



QUARTERLY ENGAGEMENT REPORT

OCTOBER TO DECEMBER 2013



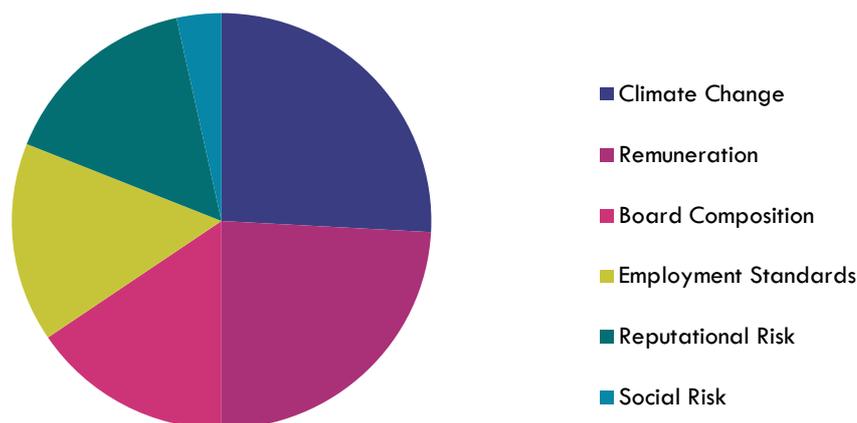
Local Authority Pension Fund Forum

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 local authority pension funds in the UK with combined assets of over £120 billion.

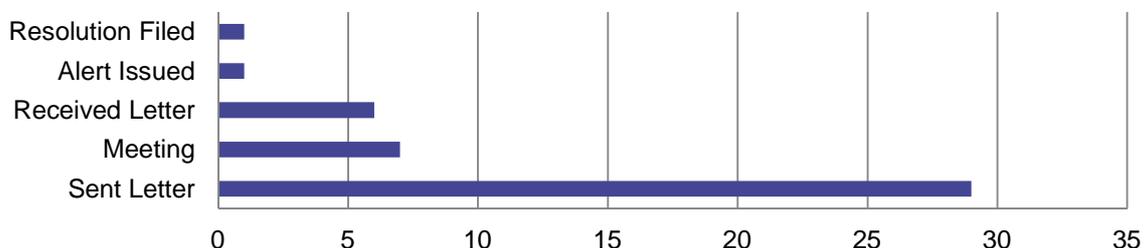
ENGAGEMENT SUMMARY

OCTOBER TO DECEMBER 2013

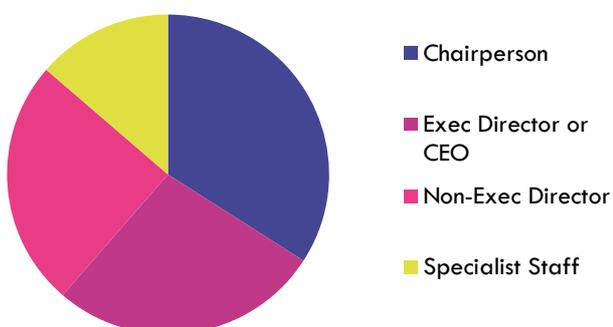
Topics



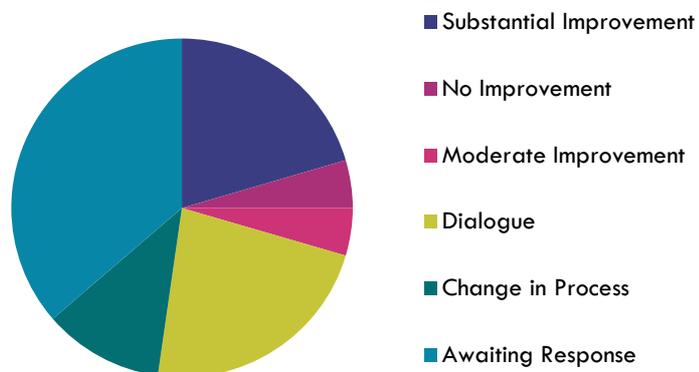
Activities



Company Contact



Outcomes



ACHIEVEMENTS

- Met with **Standard Chartered**, **M&S** and **Burberry** to discuss remuneration issues and get company feedback on LAPFF's 'Expectations for Executive Pay' document.
- Corresponded with **Afren**, **easyJet** and **G4S** regarding pay practices and pay complexity and to seek further meetings.
- Explored the impact of governance changes at **Twenty-First Century Fox** since the split from News Corporation and discussed the approach to the ongoing phone hacking scandal.
- Focussed on 'stranded assets', carbon management strategies and CDP performance scores with **BP**. A meeting with **GlencoreXstrata** also initiated a discussion on these issues.
- Sent a letter to **Oracle** outlining LAPFF's concerns about executive pay. The Company lost its pay vote for the second year in a row, but the Board remains defiant.
- Co-signed letters to major US, European and Japanese consumer companies in the **palm oil** supply chain on the sustainability of their supplies.
- Responded to a **FRC** consultation on the strategic report raising concerns about its status and compatibility with UK Company Law, and to a FRC consultation on directors' remuneration. Provided input to the **SEC** on pay ratio disclosure.

