

Agenda item: **13**

Wolverhampton City Council

OPEN INFORMATION ITEM

Committee / Panel	<u>PENSIONS COMMITTEE</u>	Date	17/04/2013
Originating Service Group(s)	<u>WEST MIDLANDS PENSION FUND</u>		
Contact Officer(s)/ Telephone Number(s)	<u>GEIK DREVER</u> <u>2020</u>		
Title/Subject Matter	<u>COMBINED GOVERNANCE REPORT</u>		

Recommendation

Members are requested to note the contents of the attached report.

RECOMMENDATIONS

Members are requested to note the issues being raised and discussed by the Local Authority Pension Fund Forum (LAPFF) as described in the attached minutes of the Business meeting held on 23rd January 2013 and the LAPFF Annual Report 2012.

BACKGROUND

The West Midlands Pension Fund has adopted an approach of wanting to position itself as following good corporate governance practices. This is reflected in its approach to active proxy voting and its shareholders' engagement approach with companies.

The approach is actioned through the Fund's voting arrangements and its membership of the LAPFF. Joining with other funds that have similar views to the Fund, produces a large shareholding group which companies are more likely to take note of and respond to. LAPFF has a current membership of 55 public sector pension funds.

The mission statement of the Forum is "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, commensurate with statutory regulations".

VOTING ACTIVITY*

During the period the Fund voted at a total of 176 company meetings – 51 UK, 16 European, 36 US, 5 Japanese, 60 Global and 8 Asian. In respect of these meetings (a mixture of EGMs and AGMs) the Fund opposed, abstained or withheld* 570 resolutions out of a total of 1,522, representing approximately 37% of all resolutions. During this period there were 30 meetings where the Fund supported all the resolutions put forward by companies.

The Fund has a bespoke template for voting at UK meetings, however, the Fund currently follows the voting advice of the Pensions and Investments Research Consultants Ltd (PIRC) for European US and Japanese company meetings.

(It should be noted that due to a combination of US state law and individual company by-laws, votes pertaining to individual directors cannot be cast as "oppose" but have to be cast as "withheld").

UK VOTING ANALYSIS

The major issues of contention during the period are typically illustrated in the examples in the table below:

Company	Meeting	Resolutions Causing Shareholder Concern	Shareholders Opposing or Abstaining
Xstrata PLC	EGM	Approve the Revised Management Incentive Arrangements	55%
Xstrata PLC	AGM	New Scheme Resolution 1	32%
Dunelm Group PLC	AGM	Approve Rule 9 Waiver	30%
Ashmore Group PLC	AGM	Approve Rule 9 Waiver	29%
Redrow PLC	AGM	Elect Alan Jackson	23%
Pantheon Intl Participations PLC	AGM	Re-elect JPA Readman	20%

Although the Fund may often oppose a resolution, it will support a resolution if it believes the company has followed best practice, even if there is significant opposition from other shareholders. Background details on some of these resolutions where opposition was significant are detailed below:

Xstrata PLC (EGM)

Approval was sought at an EGM in November for the merger with of mining company Xstrata with rival Glencore. Under the final revised terms of the merger, shareholders would be entitled to receive 3.05 New Glencore shares for each share held in the existing separate companies. Glencore already have a 33.65% shareholding in Xstrata.

According to the Company, this offer represents a significant uplift for Xstrata shareholders and compares favourably with the premia paid in comparable merger transactions and in particular mergers involving a major existing shareholder. In addition, there was little prospect of a higher offer from a third party.

Despite this, there were a number of concerns from a corporate governance point of view concerning the merged entity. Primarily, the level of independent representation on the Board was deemed to be insufficient. Excluding the Chairman, only three Board Directors were considered to be independent. This raised concerns about the objectivity with which the decision behind the deal was taken by the directors, many of whom were still classified as independent according to the companies involved.

The Fund opposed the resolution

A separate resolution was tabled, seeking approval for the new management incentive scheme. Under the terms of the scheme, retention awards for all recipients would be paid entirely in shares in the Combined Entity with the purpose of aligning the interests of Management and Senior employees with those of shareholders.

Additionally, retention awards for the Directors and senior employees would be subject to performance conditions based on the realisation of additional savings above those already agreed in the two years following completion of the merger.

Two of the existing Xstrata directors were not to be appointed to the combined board and were to receive severance payments totalling more than £9.4m. However, it emerged that they would still be serving as senior executives at the Combined Group and eligible to participate in the incentive scheme. This raised serious questions over the amount being paid in severance.

Additionally, total awards under the management scheme appeared to be excessive and whilst the use of a performance element is always welcomed, the use of only a single criterion fails to meet best practice.

The Fund opposed the resolution

Dunelm Group PLC (AGM)

Mr W L Adderley, Executive Vice Chairman of home furnishing retailer Dunelm currently has a controlling shareholding of 31.2% of the issued share capital of the company. Any further increase in this shareholding would have the effect of triggering Rule 9 of the Takeover Code and result in Mr Adderley being under an obligation to make a general offer to shareholders. Therefore the company sought shareholders' approval to waive this obligation.

The Fund recognises that Rule 9 of the Takeover Code provides minority shareholders with adequate protection of their interests as it mitigates the risk that share repurchase may be used to further increase the holdings of controlling shareholders and entrench their control. However, these concerns have been addressed through a Relationship agreement with the Company where Mr Adderley will continue to perform his duties but at the same time will undertake to minimise his influence as controlling shareholder. He has also indicated that he no longer wishes to receive further awards under the long-term incentive plan.

The Fund supported the resolution

Ashmore Group PLC (AGM)

Shareholder approval was sought for the waiver granted by the Takeover Panel allowing Chief Executive Mark Coombs to increase his interest as a consequence of any share repurchase without being obliged to make a general offer to all shareholders. The waiver was conditional on the passing of the resolution by independent shareholders of the company on a poll. The resolution was seen as an acceptable proposal.

The Fund supported the resolution

Redrow PLC (AGM)

The company sought approval to re-elect Alan Jackson as Senior Independent Director and Deputy Chairman. However, there were concerns over his aggregate time commitments as Mr Jackson had missed 25% of all Audit Committee meetings during the year under review.

The Fund opposed the resolution

Pantheon International Participations PLC (AGM)

The company proposed to re-elect Senior Independent Director, JPA Readman. However he is not considered to be independent as he had been on the Board for more than nine years. It was recommended the vote be opposed as there was already insufficient independent representation on the Board.

The Fund opposed the resolution

OVERSEAS ISSUES

Grifols SA (EGM) – Spain

The Board of pharmaceutical and chemical company Grifols sought authority to increase the Company's share capital by issuing 16.3 million new Class B shares without voting rights. Shareholders would be entitled to receive 1 new Class B share for every 20 existing shares held. This proposal would require an amendment to the company's existing Articles of Association.

