations that LAPFF wishes company directors to implement over the coming years.

“The Forum is of the view that simply ‘tinkering at the edges’ of pay will not create fundamental change....It is our intention to set out a new vision for pay in the UK.”

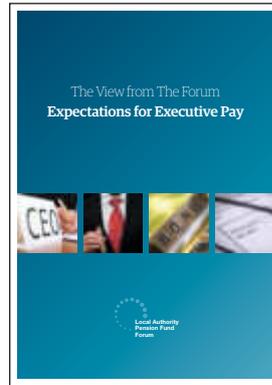
LAPFF Expectations for Executive Pay, April 2013

“After meeting with several company directors to discuss executive pay, I remained unconvinced that the majority of directors fully understand the importance of transparent and fair practices and of not contributing to the continued “ratcheting” up of top pay levels.”

Toby Simon, LAPFF Executive
(Enfield Pension Fund)

The document was designed to be provocative and initiate a debate about the key assumptions many directors and investors make about pay. LAPFF used the document to initiate engagement with companies that exhibit both poor pay policies and market-leading practices. LAPFF has been interested to hear from several directors that in principle, they agree with many of the propositions. They too appear to be concerned about escalating levels of pay, misalignment of remuneration with business strategy, and the need for simpler pay packages. The problem, LAPFF was told, is that the current executive pay system is embedded, and therefore directors find it difficult to propose dramatic changes for fear of losing key staff.





As part of its pay engagement, LAPFF issued eight voting alerts in 2013 drawing members' attention to several cases of problematic pay practices. Members can use LAPFF's voting alerts to inform the voting instructions they give to their investment managers or proxy advisory firms. Alerts were issued for **Carnival, AstraZeneca, Barclays, BAE Systems, Aviva, Prudential, WPP, and SABMiller**. Shareholder voting is a critical feedback tool for directors. For example, following a dramatic voting

result at **Afren**, where 80% of shareholders failed to back its remuneration report, LAPFF met with directors to seek an explanation of the vote result and the steps the board was taking to address shareholder concerns. **Afren** has seen high protest votes on its pay over the last five years and minor efforts by the board to address the problem have yet to satisfy investor demands, so we expect further engagement to come.

EXPECTATIONS FOR EXECUTIVE PAY

1. More focus on the base salary as the primary vehicle for paying executives
2. Phase out the use of long-term incentive plans
3. The total quantum of pay should be considered 'reasonable'
4. Set the pay of new executives below that of outgoing executives
5. Ensure executives participate in pension plans on the same terms as staff
6. Claw-back pay if environmental, social or ethical standards are breached
7. Discourage the use of peer benchmarks
8. Publish pay ratios annually
9. Ensure pay tax planning is in line with corporate responsibility practices
10. Publicly advertise all new executive director positions
11. Provide a transparent and equal opportunity recruitment process
12. Discontinue the practice of paying 'golden hellos' and 'golden parachutes'
13. Consult with investors
14. Consider and include employee views on executive pay
15. Use discretion only to reduce pay, not increase it

PROMOTING GOOD GOVERNANCE

LAPFF understands that engagement between companies and their shareholders should be an ongoing process, and should not occur simply when there is a problem. This year, LAPFF made extra efforts to reach out to companies we felt were exemplifying good practice. As part of the global focus list, our annual assessment of companies in need of governance improvements, LAPFF wrote to the five top-scoring companies in our assessment (**Marshalls, Centrica, Assurant, CRH, and ASML Holding**) to congratulate them on achieving good corporate governance practice.

Representatives of the Forum also attended the annual meeting of **Marks and Spencer** to signal its support for the board. It was only four years ago when a LAPFF representative stood up at the 2009 annual meeting to move a motion to appoint an independent Chairman after Stuart Rose was named joint Chairman and CEO. The company has made significant governance improvements since that time, and LAPFF felt it would be beneficial to voice its support. Additionally, we held meetings with **Standard Chartered** and **Legal and General**, at their request, to discuss ongoing governance and remuneration changes.