THE FORUM IN THE NEWS

Investor pressure for mandatory auditor rotation
[Professional Pensions](#)

LAPFF joins investors in demand for an independent chairman at 21st Century Fox
[The Telegraph](#)

Two new local authority pension funds join LAPFF
[Professional Pensions](#)

LAPFF joins investors to renew push for mandatory audit rotation
[Professional Pensions](#)

Legal concerns over IFRS
[Economia](#)

COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

The Forum met with Rod Eddington, the lead independent director of **21st Century Fox** (formerly **News Corporation**) at the start of October, shortly before the company's AGM. LAPFF repeated its belief that the company would benefit from the appointment of an independent chair, and that this could aid the succession process. At the company's AGM in



the middle of the month, two thirds of independent shareholders backed a resolution calling on the company to appoint an independent chair. LAPFF had issued an alert advising members to support the resolution.

LAPFF is a member of the Investor Group of the 30% club which co-ordinates the investment community's approach to engaging with companies on board gender diversity. Together with four other investors in this group, LAPFF has written to **Vedanta**, **Antofagasta** and **London Stock Exchange** as companies that currently have no women on their boards, to request a meeting. A meeting with the chairman of the London Stock Exchange has been arranged.

Following a request from a member fund, LAPFF has undertaken work on the issue of blacklisting. At the October business meeting it was agreed to write to the major construction firms, and to encourage them to press ahead with the creation and implementation of a compensation scheme for those workers who had been affected by blacklisting.

PROMOTING GOOD GOVERNANCE

Global Focus List

LAPFF first corresponded with **Burberry** in December 2012, due to concerns over board and committee independence as well as concerns over remuneration targets and termination payments. At that time the company did not respond and the Forum issued a voting alert for the AGM to flag up these concerns. Eventually a meeting was arranged, at which company views were sought on pay practices, particularly regarding the potential for excessive rewards, guaranteed termination payments, and use of adjusted profit measures. Just days following the meeting, it was announced that the CEO Ms Ahrendts had resigned from Burberry to join Apple.



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Financial Reporting & Audit

Launched at the LAPFF conference, the Banks Post Mortem follow-up provides a summary of LAPFF's concerns over the consequences of the implementation of International Financial Reporting Standards (IFRS) and the link to the collapse of the capital adequacy regime of banks in UK and the Republic of Ireland.



In the summer of 2013, LAPFF, together with a consortium of other asset owners, sought Counsel's Opinion on the consistency between IFRS and the Companies Act 2006. The Opinion from Mr George Bompas QC cast doubt on the requirements under IFRS compared to applicable law under the Companies Act 2006. The Opinion also addressed whether Martin Moore QC's 2008 Opinion for the Financial Reporting Council (FRC) could be relied upon. Mr Moore responded on behalf of the FRC in October 2013. The Bank Post Mortem follow-up provides a detailed analysis of Mr Moore's response and sets out the Forum's view that an independent enquiry into the failures of the IFRS standard setting and adoption process is needed to settle matters within an appropriate timescale.

In October, the **Competition Commission** issued a final report on proposed changes to open up the UK audit market to greater competition. The proposals include that companies must retender the audit every ten years with a five year period preferred. LAPFF, in conjunction with other investors, had written to the Competition Commission in May 2013 reiterating support for a regulatory backstop to audit tenure as well as limits to non-audit fees. Other changes include that there must be a shareholders' vote at the AGM on whether Audit Committee Reports in company annual reports are satisfactory. LAPFF had called for a statutory [shareholder vote](#) on audit committee reports in 2010 noting that it allows investors to review the quality of reporting and indicate to the company when it is perceived as inadequate.

Executive Pay

Meetings continued with companies to solicit feedback to LAPFF's [Expectations for Executive Pay](#) document. The Remuneration committee chair at **Marks & Spencer**, who is also the chief executive of National Grid, provided extensive and practical feedback on LAPFF's approach, supporting some proposals whilst agreeing to differ on others. Particularly useful was his perspective on the differing approaches of US shareholders. **Standard Chartered's** chairman provided a useful company perspective on global pay practices and the pay matrices used by the company for executive remuneration. The discussion also covered ongoing board transition and succession planning.