However, insufficient information and justification for the transaction had been provided by the Board. In addition, shareholders were not assured that recommendations by management and their corporate finance advisors had been subject to constructive challenge by independent directors as their appeared to be insufficient independent representation on the Board.

The Fund opposed the resolution

MICROSOFT (AGM) – USA

One of the shareholders of multi-national software giant Microsoft proposed that provision was made for cumulative voting. Under this scheme, shareholders would be able to transfer each of their votes for directors to a single director. Therefore given that there are currently nine directors on the board, a shareholder could cumulate nine votes for a single director for each share they hold under this system. The directors argue in response that cumulative voting could “allow minority blocs of investors to place their representatives on the Board of Directors” producing directors who are biased towards special interests rather than those of all shareholders and could cause divisions within the Board.

The Fund opposed the resolution

BANCO POPULAR ESPANOL (EGM) – SPAIN

The Board requested shareholder authorisation to increase share capital for a maximum nominal value of up to €625m, representing 305% of the current issued share capital. As this exceeds recommended limits and would be highly dilutive for existing shareholders, the Fund decided to oppose the resolution. In addition, it was noted that there was insufficient representation on the Board to supervise the authority.

The Fund opposed the resolution

SHAREHOLDER LITIGATION

In addition to voting, the Fund works in partnership with a US lawyer and a class action monitoring agent to return value back to the Fund through litigation where shareholder value has been lost through fraudulent or irresponsible corporate behaviour. These partners are able to identify where litigation has been successful and submit claims on behalf of the Fund. As a result, during the three months to December 2012 more than \$21,000 has been recovered.

**Information related to voting is provided by PIRC in accordance with the Fund's template.*

Report to the Local Authority Pension Fund Forum
Business Meeting
20 March 2013



**Agenda
Item: 3**

Local Authority Pension Fund Forum
Draft Business Meeting Minutes
Wednesday, 23 January 2013

Minutes

1. Apologies

Received from:

Steve McManus	Derbyshire
Cllr Caroline Roberts	Gwynedd
Cllr John Chatt	LB Hounslow
Gerard Moore	ISLA representative
Cllr Alastair Bews	NE Scotland Pension Fund
David Murphy	NILGOSC
Jane Firth	SYPA
Cllr Martin Lawton	SYPA
Geik Drever	West Midlands Pension Fund
Catherine Dix	Wiltshire Pension Fund

Present:

Cllr Peter Brayshaw	LB Camden
Nigel Mascarenhas	LB Camden
Cllr Wyn Evans	Dyfed
Anthony Parnell	Dyfed
Mark Lyon	East Riding Pension Fund
Cllr Toby Simon	LB Enfield
Tom Harrington	Greater Manchester Pension Fund
Cllr Kieran Quinn	Greater Manchester Pension Fund
Jill Davys	LB Hackney
Howard Bluston	LB Harrow
Cllr Richard Greening	LB Islington
Keith Bray	LAPFF Officer
Cllr Nev Jackson	Lincolnshire CC
Clare Scott	Lothian Pension Fund
Cllr Cameron Rose	Lothian Pension Fund
Leanne Clements	LPFA
Mike Taylor	LPFA
Cllr Patricia Glasman	Merseyside Pension Fund
Owen Thorne	Merseyside Pension Fund
Cllr John Gray	LB Newham
Cllr Alec Kellaway	LB Newham
Alex Younger	Norfolk Pension Fund
Caroline Mann	North East Scotland Pension Fund
Tim Bush	PIRC Ltd
Ashley Hamilton	PIRC Ltd
Janice Hayward	PIRC Ltd
Alan MacDougall	PIRC Ltd
Tom Powdrill	PIRC Ltd
Tessa Younger	PIRC Ltd
Andy Hill	Teesside Pension Fund
Nick Buckmaster	LB Waltham Forest

Claire Duggan
Cllr Tersaim Singh
Rodney Barton
Ian Greenwood

West Midlands Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
West Yorkshire Pension Fund

2. Declarations of interest

None.

3. Approve Minutes of LAPFF Business Meeting held on 24 October 2012

TY raised some corrections sent in by Gerard Moore, ISLA representative as follows:

Item 3 should be 'Approve Minutes of LAPFF Business Meeting held on **11 July** rather than 24 October 2012.

Item 16 to be changed to: 'Gerard Moore advised the meeting that **the FRC (replace with ISLA)** would be publishing a paper on voting and securities lending.

The minutes were agreed subject to the above amendments.

There were no matters arising not covered on the current Business meeting agenda.

4. Note minutes of LAPFF Executive meeting held on 9 January 2013

Clare Scott asked what had been decided with regard to tobacco companies. The Chair advised that letters had been sent by LAPFF to request meetings with BAT and Imperial Tobacco to discuss their Public Health policies.

5. Note minutes from Executive strategy meeting held on 11 December 2012

The minutes were noted.

6. Forum's officers report

Keith Bray presented the report.

KB advised that since writing the report, he had been asked to speak at the SPS Conferences event 'Risk and Diversification strategies for Local Authority Pension Funds' which reflects the fact that LAPFF is increasingly being recognised as a leader in the field.

The report was noted.

7. Quarterly Engagement Report

TY presented the report.

The report was noted.

8. LAPFF Workplan 2013/2014

TY presented the report.

Owen Thorne asked whether it was possible to design a protocol for defining the percentage of LAPFF holdings in pooled funds.

AH advised at this time there was no protocol in place that would enable LAPFF holdings to be identified in pooled funds.

AM advised that PIRC as proxy advisers had been invited to attend the forthcoming FRC meeting on pooled fund voting, and he would be putting forward this issue.

With regard to the work plan stream on Energy, Carbon and Environmental Risk Management, Cllr Nev Jackson asked whether companies declared how much emissions emanated from the transporting of fuel to the power stations. AH responded that emissions from transport of goods and services were usually covered in companies' responses to the Carbon Disclosure Project under Scope three emissions.

The work plan was approved.

9. Reliable accounts: strategy for 2013 engagement

TB presented the report.

The recommendations were agreed.

10. Shale Gas & Hydraulic Fracturing in the UK Member Briefing

AH presented the report.

The Chair congratulated AH for an excellent report.

Cllr Cameron Rose stated that there is wildly conflicting information available and that LAPFF should not take a position until things become clearer.

AH advised that the Geological Society report estimating total shale gas resources in the UK has yet to be published which will give further information on which to base LAPFF policy.

Cllr Toby Simon asked whether LAPFF should engage with National Grid, Transco. The Chair responded that this engagement would take place at a later stage.

Clare Scott asked whether BG Group was widely held among LAPFF members.

AH responded that there were significant holdings across LAPFF members in BG Group. 27 of the 31 funds that reported their holdings directly own approximately 44.5 million shares, representing 1.23% of outstanding shares. It is estimated that members also hold several million more shares indirectly through pooled funds and indirect investments.

Discussions took place with members regarding the uncertainty of the impact of fracking on drinking water and the risk of contamination.