Certain corporate governance aspects of UK plc have improved markedly, and many UK companies are widely regarded as displaying governance best practice. Although much has changed, there is still room for improvement at a number of companies, and this year LAPFF continued to push for changes to board structure, shareholder rights, and disclosure. At **Bellway**, LAPFF advocated for improvements in the board structure, board diversity, and shareholder rights. When meeting with **Imagination Technologies**, the Forum discussed board independence, diversity, and changes to the remuneration plan. LAPFF also continued its support for the 30% Club, which advocates for improvements in the diversity of UK corporate boards.

“LAPFF CONTINUES TO PUSH FOR CHANGES TO BOARD STRUCTURE, SHAREHOLDER RIGHTS, AND DISCLOSURE.”

In the US, a major focus of LAPFF’s work has been advocating for the appointment of independent non-executive Chairmen. Traditionally, many US companies have had a combined role of Chairman and CEO, particularly large family-founded firms. However, there is now greater pressure for more independent board oversight, and more and more companies have agreed to appoint an independent Chairman at the request of shareholders. This was a topic LAPFF raised with **News Corporation** (now **21st Century Fox**), **Comcast**, **JP Morgan Chase & Co.**, **Freeport McMoRan**, and **Flir Systems** during the year. The Forum also met with **Société Générale** on the same issue to follow up on a shareholder resolution submitted by a member fund.

The media attention surrounding JP Morgan’s annual meeting highlighted how contentious the issue can be, with the CEO threatening to resign if the shareholder-sponsored resolution to appoint an independent Chairman passed. LAPFF’s approach has been to recognise that change can take time, and has therefore pushed for companies to agree to appoint an independent Chairman when the current Chair/CEO steps down. We were pleased that JP Morgan’s board conceded slightly by granting more powers to the Lead Director in 2013.



MEDIA STANDARDS

The Forum has continued to engage with media companies over issues arising from the phone-hacking scandal. LAPFF met with **Trinity Mirror** in June and with **21st Century Fox** in October. In the case of Trinity Mirror, a number of current and former employees have been arrested in connection with phone-hacking, and the company has announced that the Metropolitan Police are investigating the potential criminal liability of its subsidiary MGN. At 21st Century Fox, Rupert Murdoch remains as joint chair and chief executive, something LAPFF continues to challenge. News Corp's UK publishing arm News UK is also reported to be under investigation as a "corporate suspect" in this context.

The Forum has also spoken with the media reform campaign group *Hacked Off* as part of its information gathering on possible future shape of media self-regulation.

**HACKED
OFF** CAMPAIGN
FOR A FREE &
ACCOUNTABLE
PRESS

MANAGING SOCIAL AND ENVIRONMENTAL RISKS

BANGLADESH FACTORY STANDARDS

“LAPFF HAS ENCOURAGED RETAILERS TO REMAIN IN THE COUNTRY AND WORK WITH SUPPLIERS TO BRING ABOUT MEANINGFUL CHANGE.”

The tragic collapse of the RANA Plaza factory in Bangladesh was a wake-up call for many retailers, highlighting the risks lurking in their supply chains. LAPFF has engaged with companies on the topic of supply chains since 2005. Upon hearing of the tragedy in Bangladesh, LAPFF initiated engagement with **Associated British Foods** (owner of Primark), which was known to have suppliers in the factory. LAPFF also contacted retailers who did not have suppliers working in the RANA Plaza (**Sainsbury's**, **Next**, **Tesco**, and **N Brown Group**) to find out how they viewed and had reacted to the impact of the disaster on their supply chains.