A meeting has been arranged with **BT Group** to discuss the 'Expectations' document, prompted by the company's decision to reduce the short-term bonus opportunity for the Chief Executive of BT Retail. The Forum has also corresponded with **Afren**, **easyJet** and **G4S** regarding pay practices and pay complexity and to seek further meetings.

MANAGING ENVIRONMENTAL RISK

Carbon Asset Risk

Earlier this year, LAPFF joined other global investors to write the 50 largest energy and power companies, asking for disclosure on capital expenditure (capex) plans and the risks associated with development and use of reserves in light of the emerging stranded assets debate.

LAPFF, together with a group of UK investors, met with **BP** representatives to explore further the investment issues raised by this letter and to determine the company's approach to capex on reserves in the future. BP has announced a focus on value over volume, recognising that demand risk is directly linked to price risk, and is preparing a response to the investor group's request.

Following the merger earlier in the year, the new **Glencore Xstrata** presented the new group sustainability approach to a gathering of investors in a morning session followed by 'one-on-one' meetings in the afternoon. LAPFF noted its appreciation of the attendance by two board directors. The meeting covered a range of issues including business ethics, safety and human rights as well as the company's approach to carbon asset risk.

Palm oil

The Forum has engaged with UK companies on the use of sustainable palm oil for a number of years, and continues to raise this in relevant company meetings. Support for emerging standards by investors can be critical in moving the industry forward and several companies are making significant progress towards 100% certified sustainable sources. LAPFF has joined a number of institutional investors in contacting major consumer companies in the palm oil supply chain to open a conversation on the sustainability of their palm oil supplies. These companies are mainly based in the US, but also Europe and Japan.

Unilever announces that 100% of the palm oil it buys will be traceable to known sources by end 2014

(Dec 2013)

TARGETING SOCIAL ISSUES

Employment Standards

LAPFF continued to engage with companies on the impact of the RANA Plaza factory collapse and how they have changed their approaches to factory safety. Following our meetings with Sainsbury's and Next last quarter, the Forum sought a meeting with **N Brown Group** to find out how the board has responded to the increased scrutiny on Bangladesh.

The chairman of **Tesco** provided a written response providing detailed information on actions taken since the disaster and further commitments made to improve standards. At a meeting

with **Burberry**, the company noted it deliberately does not use suppliers from Bangladesh, considering it a very difficult country to work in.

Following media coverage on **Lonmin's** actions during the 2012 Marikana mine incident, the Forum corresponded again with the company to hear their side of the story. The company responded noting that the 2013 annual report would have cover a range of socio-economic issues and an update would be provided on the five social initiatives at the 2014 AGM.

During the quarter, a campaign was initiated by ShareAction to raise awareness of the Living Wage amongst pension funds. LAPFF has raised the issue of the Living Wage in its engagement with a number of companies, and a [briefing](#) has been made available to members providing details of this engagement in order for members to respond.

Earlier in the year, LAPFF had met with **Deutsche Post** to encourage the company to commit to towards applying the same high employee standards as exhibited by its German operations to its operations in other countries. In October it was announced that the company had given union recognition to its Turkish supply chain staff.

Following three years of engagement with **National Express** on its approach to unionisation in the US, some LAPFF funds have joined other investors in co-filing a resolution to the company's May 2014 AGM to support improved oversight of its human capital strategy.

CONSULTATIONS & PUBLIC POLICY

ENGAGING WITH POLICY-MAKERS

The LAPFF chair met with a delegation from the **Japanese Ministry of Economy, Trade and Industry (METI)** headed by Mr. Yukihiro Sato, Chairman of Corporate Financial Executive Committee. METI had sought the meeting due to a persistent concern about IFRS within Japan and was aware of the view expressed by LAPFF and work undertaken in this regard. Japan has decided to allow companies to use IFRS, but are carefully assessing which standards should be used, whether Japanese GAAP or IFRS only on a consolidated basis, and which standards should be improved and how.

LAPFF continues to respond to proposed changes to the structure of Local Government Pension Schemes with a report submitted to the investment and engagement sub-committee of the **Shadow Pensions Board** on LAPFF's unique contribution to stewardship of pension fund assets.

CONSULTATION RESPONSES

The **Financial Reporting Council** issued Guidance on the Strategic Report for consultation which the Forum responded to in November. In its response, LAPFF raised fundamental questions about the status and compatibility of the proposed Report with UK Company Law

and the preparation of annual accounts for shareholder approval. LAPFF also contributed to the response of the Investor Group of the **30% Club** of which the Forum is a member. This response included the recommendation that companies report on female representation not only on the executive committee, but also for two levels below this.

The Forum also responded to an **FRC** consultation on Directors' remuneration, looking at whether certain amendments to the UK Corporate Governance Code would be required to address some potential issues on executive remuneration. The response reflected a number of views as set out in LAPFF's '[Expectations on Executive Pay](#)' as well as the overall approach of the report '[People and Investment Value](#)'.