AH advised that the chances of contaminants entering the water table through underground fracking is remote, as fracking takes place several hundred metres below the water table. Fracking fluid may enter into unidentified fault lines and migrate into drinking water, however this is highly unlikely. The most likely source of contamination is from surface level spills (through transportation or storage of fluids and wastewater), or water migration as a result of poor quality cementing of wells or well damage due to seismic activity.

11. Executive Pay Action Plan

The report was noted.

12. Any other business

Gerard Moore has asked that the following be noted under AOB:

The ISLA paper for beneficial owners "Securities Lending and Voting" can now be accessed via the LAPFF website. It is recognised that more work generally, as indicated elsewhere on this agenda, may be required on the issue of voting in respect of holdings in pooled vehicles. ISLA will be meeting with the ICGN in February to compare notes".

The date of the next LAPFF business meeting is Wednesday 20 March 2013.



Global Reach

The 2012 annual report of the LAPFF

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1 Chairman's Statement



Our mission

LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting social responsibility and high standards of corporate governance at the companies in which they invest. Formed in 1990, the Forum currently brings together a diverse range of 55 local authority pension funds with combined assets of over £115 billion.

This year has seen an unprecedented focus on the role of shareholders as owners of companies, with the so-called 'shareholder spring' in the UK attracting global media attention. This is an area where the Forum has long been active, but, looking back on the last twelve months, I think we can see that LAPFF's influence is growing, both on policy questions and in relation to specific companies.

In policy terms, an important development has been the Government's decision to bring in a new binding shareholder vote on company remuneration policies. The Forum strongly endorsed this reform and was therefore very pleased to see the Government persevere with its introduction despite opposition from some business lobby groups and, more surprisingly, some investors. With the Forum planning further work on executive pay, I hope we can have further success in influencing the remuneration debate, but arguably our biggest influence on policy has been in relation to IFRS.

This is an issue where the Forum has been on the front foot and we have managed to build support for reform with other investors and amongst policymakers. It is very gratifying, for instance, to hear senior figures from the Bank of England and elsewhere acknowledge that they, too, believe that current accounting standards may not provide an accurate picture of a company's financial position.

Interestingly, I find that when we raise the question of IFRS with companies on whose financial reporting it has the greatest effect, they too share much of our analysis. The conclusion I draw from this is that we have produced a robust and well-evidenced argument that is now cutting through with all the key audiences – companies, shareholders and policy-makers. Now that we are winning the argument, the challenge ahead is to turn this into practical action.

LAPFF has also been active on specific company campaigns this year. The 'shareholder spring' saw a wave of large votes against companies over remuneration and other issues. The Forum was an active participant, publicly opposing a number of companies and attending their AGMs. We made the headlines for our opposition to Barclays' remuneration policy in April, and when we called for the bank's senior executives to have their pay clawed back when the Libor scandal broke.

In October the focus shifted to the US. LAPFF members had co-filed a resolution with US-based Christian Brothers Investment Services seeking the appointment of an independent chair at News Corporation. This was the culmination of a long-running engagement with the company which intensified when the hacking scandal exploded last summer. I travelled to Los Angeles to speak in support of the resolution

at News Corp's AGM. Ultimately, it received a large majority of the votes of independent News Corp shareholders. Once again the Forum's willingness to be at the head of an engagement campaign has paid dividends.

So, looking back on 2012, I think we should view this as a year in which the Forum's increased profile and membership can be seen to be turning into real influence in the market. Our stance on issues is always reasoned and reasonable, but we are also willing to put our shoulder to the wheel when we think change is needed. As we head into 2013, LAPFF is ready to lead from the front.

Ian Greenwood
Chair - Local Authority Pension Fund Forum

2 Achievements

Initiated intensive engagement with **91 companies**. Held **34 face-to-face meetings** and conference calls to discuss environmental, social and corporate governance (ESG) issues at companies.

Nearly **75%** of our engagement activity was conducted at **board level**, with chairmen, CEOs and non-executive directors.

Approximately **60%** of our activity resulted in a **positive outcome** during the year – either an agreement to enter into dialogue with LAPFF or moderate or substantial improvement to company practices.

Reached more than **650 companies** through collaborative investor initiatives on issues such as climate change, water management, forests and biodiversity, hydraulic fracturing, and environmental risks.

Shareholder resolutions were filed at **News Corporation** and **Société Générale** on the issues of appointing an independent Chair and establishing a two-tier board structure (respectively).

Met with the **UK banks** to discuss international financial reporting standards and raise concerns regarding the over-valuation of assets and the under-statement of liabilities.

Made significant headway in engaging with regulators on IFRS. Meetings were held with the **Bank of England**, the **Department for Business Innovation and Skills (BIS)** and the **Financial Reporting Council (FRC)**.

Engaged with 15 companies on governance issues that comprised the annual Global Focus List. **Goldman Sachs** agreed to increase its dividend following concerns raised by LAPFF regarding the distribution of profits. **Heineken** and **Afren** agreed to revise their remuneration practices after concerns were raised by LAPFF.

Issued voting alerts in advance of 12 company annual meetings. These included alerts at **Cookson** and **Barclays** on executive pay, at **ConocoPhillips** regarding greenhouse gas emissions targets, and at **News Corp** and **BSkyB** regarding director elections.

Met with companies in the transport sector to discuss climate change risks. Companies included **Rolls-Royce, Renault, Fiat, Daimler, Stobart, easyJet** and **International Consolidated Airlines Group**.

Continued LAPFF's long-standing engagement with **BP** and **Shell**, where meetings were held to discuss health and safety and environmental management in Nigeria respectively.

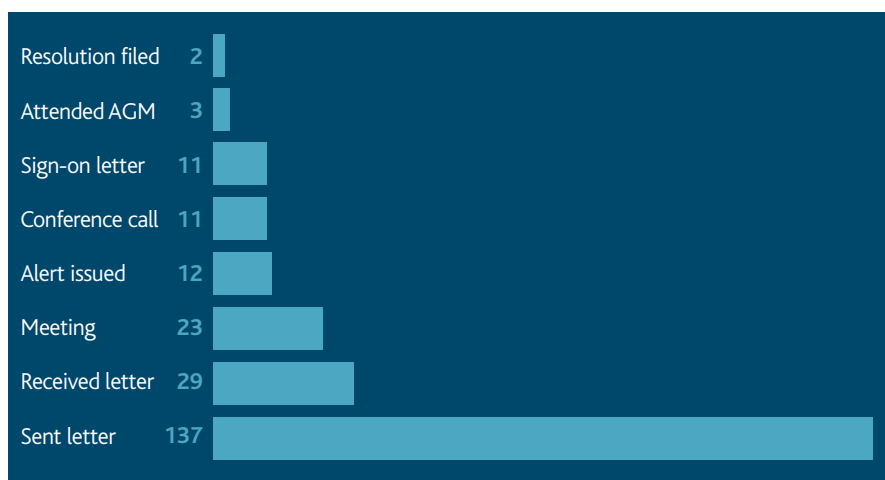
Issues related to labour rights were addressed in meetings and correspondence with several companies, including **Lonmin, National Express, Deutsche Telekom** and **Carnival**. LAPFF also discussed sustainable supply chain management with **Kingfisher, Reckitt Benckiser** and **Marks & Spencer**.