LAPFF was pleased with the responses, as most retailers were quick to review the risks. Some retailers went as far as deploying building inspectors to Bangladesh to inspect supplier factories and recommend improvements. Several retailers have adopted a policy not to use factories in multi-use buildings, preferring instead to use suppliers in buildings housing only garment-manufacturing. Most of the large UK brands have also signed up to the Bangladesh Accord on Fire and Building Safety, a collaboration between

companies, unions and NGOs to address the serious health and safety concerns in that country. Dominated by garment exports, the Bangladesh economy and millions of jobs are reliant on the industry. As a result, LAPFF has encouraged retailers to remain in the country and work with suppliers to bring about meaningful change.

“The most important lesson I learned in my first engagement meeting with Sainsbury's, was that this is not only a company that could demonstrate it takes its responsibilities to workers safety seriously, but also this was a well managed, thoughtful and responsive organisation that will make money for our fund. Responsible investment is all about promoting good governance and business practices that in the long run will deliver superior returns.”

John Gray, LAPFF Executive
(London Borough of Newham)





TOBACCO INVESTMENT

“LAPFF’S ROLE IS TO PROMOTE THE HIGHEST STANDARDS OF CORPORATE GOVERNANCE AND CORPORATE RESPONSIBILITY AMONGST THE COMPANIES IN WHICH OUR MEMBERS INVEST.”

The issue of investing in tobacco was a topic of much discussion at LAPFF this year following the transfer of responsibility for health matters to local authorities in England and Wales. The role of LAPFF is to protect the long-term investment interests of its member funds’ beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst the companies in which they invest. While LAPFF does not advise members on whether or not they should continue to invest in tobacco stocks or any other companies or sectors open to controversy, it will undertake proactive engagement with companies on members’ behalf.

Upon the request of members, LAPFF held board-level meetings with Britain’s two publicly-listed tobacco companies, **British American Tobacco** and **Imperial Tobacco**. In those meetings, LAPFF sought to understand each company’s approach to managing the health risks associated with tobacco, and the steps taken by the board and senior management to ensure compliance with global marketing standards and lobbying guidelines.

Clearly tobacco is a risky product from a health perspective, member funds have to weigh the social risks this entails, with other governance, environmental and investment risks against fund liabilities and the best long-term financial interests of beneficiaries.

EMPLOYMENT STANDARDS

“LAPFF WAS PLEASED WITH LONMIN’S COMMITMENT TO IMPROVE ITS RELATIONSHIP WITH THE UNIONS AND ADDRESS SOME OF THE SOCIAL CHALLENGES.”

One of the most striking examples of the risks posed to companies by labour relations and the socio-economic context in which they work this year was provided by **Lonmin**. The South African mining company became embroiled in a violent strike and protest that tragically left 34 miners dead and several hundred more injured. In its meetings with the company, LAPFF advocated restraint in implementing disciplinary procedures against striking workers in the midst of the violence, and called for the appointment of an independent third party to facilitate negotiations. When LAPFF attended the annual meeting in January, it was pleased with Lonmin’s commitment to improve its relationship with the unions and address some of the social challenges faced by the communities in the mining region. Follow-up meetings with the chairman indicate the company is on track in implementing its plan.



Labour relations were also a topic on LAPFF's agenda this year with **Tesco** and **National Express**. Both companies have faced criticisms that they take a different approach to labour relations in the US than they do in the UK. Tesco faced complaints from staff at its Fresh & Easy stores about reduced staffing levels and relationships with union that were affecting staff morale and customer service. Ultimately, Tesco was forced to sell the US unit at a significant discount after it repeatedly failed to turn a profit.

National Express has faced similar allegations of poor union relations, with unions pointing to examples of anti-union literature and several labour-relations complaints filed by workers. In meetings with LAPFF, the company has denied taking a different approach to its workforce in the US, but at its annual meeting company representatives appeared clear that they did not favour union recognition in the US business.

Finally, the blacklisting scandal in the UK has the potential to result in both reputational damage and litigation against several UK construction firms. The practice of blacklisting prevented thousands of construction workers from getting work because they had previously raised concerns about health and safety and other workplace issues with their employers and were deemed to be "troublemakers". LAPFF raised the issue with **Kier Group**, pointing to the potential impact the scandal could have on its reputation. Kier Group, along with **Carillion**, **Balfour Beatty** and several other firms have agreed a compensation scheme for affected workers. However, LAPFF believes these firms may be exposed to additional risks.