Continuing to promote improvements to the regulatory framework on governance, LAPFF responded to a consultation by the **Securities and Exchange Commission (SEC)** consultation on disclosure of pay ratios. The Forum supported SEC action to facilitate meaningful corporate disclosure of executive pay ratios and flagged up various points to consider in developing guidance for the implementation methodology. All LAPFF consultation responses can be viewed at: <http://www.lapfforum.org/consultations>.

In support of those member funds who are also PRI signatories, LAPFF provided [input](#) on Forum engagement activity for the on-line reporting tool, a reporting framework which signatories must complete.

NETWORKS & EVENTS

The sell-out LAPFF 2013 conference '**Licence to Operate: Holding Companies to Account**' was presided over the LAPFF chair who led debate on the future of the Local Government Pension Scheme. Discussions with active investors on enhancing company value were followed by Josh Hardie of Tesco providing a company perspective on community responsibilities. A session on climate risk and 'stranded assets' included topical contributions from both an investor and company perspective. Lord Myners closed the conference setting out lucidly why capitalism without owners will fail. Other events attended included:

- **Achieving zero emissions** – lecture by OECD Secretary General
- **Green Light Report Launch** – hosted by ShareAction
- **BP Business Reception 2013**
- **Women in the workplace** – hosted by Rt Hon Maria Miller MP
- **Law Commission Fiduciary Duty Event** – hosted by UKSIF
- **GlencoreXstrata sustainability presentation**

COMPANY PROGRESS REPORT

Company	Topics	Outcome
Afren	Remuneration	Change in Process
Antofagasta	Board Composition	Awaiting Response
Bellway	Governance (General), Board Composition	Substantial Improvement
BP	Climate Change	Moderate Improvement
BT Group	Remuneration	Dialogue
Burberry	Remuneration, Board Composition	No Improvement
easyJet	Remuneration	Dialogue
Exxon Mobil	Climate Change	Dialogue
G4S	Remuneration	Dialogue
General Mills	Climate Change	Awaiting Response
Glaxo Smithkline	Remuneration	Moderate Improvement
Hormel Foods	Sustainable Palm Oil	Awaiting Response
J.M. Smucker	Sustainable Palm Oil	Awaiting Response
Kellogg Company	Sustainable Palm Oil	Awaiting Response
Kraft Foods	Sustainable Palm Oil	Awaiting Response
London Stock Exchange	Board Composition	Awaiting Response
Lonmin	Employment Standards, Social Risk	Dialogue
Marks & Spencer	Remuneration	Substantial Improvement
Mondelez International	Sustainable Palm Oil	Awaiting Response
N Brown Group	Employment Standards, Reputational Risk	Dialogue
National Grid	Climate Change	Substantial Improvement
Nestle SA	Climate Change	Awaiting Response
Oracle	Remuneration	Awaiting Response
PepsiCo	Sustainable Palm Oil	Awaiting Response
Rio Tinto	Climate Change	Substantial Improvement
Standard Chartered	Remuneration	Substantial Improvement
Tesco	Employment Standards, Reputational Risk	Substantial Improvement
The Hershey Company	Sustainable Palm Oil	Awaiting Response
The Hillshire Brands Company	Sustainable Palm Oil	Awaiting Response
Toyo Suisan Kaisha	Sustainable Palm Oil	Awaiting Response
Twenty-First Century Fox	Board Composition, Reputational Risk	Change in Process
Vedanta	Board Composition	Awaiting Response

Companies LAPFF has not previously engaged with are indicated in bold. 'Awaiting response' indicates a letter was sent to the company in the quarter and a response not received in this period.



The Local Authority Pension Fund Forum was established in 1991 and is a voluntary association of 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 its members invest. The Forum's members currently have combined assets of over £120 billion.

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

PIRC

www.lapfforum.org

Aberdeen City Council
Avon Pension Fund
Barking and Dagenham LB
Bedfordshire Pension Fund
Camden LB
Cheshire Pension Fund
City of London Corporation
Clwyd Pension Fund
Croydon LB
Cumbria Pension Scheme
Derbyshire CC
Devon CC
Dorset County Pension Fund
Dyfed Pension Fund
Ealing LB
East Riding of Yorkshire Council
Enfield
Falkirk Council
Greater Gwent Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney LB
Haringey LB
Harrow 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
Staffordshire Pension Fund
Surrey CC
Teesside Pension Fund
Tower Hamlets LB
Tyne and Wear Pension Fund
Waltham Forest LB
Warwickshire Pension Fund
West Midlands ITA Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Wiltshire CC
Worcestershire CC