Submitted ten individual consultation responses and a further two joint responses on issues ranging from audit practices, executive remuneration, board diversity, the Stewardship Code, and narrative reporting.



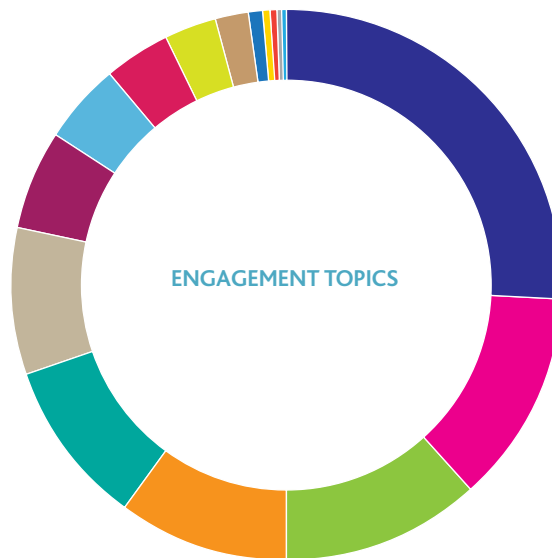
Chairperson	102
Specialist staff	46
Non-executive director	40
Executive director or CEO	27
Other	13

ACTIVITIES





Change in process	35
Awaiting response	25
Satisfactory response	24
Dialogue	10
Moderate improvement	9
Substantial improvement	5
No improvement	7



Board composition	76
Governance (general)	36
Climate change	34
Reputational risk	30
Remuneration	28
Environmental risk	25
Employment standards	17
Audit practices	14
Finance & accounting	11
Supply chain management	9
Other	6
Shareholder rights	2
Social risk	2
Human rights	1
Incentivising executives	1

MEDIA COVERAGE

From Barclays to BSkyB, LAPFF received significant media coverage this year on issues like executive pay, international accounting standards, director elections, audit practices and board diversity. The Forum has been featured in global press reports, both print and television, from media organisations such as BBC News, the Financial Times, Bloomberg, Reuters, and the Wall Street Journal.

In addition, LAPFF is approached frequently by journalists and commentators for our views on issues related to investor stewardship, governance and corporate responsibility. Some highlights from the year are as follows.

Support for independent chair at News Corp	Bloomberg Business Week BBC News The Telegraph Sydney Morning Herald Financial News
Barclays' executive pay and Libor scandal	Bloomberg Financial Times ITV News The Guardian
LAPFF backs 30% Club Investor Group	aiCIO Investment & Pensions Europe (IPE)
Accounting failures helped create the financial crisis	Professional Pensions Financial News Bloomberg Financial Times
Pension funds seek distance between and hacking scandal	The Independent BSkyB Reuters Wall Street Journal

MEDIA COVERAGE (%)



ISSUES IN THE MEDIA (%)



3 Governance and Membership

The Executive Committee

At the 2012 AGM, LAPFF welcomed new members to the executive committee: Cllr Richard Greening of Islington Pension Fund, Mike Taylor of the London Pension Fund Authority, and Councillor Kieran Quinn of Greater Manchester Pension Fund. The Forum benefited from the participation by all three in corporate engagements during the year. Councillors Neil Fletcher of North East Scotland Pension Fund and Jim Middleton of Greater Manchester retired from the executive this year. Both had been executive members since 2008 and their substantial contribution to LAPFF since that time has been much appreciated.

Brian Bailey, the Honourable Treasurer, also retired this year. Brian has played an instrumental role in the Forum since its inception in 1990. His ongoing commitment and enthusiasm has been an immense benefit to LAPFF, and his vision and leadership will be missed. In April, the Forum was pleased to welcome Geik Drever as Honourable Treasurer from the West Midlands Pension Fund, taking over from Brian.



Chair, Ian Greenwood
West Yorkshire Pension Fund



**Deputy Chair
Cllr Cameron Rose**
Lothian Pension Fund



**Deputy Chair
Cllr Peter Brayshaw**
London Borough
of Camden



**Executive,
Cllr Kieran Quinn**
Greater Manchester



**Executive,
Cllr Richard Greening**
Islington
Pension Fund



**Executive,
Rodney Barton**
Director,
West Yorkshire
Pension Fund



Executive, Mike Taylor
Chief Executive,
London Pension
Fund Authority



**Executive,
Cllr Toby Simon**
London Borough of
Enfield



**Executive,
Cllr Geoffrey Watt**
Merseyside Pension
Fund



**Executive,
David Murphy**
Chief Executive
and Secretary,
NILGOSC



**Honorary Treasurer
Geik Drever**
West Midlands
Pension Fund

Research and Engagement Partner:



Forum Officer:

Keith Bray
Local Authority Pension Fund Forum

LAPFF GOVERNANCE

The executive committee is responsible for prioritising LAPFF's goals and objectives, and allocating time and resources to the Forum's research and engagement partner, PIRC Limited. The workplan, approved in January 2012, set out the main focus of engagement work for the year: key campaigns with the banking sector, corporate governance reform, governance standards in the media sector, and continued work on climate change and employment standards. In response to member interest, and in an effort to position the Forum at the forefront of new and cutting-edge issues, the LAPFF stepped up its campaign to highlight the risks inherent in the application of international financial reporting standards (IFRS). It also invested time into exploring the link between people and investment value through the 'employee value proposition'.

Gwynedd Pension Fund joined the Forum during the year, bringing LAPFF membership to 55 funds from across the UK. Member funds meet quarterly at the business meetings to review LAPFF activities and progress, and receive updates on the latest issues and trends in corporate governance, sustainability and responsible investment. Additionally the quarterly meetings provide the opportunity for discussion and debate on topics such as Hutton and LGPS reform, and allow members to share their views and experiences.

Members have access to a variety of speakers that present on issues important and relevant to local authority pension funds. External speakers this year included Daniel Summerfield of USS on hedge fund strategies and governance, the Centre for Local Economic Strategies on pension funds and investing for growth, and Helen Wildsmith of CCLA on engaging companies on the transition to a low-carbon economy.