ENERGY AND CLIMATE CHANGE

“THE FORUM HAS LONG RECOGNISED THE IMPORTANCE OF MANAGING CLIMATE RISK IN ITS CORPORATE ENGAGEMENT WORK.”

There was a lot of speculation about the UK's shale gas potential during the year as energy firms prepared to re-start hydraulic fracturing ("fracking") operations after a two year moratorium. The much anticipated report from the British Geological Society confirmed that indeed the UK has significant shale gas resources, although the extent to which these can be exploited at an economic cost continues to be debated. In response to member requests, LAPFF undertook some research to examine the issue from a shareholder perspective and to evaluate some of the environmental and social risks, including community opposition, potential for water contamination and the prospect of earthquakes.



It also invited **Centrica** to share its understanding of the issue and the economic potential of the UK's resources. Centrica has since announced a major investment in UK shale gas – the first publicly listed firm to make the move.

“This transaction presents an attractive opportunity for Centrica to explore the potential and commercial viability of natural gas from shale in the UK, while utilising its expertise as a responsible operator and developer of UK gas resources.”

Mark Hanafin, Managing Director, Centrica

The Forum has long recognised the importance of managing climate risk in its corporate engagement work, and this year strengthened its influence by combining forces with other investor and pension funds in the ‘Aiming for A’ initiative. The Group’s focus is on UK companies in the high emitting extractive, oil and gas and utility sectors. LAPFF led engagement with **Rio Tinto** and **National Grid** on their strategic approach to carbon management. With Rio Tinto, the focus was on the overall business strategy for long-term sustainability and at National Grid, LAPFF encouraged progress on governance, strategy and target-setting, as well as initiatives contributing to emission reductions. Over the course of the year both companies improved from C to B ratings in the Carbon Disclosure Project’s (CDP) Climate Performance Leadership Index.

The Forum also supported engagement with **BP** and **Royal Dutch Shell** on carbon-management strategies and on balancing the short and longer-term aspects of shareholder value creation. Feedback from the meeting with **Shell** as well as other companies led the group to encourage CDP to develop sector frameworks to more closely reflect the strategic challenges unique to the energy, materials and utilities sectors.

In another initiative, through its INCR (Investor Network on Climate Risk) membership, LAPFF co-signed letters to the world’s 50 largest energy and power companies. Companies were asked to disclose information on capital expenditure plans and the risks associated with development and use of reserves in light of the emerging stranded assets debate. The Forum will continue engagement with the extractive and oil and gas companies and will leverage its influence with a larger set of supporting investors.

LAPFF has continued its involvement in collaborative initiatives such as the Carbon Disclosure Project (CDP), CDP Water Disclosure, and the Forest Footprint Disclosure which all provide additional information on benchmarking and evaluation of company disclosure and performance. Information thus gained informs engagement over a full spectrum of investment risks and opportunities.

“It is vital that companies in the extractive sectors manage their climate risk. LAPFF’s engagement has encouraged companies to disclose their performance and consider how their business models might change should their assets become uneconomic due to future climate change regulations.”

Pat Glasman,
LAPFF Executive (Merseyside Pension Fund)

CONSULTATIONS AND POLICY

LAPFF spends a significant amount of time engaging with policymakers and responding to consultation responses on topics such as corporate governance, audit market reform, capital stewardship, corporate responsibility and sustainability. This year we wrote to regulators and submitted consultation responses on a wide range of topics, including several on the issue of auditor rotation and competition in the audit market. LAPFF has long held concerns about the lack of competition in the audit market, which is dominated by four large firms. We have been working with several other institutional investors to advocate for mandatory audit rotation – something opposed by the audit firms and many UK issuers.