COMMUNICATIONS

During 2012, LAPFF issued its first public report summarising the Forum's engagement with companies. Making the *Quarterly Engagement Report* a public document serves to demonstrate the Forum's commitment to the principles of stewardship and transparency. It also provides members with a tool for engaging with their own investment managers and beneficiaries, and to demonstrate the value of each funds' membership in LAPFF. The website is undergoing changes in order to provide better design and functionality to reach out to and engage with LAPFF members and the public on issues of interest to the Forum. Member funds receive a monthly bulletin via email and hard copies of our quarterly newsletter

4 Leadership from the Forum



The Forum led the call for the resignation of James Murdoch from the board of BSkyB following the phone hacking scandal, and for the separation of the joint Chair/CEO role at News Corporation

During 2012, LAPFF led a number of campaigns seeking improvements in corporate governance and sustainability. The 'shareholder spring' dominated the proxy season with a number of high profile defeats of UK companies' remuneration reports. LAPFF has consistently called for better alignment between pay and performance, and this year it issued several voting recommendations to oppose company pay reports, including at Barclays and Cookson.

Media standards, phone hacking, and effective board governance also featured prominently in LAPFF's work this year. The Forum led the call for the resignation of James Murdoch from the board of BSkyB following the phone hacking scandal, and for the separation of the joint Chair/CEO role at News Corporation. A resolution co-filed at News Corporation by LAPFF members received more than two-thirds support from independent shareholders at the company's annual meeting.



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THE SHAREHOLDER SPRING VOTES AGAINST REMUNERATION	
Central Rand Gold	75%
AEA Technology	71%
Cairn Energy	67%
Pendragon	67%
Centamin	63%
WPP	60%
Darty	58%
Aviva	54%
Barclays	32%
Cookson Group	32%

A resolution to the Société Générale AGM, co-filed by LAPFF member, West Yorkshire, also addressed the ongoing concern of the concentration of power at the head of the company. The resolution received 25% support.

Networking and monitoring trends and developments has ensured LAPFF is apprised of reactions and commentary from government, regulators, investors and other stakeholders on the topics of interest to our members. LAPFF was represented at numerous events hosted by organisations such as the Aldersgate Group, the UK Sustainable Investment and Finance Association (UKSIF), Food Ethics Council, Carbon Disclosure Project, Principles for Responsible Investment, and the International Integrated Reporting Council. The Forum also participated in a number of investor briefings including on BP, HSBC, Marks & Spencer, and News Corporation.



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5 Promoting Good Governance



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The Forum is of the view that problematic standards within IFRS contributed to a systemic problem, whereby banking companies were able to overstate their assets and understate their liabilities...



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FINANCE & ACCOUNTING

Following the publication of the groundbreaking report (*UK and Irish Bank Capital Losses – Post Mortem*) highlighting the role that international accounting standards has had on the collapse of the UK and Irish banks, LAPFF stepped up its engagement this year.

The Forum is of the view that problematic standards within IFRS contributed to a systemic problem, whereby banking companies were able to overstate their assets and understate their liabilities on an ongoing basis starting in 2005, when IFRS came into force in the UK and Ireland. Standards were copied into UK GAAP by the Accounting Standards Board. In the banking sector, this had a snowball effect, allowing banks to take on more and more debt without sufficiently accounting for the risks in the underlying assets and loans. In simple terms, the accounts were masking the fact that banking assets were insufficient to settle their creditors. The accounting was disguising insolvency.

With this research in hand, LAPFF made a clear public statement as to how much it felt that banks were still overvaluing assets. This explained why particular banks' shares were trading at a considerable discount to the net asset value according to IFRS accounting. LAPFF then initiated engagement meetings with all the large UK banks to canvas their views on LAPFF's conclusions and on the unique application of IFRS at each company.

The meetings took place in the summer and autumn of 2012 amid a growing storm of controversy surrounding banks as a result of various scandals including Libor and payment protection insurance, as well as escalated public and investor outcry over CEO pay in the banking sector. The meetings were friendly and productive, allowing the banks to explain their positions with regard to IFRS and how they provide for deficiencies in IFRS within their financial statements given that the law and IFRS have diverged. The meetings also provided LAPFF with a more complete picture of how IFRS has impacted the banking sector as a whole, as well as its effect on each individual bank.

GLOBAL FOCUS LIST

This year, LAPFF undertook an analysis of nearly 1,000 global companies to evaluate corporate governance performance against best practice criteria. As in previous years, low-scoring companies, ie, those with poor performance, are selected for engagement in advance of their annual meeting. For the 2012 proxy season, LAPFF selected fifteen companies, five each from the UK, US and EU to engage on a variety of issues including executive remuneration, board independence, audit practices and shareholder rights.

There were a number of successes this year. After an initial conference call with Goldman Sachs on remuneration and separation of chair and CEO, the discussion moved to the issue of distribution of profits between directors, employees, dividends and cash reserves. During follow-up correspondence, LAPFF was pleased to learn that **Goldman Sachs** agreed to increase its dividend to shareholders by 31%. Other successes followed including **Heineken** agreeing to improve disclosure of remuneration performance targets and **Danone** making notable improvements in setting the performance criteria for its executive remuneration.

Engagement with **Afren** resulted in some progress following the defeat of the company's remuneration report at the 2011 annual meeting. It became clear from our meeting that this fast-growing company was slowly improving its governance so as to be more in line with its peers. As a result of changes to its remuneration scheme, the remuneration report was approved in 2012, although 29% of shareholders still expressed dissatisfaction.



2012 GLOBAL FOCUS LIST

- 1 Afren Plc (UK)
- 2 Berkeley Group (UK)
- 3 Cable & Wireless (UK)
- 4 Meggitt Plc (UK)
- 5 Whitbread Plc (UK)
- 6 ConocoPhillips (US)
- 7 Goldman Sachs (US)
- 8 JP Morgan Chase (US)
- 9 Qualcomm (US)
- 10 Flir Systems (US)
- 11 Danone (France)
- 12 Heineken (Netherlands)
- 13 Intesa Sanpaolo (Italy)
- 14 Nokia (Finland)
- 15 Repsol (Spain)

BOARD DIVERSITY

LAPFF added its voice this year to a growing chorus of investors seeking greater diversity on corporate boards. The recommendations of the Davies Review, which invited companies to achieve 25% female representation on their boards by 2015, have started to gain momentum. LAPFF has become an investor supporter of the 30% Club, an initiative to encourage company chairmen to take steps to improve board diversity.



In addition to supporting the 30% Club Investor Group, LAPFF separately wrote to 36 FTSE 350 companies asking for them to voluntarily improve the diversity of their boards. We are pleased to report that three of the 36 companies have since appointed a new female director. Of the written responses received, all were generally supportive of the Davies recommendations; however, most companies had not set explicit targets for achieving change. Just two of the companies that replied to LAPFF's letter, **Greggs** and **Vodafone**, indicated they were setting clear targets for achieving greater diversity.

Board diversity was also addressed at a number of face-to-face meetings when board strategy and succession planning was under discussion, such as with **Meggitt** and **National Express**.



6 People and Investment Value



LAPFF's view is that companies should work hard to ensure employees will choose to work for them over competing alternatives; that employees will stay with them and give their discretionary effort towards achieving the company's objectives. We describe this as the 'employee value proposition'.

After completing some initial investigations in 2011 into how companies use non-financial factors to remunerate executives, the Forum felt it was time to examine a different approach to the issue of incentivisation. Therefore, this year, LAPFF undertook an ambitious project to answer the question: "What motivates people to perform at a high level within companies?" It is a question that companies are rarely (if ever) asked by their shareholders.

LAPFF's view is that companies should work hard to ensure employees will choose to work for them over competing alternatives; that employees will stay with them and give their discretionary effort towards achieving the company's objectives. We describe this as the 'employee value proposition'.

Companies that craft persuasive employee value propositions have an opportunity to turn their executives and staff into advocates that will be prepared to give every effort to meeting the firm's objectives. This strategy of incentivisation may prove to be more effective than current approaches to remuneration and human capital management, and may serve to benefit both the companies and their shareholders.

LAPFF published a report highlighting how trustees and asset managers can more closely examine the link between people and investment value. It will form the basis of LAPFF's future engagement with companies



The guide highlights how investors can distinguish between companies with compelling employee value propositions and those with weak ones. It provides a platform for encouraging companies to achieve better operating and stock performance through better human capital performance.



7 Environmental Stewardship



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Continuing actions to address environmental risks in the oil and gas sector, the Forum signed a collaborative letter coordinated by Ceres to relevant companies expressing concern regarding the environmental and financial impact of gas flaring at hydraulic fracturing operations.

ENVIRONMENTAL RISKS IN OIL & GAS

LAPFF first started engaging with **Royal Dutch Shell** in 1995, at the height of the controversies surrounding the Brent Spar incident in the North Sea and Ken Saro-Wiwa's death in Nigeria. At the time, LAPFF expressed concern regarding the company's handling of the risks in Nigeria and advocated in favour of adopting a policy for operating in countries where the risk of human rights abuse was high. Shell continues to hold significant assets in Nigeria and faces legacy risks as a result of pipeline leakages and the illegal trade in crude oil that still permeates Ogoniland today. Following on the longstanding relationship the Forum has had with Shell, LAPFF met with the Nigerian managing director in 2012 to discuss the findings of a United Nations report pointing to poor management of environmental clean up in the region. While LAPFF was assured of improvements the company had made in terms of the rigour applied in addressing spills and their effects, the Forum considers that Shell has outstanding issues to address that represent a reputational risk to the company.

BP has also featured prominently in LAPFF's engagement history and this productive dialogue continued in 2012 as LAPFF met Carl-Henric Svanberg for the second time since his appointment as chairman in 2010. Following previous discussions regarding the Gulf of Mexico disaster, an update was provided on how the company is reorganising its processes to place a greater emphasis on health and safety controls and risk management. LAPFF expressed its concern that the company had failed to fully integrate the US arm of its operations into the global culture of the company and pressed the company to expedite changes to better integrate the North American operations within the global management structure.



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Continuing actions to address environmental risks in the oil and gas sector, the Forum signed a collaborative letter coordinated by Ceres to relevant companies expressing concern regarding the environmental and financial impact of gas flaring at hydraulic fracturing operations. Specific concerns included the impact on air quality, contributions to increasing carbon emissions, and lost revenue as a result of flaring. Discussions were held with other investors to explore more targeted engagement with specific companies.

TRANSPORT SECTOR AND CLIMATE CHANGE

LAPFF's work to encourage companies to address climate change-related risks continued this year with a focus on the transport sector. It is estimated that transport contributes to approximately 15% of global greenhouse gas emissions worldwide. In meetings with major car manufacturers, including **Renault, Fiat** and **Daimler**, LAPFF advocated for companies to undertake innovative strategies to capitalise on low-carbon technologies, such as hybrid, hydrogen and electric technologies. From the meetings there was no clear consensus as to which vehicle technology will come out the winner; however, the companies are trying to position themselves to benefit commercially.

The challenge is balancing consumer price and quality expectations, infrastructure limitations and the speed of innovation while also striving to meet strict EU emissions standards.

For trucking firm **Stobart Group**, improved environmental performance is well-aligned with the company's commercial desire to keep costs low for its customers – mostly large retailers that need to distribute goods to stores across the country. Stobart incentivises drivers based on their driving habits and petrol use and is experimenting with bringing produce from the south of Spain by rail in order to improve energy efficiency. Improving energy efficiency in the airline industry is significantly more challenging, particularly as air passenger travel is expected to grow by over 50% by 2020. Many low-cost airlines such as **easyJet** are already using newer and more efficient planes and operating with high passenger loads. Therefore, improvements in the sector are incremental. Meetings with **easyJet** and **International Consolidated Airlines Group** (the trading company of British Airlines and Iberia) highlighted the challenges of improving airline efficiency in light of today's plane technology and passenger loads.

Engine efficiency was highlighted by the airlines as one key to improving air transport emissions. In a meeting with **Rolls-Royce** in September, LAPFF explored the opportunity for engine manufacturers to contribute to aviation emission reductions. Rolls-Royce has been one of the leaders in developing more efficient technologies, and its share price has been uplifted this year as a result of orders for its latest airline engine which produces less emissions and less noise than its competitors.

8 Managing Social Risks



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...the Forum responded swiftly upon hearing of the deadly strike at Lonmin's South African mine, Marikana.

SUSTAINABLE SUPPLY CHAINS

Since 1993, LAPFF has been engaging with companies on labour standards in overseas supply chains. This work started with efforts to convince companies to develop and publish supplier codes of conduct addressing labour standards in their international supply chains. Engagement continued in 2012 as LAPFF wrote to seven companies regarding the sustainability of their supply chains. Both industry leaders and sector laggards were targeted in an effort to improve corporate disclosure and board oversight of supply chains to ensure they are managed sustainably and with due regard to good labour practices.

Long considered a leader in this area, LAPFF met with **Marks & Spencer** to discuss the company's implementation of its ambitious plan A, as well as to talk about the living wage, supplier factory audits and responsible sourcing of palm oil. Similarly, a meeting with **Kingfisher** (parent company to **B&Q**) focused on the steps the company is taking to improve communication of its sustainable supply chain initiatives to investors. Kingfisher is focusing on improving the forest product supply chain and addressing labour standards compliance within its supply chain.

Reckitt Benckiser is also implementing an ambitious sustainability plan over the next few years. LAPFF encouraged the company to improve the disclosure of supply chain audit practices, including audit results and remedial actions to address labour standards violations. At **Diageo**, sustainable supply chains starts at the farm level, with a significant proportion of the company's raw materials coming from Africa. The meeting with Diageo focused on relevant standards within the company's agricultural supply chain, as well as on the company's reliance on water as a critical input to the production process.

The Forum's five-year research and engagement programme related to obesity, associated regulatory initiatives and consumer preferences came to a close with a meeting with **Greggs**. The company provided a clearer understanding of the resources devoted to these issues and the clear link to company business strategy. To remain abreast of investor concerns on these issues, LAPFF has participated in the development of the Access to Nutrition Index which will rate the world's largest food and beverage manufacturers on their nutrition-related policies, practices, and performance.