LIST OF CONSULTATION RESPONSES

- DEFRA on greenhouse gas reporting, October 2012
- Canadian Oil Sands Innovation Alliance on environmental and water risks, October 2012
- ICSA on shareholder engagement, October 2012
- LGPS on investment in infrastructure funds, October 2012
- EU Commissioner Barnier on IFRS, October 2012
- FRC on improving financial reporting, January 2013
- FSA on changes to the listing regime, January 2013
- US SEC on corporate governance reform, March 2013
- FRC on financial reporting disclosure, January 2013
- UK Competition Commission on statutory audit practices, March 2013
- Association of directors of public health on investment in tobacco, March 2013
- FRC on Sharman review on going concern, April 2013
- FRC on auditor responsibilities, April 2013
- UK Competition Commission on auditor rotation, May 2013
- FCA on governance protections for investors, June 2013
- Integrated reporting council draft guidance, July 2013
- Natural Resources Canada and the US SEC on mandatory reporting of payments to governments, August 2013
- UK Competition Commission on mandatory auditor rotation, September 2013
- US President Barack Obama on setting carbon standards for power plants, September 2013

MEMBER SUPPORT

“WE ARE INCREASINGLY RECEIVING REQUESTS FROM COMPANIES TO MEET WITH THEM...A TESTAMENT TO LAPFF’S EFFORTS TO ENGAGE PROACTIVELY AND POSITIVELY WITH COMPANY DIRECTORS.”

LAPFF welcomed four new members this year: Staffordshire, the London Borough of Barking and Dagenham, Cumbria Pension Fund, and Greenwich Pension Fund. LAPFF now represents 58 of the local authority funds in England, Scotland, Wales and Northern Ireland. As LAPFF grows, its reputation and influence grows with it. We are increasingly receiving requests from companies to meet with them to discuss forthcoming governance changes, which is a testament to LAPFF’s efforts to engage proactively and positively with company directors. Each Executive Committee member is invited to actively participate in engagement meetings, which allows LAPFF to draw on the expertise and individual view points of its members when engaging with company directors.

“The Cumbria Pension Fund is keen to ensure that it discharges its responsibilities with regard to corporate governance in the most appropriate and effective manner. We believe that through membership of the LAPFF our aim of maximising shareholder value through active engagement can be supported by leveraging the collaborative voting power behind the LGPS”

Fiona Miller
Senior Manager for the Cumbria Pension Scheme

“By joining LAPFF the London Borough of Barking and Dagenham Pension Fund is able to take advantage of LAPFF’s expertise to develop its corporate governance strategy as well as seek to influence companies the Fund is invested in through collaborative engagement with other pension funds.”

London Borough of Barking and Dagenham

In its support to members, LAPFF responded to high profile issues and topics in the year of interest to members, such as tobacco investment, corporate taxation, blacklisting and Bangladesh factory standards. Members that wish to propose a topic for LAPFF are encouraged to write to the Chair. LAPFF also provided background research and support to help members implement their responsible investment and stewardship responsibilities.





VOTING ALERTS

LAPFF issued 16 alerts in 2013 to help members in their voting activities.

COMPANY	TOPIC
21st Century Fox	Appoint an independent chair, election of directors
SABMiller	Remuneration report
Freeport McMoRan	Appoint an independent chair
Marks & Spencer	Annual report, election of directors
WPP	Remuneration report, new long-term incentive plan
ExxonMobil	Appoint an independent chair, report on greenhouse gas emissions
JP Morgan Chase & Co	Appoint an independent chair, election of the CEO
Prudential	Remuneration report, new long-term incentive plan
Comcast Corporation	Election of directors
Royal Bank of Scotland	Annual report, share issue authority
Aviva	Remuneration report
BAE Systems	Remuneration report
National Express	Annual report
Barclays	Annual report, remuneration report, election of the Chairman
AstraZeneca	Remuneration report
Carnival	Annual report, election of directors, and remuneration report

ANNUAL MEETING ATTENDANCE

With non-equity assets comprising a growing proportion of many of our members' assets, LAPFF issued a background paper with information on responsible investment strategies for alternative asset classes. The paper covered fixed income, real estate, commodities, infrastructure, hedge funds, private equity, cash and cash equivalents, and environmentally and socially-themed investing/ impact investing.

MEMBER BRIEFINGS ON IFRS

LAPFF's work on IFRS and accounting standards has been hugely successful. Recognising it is a fast-moving and complex topic, LAPFF has provided continual updates for members at the quarterly business meetings and through publications and information on the LAPFF website.

LGPS REFORM

There have been several proposed changes to how local authority pension funds are structured and LAPFF has endeavoured to keep members up to speed on the proposed changes through discussions at the business meetings. LAPFF is also expected to play a formal role in future LGPS governance through its participation in the LGPS Shadow Board and investment and engagement sub-committee.

SECURITIES LENDING

LAPFF is fortunate to have Gerard Moore representing the Forum in co-chairing the International Securities Lending Association corporate governance sub-committee. Gerard provides updates to members which this year included observations on the proposed financial transaction tax and a reference document on securities lending and voting.

OUTLOOK FOR 2014

Looking forward into next year, there are a number of themes that are likely to feature in the Forum's work.

Executive pay will no doubt continue to be a high-profile issue. Improved disclosure of directors' pay, along with the introduction of a binding shareholder vote, will give LAPFF and others a greater edge in engagement with companies. The new regime contains reforms that the Forum had advocated, such as the binding vote, so it's important that LAPFF now plays its part by using them effectively. The *Expectations for Executive Pay* document provides a solid platform on which to base engagement activity, and the proposals in it will form part of our discussions with companies.

LAPFF will also continue its work on reliable accounts. The legal opinion which the Forum sought has raised very significant issues with accounting standards setters, which remain unresolved. LAPFF is already talking with other investors, and with policymakers, in the UK and at a European level.

As agreed during 2013, the Forum will also shift the emphasis of its engagement to focus more on those companies that are most widely held by our members. This is intended to ensure that LAPFF builds long-term and ongoing relationships with the larger public companies in both the UK and other developed markets.

The Forum will also seek to attend more AGMs, including speaking in support of companies. It is clear from previous experience that institutional investors rarely attend AGMs, and when they do so this is primarily to raise concerns. This year LAPFF AGM attendance included that of Marks & Spencer's, in order to provide public support to the company. This came four years after having attended the AGM to speak in support of a shareholder resolution seeking a split in chair and chief executive roles. Emphasising the positive aspects of the Forum's engagement is intended to further enhance our reputation as a committed and responsible investor group.



LIST OF COMPANIES

COMPANY	TOPICS
Afren	Remuneration, Board Composition
Anglo American	Remuneration
ASML Holding	Governance
Associated British Foods	Employment Standards, Social Risk
Assurant Inc.	Governance
AstraZeneca	Remuneration
Aviva plc	Remuneration
BAE Systems	Remuneration
Barclays	Finance & Accounting, Remuneration
Bellway	Board Composition, Shareholder Rights
BG Group	Environmental Risk, Climate Change
BNP Paribas	Board Composition, Remuneration
BP plc	Climate Change
British American Tobacco	Social Risk, Reputational Risk
British Sky Broadcasting	Remuneration
Burberry	Board Composition, Remuneration
Carnival Corp	Remuneration, Employment Standards
Centrica	Environmental Risk, Social Risk, Governance, Remuneration
Coach Inc.	Board Composition, Remuneration
Cognizant Technology Solutions	Shareholder Rights
Comcast Corp	Board Composition, Shareholder Rights
CRH plc	Governance
Deutsche Post	Employment Standards, Reputational Risk
Dunelm Group	Remuneration
Enterprise Inns	Remuneration
ExxonMobil	Environmental Risk, Board Composition
Flir Systems	Board Composition, Remuneration
Freeport McMoran	Board Composition, Reputational Risk, Social Risk, Governance, Remuneration
Fresnillo	Remuneration
Glaxo Smithkline	Remuneration
Glencore Xstrata	Remuneration
Hays	Remuneration
Hewlett Packard	Audit Practices
HSBC	Finance & Accounting
Imagination Technologies	Shareholder Rights, Remuneration, Board Composition
Imperial Tobacco	Social Risk, Reputational Risk
Inditex	Board Composition, Remuneration
J Sainsbury	Employment Standards, Social Risk