EMPLOYMENT LABOUR STANDARDS

Engagement also continued in 2012 to encourage companies to apply fair labour standards across their operations. The Forum met **National Express** for a second time regarding allegations of anti-union behaviour at the company's US operations and to emphasise the benefits of a consistent approach to employee relations in the UK and the US. LAPFF also wrote to **Deutsche Telekom** raising similar concerns regarding its takeover of T-Mobile in the US.

Health and safety was of top concern following the Costa Concordia accident, and LAPFF wrote to **Carnival's** CEO expressing condolences and seeking further engagement regarding the company's application of best practice health, safety and labour standards in respect of the ILO Maritime Convention.

Finally, the Forum responded swiftly upon hearing of the deadly strike at **Lonmin's** South African mine, Marikana (*pictured above*). In a letter to the chairman in August, LAPFF urged the company to call in a third-party negotiator to reach a settlement, and to take steps to implement best practices regarding security and human rights. The company promptly responded to LAPFF's letter outlining its position regarding the strike and indicating it was taking the matter seriously. Tragically, 35 people were killed and dozens were injured when police clashed with striking workers at the mine. The mining sector looks to be facing a prolonged period of industrial unrest in South Africa in the year ahead.



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9 Regulations and Policy



...policy announcements from the new Prudential Regulatory Authority of the Bank of England are entirely consistent with the LAPFF analysis, and have gone so far as to suggest that the time has come to ignore IFRS in valuing bank assets.

After launching its report (*UK and Irish Bank Capital Losses – Post Mortem*) in December 2011, LAPFF made significant progress in engaging regulators and policy makers on the issue of international accounting standards and risks to investors. As part of this effort, LAPFF collaborated with nine other large investors, and met with representatives from the Department of Business Innovation and Skills (BIS) and the Financial Reporting Council (FRC) to raise the issue. This collaborative group of institutional investors are also pushing for regulatory reform, and have asked for an independent enquiry into how faulty standards came to be adopted in the UK in the first place.

In evidence given to the House of Lords, it is clear that the Financial Reporting Council, the FSA and some of the 'Big 4' accounting firms have consistently denied that there was a problem with IFRS. However, policy announcements from the new Prudential Regulatory Authority of the Bank of England are entirely consistent with the LAPFF analysis, and have gone so far as to suggest that the time has come to ignore IFRS in valuing bank assets. Statements from the Bank of England include the opinion that the real economy is being hampered by dysfunctional banks which are holding back lending. The Bank of England has stated that the banks still need to raise new capital in order to lend properly, but will be unable to do so on the faulty IFRS numbers. Considering these new developments, this issue is expected to feature prominently in LAPFF's work in 2013.

As in previous years, LAPFF also submitted papers in response to government consultations. Most notably, LAPFF submitted a paper to Professor John Kay, who sought evidence to inform his view on UK capital markets and long-termism. In response to BIS, the Forum raised concerns regarding the off-loading of auditors' and directors' duties in the government's proposals for 'narrative reporting'. The Forum called for stricter listing rules in its response to FTSE regarding thresholds for free-float, highlighting that current thresholds are far too low to ensure company accountability to shareholders. The Forum also participated in a group submission to the UK Listing Authority, co-ordinated by USS, supporting the upholding of minority rights and proposing amendments to listing rules for additional investor protection. Finally, LAPFF collaborated with the 30% Club to respond to the EU consultation on gender diversity to advocate in favour of voluntary measures to improve the number of women on boards.

A number of policy positions advocated by LAPFF over the year in consultation responses have been included in regulatory outcomes, demonstrating that LAPFF is one among many investors pushing for effective corporate governance policies and regulations. For example, the following LAPFF positions have been adopted this year by regulators after open consultations:

- The introduction of mandatory carbon reporting from for UK listed companies;
- The creation of a binding vote on remuneration policies for UK companies;
- Proposals for single figure disclosure of total pay in the UK;
- The Ontario Securities Commission's decision to eliminate slate voting for directors;
- Modifications to US listing standards on the independence of compensation committee members; and
- US proposals to implement the Extractive Industry Transparency Initiative standards requiring disclosure of payments made by resource companies to government.

LIST OF CONSULTATION RESPONSES

- Amendments to The Toronto Stock Exchange Company Manual, Oct 2011
- BIS consultation on narrative reporting, November 2011
- BIS consultation on executive remuneration, November 2011
- Kay Review call for evidence, November 2011
- FTSE consultation on methodology and free-float threshold, November 2011
- BIS consultation on a binding vote for executive remuneration, April 2012
- EU consultation on gender diversity on corporate boards, May 2012
- Treasury Select Committee consultation on governance and executive remuneration, May 2012
- FRC consultation on the Stewardship Code, July 2012
- FRC consultation on the Combined Code and audit practices, July 2012

10 Collaboration



Consistent and credible reporting of environmental and social data is an increasingly important requirement for companies so that investors may take a full view of the related investment risks and opportunities.

LAPFF participated in a number of investor collaborative initiatives focusing on environmental risk and disclosure, namely the [Carbon Disclosure Project \(CDP\)](#), [CDP Water Disclosure](#) and the [Forest Footprint Disclosure](#) project. These initiatives seek disclosure of critical environmental performance data from companies so that their practices can be benchmarked and evaluated by investors.

Consistent and credible reporting of environmental and social data is an increasingly important requirement for companies so that investors may take a full view of the related investment risks and opportunities. To that end, LAPFF lent its support to a letter addressed to carbon-intensive companies (including oil and gas companies) asking for improved disclosure on climate change management and emissions.



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The Forum was also involved in several initiatives co-ordinated by the Principles for Responsible Investment, focusing on the issues of palm oil, labour standards, greenhouse gas emissions disclosure, water, and forestry. Finally, the Forum has been reaching out with like-minded investors to engage with both companies and regulators on issues related to audit and financial accounting. LAPFF signed several letters seeking swift reform to the audit process and mandatory auditor reporting, while also working with others to initiate changes to IFRS.



11 Member Support



The Forum also responded swiftly to emerging issues and concerns regarding governance and corporate responsibility, engaging in discussions with companies as critical issues emerged.

LAPFF exists to promote the interests of its members and devotes significant attention to addressing members concerns and needs. This year, members were keenly interested in taking a prominent public position on the issue of executive pay, particularly in the banking sector.

VOTING ALERTS

LAPFF issued several voting alerts throughout the proxy season to assist members in executing their stewardship activities during the year.