COMPANY	TOPICS
JP Morgan	Remuneration, Board Composition
Kier Group	Employment Standards
Laird PLC	Remuneration
Land Securities	Remuneration
Legal & General	Remuneration
Lindt & Sprungli	Board Composition, Remuneration
Lloyds	Finance & Accounting
Lonmin	Employment Standards, Reputational Risk, Social risk
Marks & Spencer	Board Composition, Governance
Marshalls	Governance
Meggitt	Remuneration
Melrose plc	Remuneration
N Brown Group	Employment Standards, Social Risk
National Express	Employment Standards, Reputational Risk
National Grid	Climate Change, Remuneration
News Corp	Board Composition, Reputational Risk
Next plc	Employment Standards, Social Risk
Petra Diamonds	Remuneration
Prudential	Remuneration
Royal Bank of Scotland	Finance & Accounting
Reckitt Benckiser	Environmental Risk
Resolution Ltd	Governance, Audit Practices, Remuneration
Rio Tinto	Environmental Risk, Climate Change
Royal Bank of Scotland	Finance & Accounting
Royal Dutch Shell	Climate Change
SABMiller	Remuneration
Smith & Nephew	Remuneration
Societe Generale	Remuneration, Board Composition
Standard Chartered	Board Composition, Remuneration, Finance & Accounting
Svenska Handelsbanken	Board Composition
Tesco	Employment Standards, Reputational Risk, Social Risk
Trinity Mirror	Reputational Risk, Social Risk
Vesuvius (formerly Cookson)	Remuneration
Weir Group	Remuneration
WM Morrison Supermarkets	Remuneration
WPP	Remuneration

LIST OF MEMBERS

LAPFF MEMBERSHIP AS AT 1 NOVEMBER 2013

- Avon Pension Fund
- Bedfordshire Pension Fund
- Cheshire Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Cumbria Pension Fund
- Derbyshire County Council
- Devon County Council
- Dorset County Pension Fund
- Dyfed Pension Fund
- East Riding Pension Fund
- Falkirk Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Gwynedd Pension Fund
- Lancashire County Pension Fund
- Lincolnshire County Council
- London Borough of Barking & Dagenham
- London Borough of Camden
- London Borough of Croydon
- London Borough of Ealing
- London Borough of Enfield
- London Borough of Hackney
- London Borough of Haringey
- London Borough of Harrow
- London Borough of Hillingdon
- London Borough of Hounslow
- London Borough of Islington
- London Borough of Lewisham
- London Borough of Newham
- London Borough of Southwark
- London Borough of Tower Hamlets
- London Borough of Waltham Forest
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Norfolk Pension Fund
- Northamptonshire County Council
- North East Scotland Pension Fund
- Northern Ireland Local Government Officers Superannuation Committee (NILGOSC)
- North Yorkshire County Council
- Nottinghamshire County Council
- Rhondda Cynon Taf Pension Fund
- Royal Borough of Greenwich
- Shropshire Council
- Somerset County Council
- South Yorkshire Pensions Authority
- South Yorkshire Integrated Transport Authority
- Staffordshire Pension Fund
- Surrey County Council
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire County Council
- West Midlands Pension Fund
- West Midlands PTA Pension Fund
- West Yorkshire Pension Fund
- Wiltshire Pension Fund
- Worcestershire County Council



**Local Authority
Pension Fund
Forum**

For more information about
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