COMPANY	TOPIC
News Corporation (Sept 2012)	Election of directors, resolution on appointing independent Chair
RBS Group (May 2012)	Receive the annual report
HSBC Holdings (May 2012)	Election of directors
Intesa Sanpaolo (May 2012)	Vote on remuneration report, vote on pay plan/share repurchase
ExxonMobil (May 2012)	Resolution on greenhouse gas emissions
Cookson Group (May 2012)	Election of remuneration committee, vote on remuneration report
Société Générale (May 2012)	Resolution to separate supervisory and management boards
ConocoPhillips (April 2012)	Resolution on greenhouse gas emissions
Barclays (April 2012)	Election of directors, vote on remuneration report
Flir Systems (April 2012)	Election of directors
BSkyB (Nov 2011)	Election of directors

EMERGING ISSUES

The Forum also responded swiftly to emerging issues and concerns regarding governance and corporate responsibility, engaging in discussions with companies as critical issues emerged. For example, issue-driven engagement was initiated with Lonmin, Carnival and Barclays.

ADVICE & EXPERTISE

Members received cutting-edge research and expertise on audit and accounting practices, including the publication of the bank post-mortem report into why the banks collapsed. LAPFF's expertise on the issue of IFRS and risks in accounting practices has been sought out by MPs, regulators and the media and the Forum's work has gathered increasing interest from other institutional investors.

On securities lending, the Forum is represented by Gerard Moore, who co-chairs the International Securities Lending Association (ISLA) corporate governance sub-committee. Gerard provides updates to members and ensures relevant securities lending considerations are fed in to appropriate consultation responses.

SPECIAL PROJECT - INVESTING FOR GROWTH

In partnership with PIRC, the Smith Institute, and the Centre for Local Economic Strategies (CLES), LAPFF commissioned research to determine how funds can use their resources to deploy capital in ways that derive wider economic benefit. The study 'Local Authority Pension Funds: Investing for Growth' was presented to members in July. It was released publicly in September and presented at fringe meetings at the political party conferences.

MEMBER RESOURCES

Time was taken this year to collect the Forum's views on governance matters from the various position statements, consultations and trustee guides published over the years to compile a very comprehensive document of ESG policies. The document is a valuable resource for all members seeking information on the Forum's stance on everything from auditor independence, board diversity to reporting of carbon emissions.

An amended and updated version of the trustee guide 'Engaging with Fund Managers' was presented to members. The revised version took into account recent developments such as the UK Stewardship Code and the UN Principles of Responsible Investment (PRI). The principal function of the trustee guide is to enable funds to conduct periodic reviews of their asset managers' engagement activities, as well as their approach to environmental, social and governance (ESG) issues.

A 'mini-annual report' on the Forum's key activities and engagement outcomes was submitted to the Local Government Association (LGA). This report is required by the LGA Constitution for each of its 'special interest groups', of which LAPFF is one.

PRINCIPLES FOR RESPONSIBLE INVESTMENT

Finally, in response to the Principles for Responsible Investment (PRI) annual questionnaire, LAPFF provided members with an overview of engagement activities during the year. Each year, funds that are signatories to the PRI are asked to disclose their approach to responsible investment and stewardship. While the questionnaire was optional this year, it will become mandatory starting from 2013.

12 Annual Conference



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Each year, LAPFF hosts an annual conference for members to hear from high profile speakers, debate the latest corporate governance issues and network with other funds and investment managers. As with previous years, the 2011 conference was held in Bournemouth at the Highcliff Marriott Hotel.

Ken Olisa, former NED of Eurasian Natural Resources gave a sobering account of his time acting as an independent director of a UK-listed (but Russian-controlled) company, providing insight into board dynamics at a family-controlled firm.

Anne Richards of Aberdeen Asset Management and Abigail Herron of the Co-operative Asset Management talked about board diversity and recent initiatives to get more women on UK corporate boards. There was a panel on social impact investing and how to encourage pension funds to invest in small-scale, community-based businesses that have environmental or social benefits. Tim Bush of PIRC and Iain Richards of Aviva, discussed the risks of IFRS accounting and the analysis of the LAPFF report examining why the UK and Irish banking system collapsed.

On the second day, Neil Fletcher from the North East Scotland Pension Fund led a discussion of climate change with Mercer and Rockefeller Asset Management. Of particular interest were the insights of Rockefeller in engaging with the very company that created the Rockefeller empire – ExxonMobil.

The conference concluded with a fascinating and provocative presentation by Terry Smith of Tullet Prebon and Fundsmith. He vehemently opposes investing in index funds and recommended that “trustees toss quarterly performance reports in the bin”, urging delegates to choose a small portfolio of 20 companies, based on the identification of sound business practices and robust balance sheets.



13 Outlook for 2013



The Forum is undertaking a critique of current executive pay practices to provide a platform on which to base future engagement with companies, seek collaboration with other shareowners, and work with policymakers.

FOCUS ON HOLDINGS

LAPFF will continue to identify those companies most widely held by members to ensure engagement is both material and relevant to our members' financial holdings. This will, no doubt, continue to identify companies in the UK with which the Forum has engaged over a long period, but will also introduce some new companies, including those held widely by members in Europe, North America, Australasia and some emerging markets.

REMUNERATION

The Forum is undertaking a critique of current executive pay practices to provide a platform on which to base future engagement with companies, seek collaboration with other shareowners, and work with policymakers. Shaped by member input, the intention is to initiate discussions with other institutional investors regarding alternatives to current remuneration practices and to propose a new way forward.

CLIMATE CHANGE

LAPFF has long viewed climate change as a crucial investment issue, both on the macro-scale, in terms of its effects on markets, and at the individual company level where appropriate management can deliver long-term shareholder value. The Forum will move its engagement onto new ground, by participating in a collaborative engagement with UK listed extractive and utility companies. Additionally, following a meeting of the LAPFF chair with Donald Macdonald, the chair of the Institutional Investors Group on Climate Change, the Forum will explore opportunities to further a collective approach to engaging policy makers and European investors.

IFRS

LAPFF has played a lead role in bringing fundamental flaws in IFRS to the attention of investors, companies and regulators. The Forum will continue its engagement with companies and regulators, and will seek an independent inquiry into how the standards were adopted in the UK. As more information on the deficiencies of IFRS is revealed, it is expected that LAPFF will continue to make significant progress on this issue in 2013.

DIVERSITY

The deadline for achieving the voluntary targets set by the Davies review on board diversity will be approaching quickly as we move into 2013. Engagement arising from LAPFF's global focus list will include dialogue with some companies on how boards expect to meet the voluntary targets for women on the board. LAPFF will continue to collaborate with other investors in support of a voluntary approach to board diversity.

PEOPLE AND INVESTMENT VALUE

As part of an innovative project looking at how companies can best motivate their people to the benefit of the company, shareholders and the staff, the Forum is publishing a report on *People & Investment Value*. We expect this to provide a basis to engage with both companies and other investors on ways to achieve better financial and operating performance through innovative human capital management strategies.



14 Company Progress

COMPANY	TOPICS	OUTCOME	COMPANY	TOPICS	OUTCOME
Afren	Board composition, remuneration	Moderate improvement	Intesa Sanpaolo	Remuneration	No improvement
Agnico-Eagle Mines	Climate change	Satisfactory response	ITV plc	Board composition	Change in process
All American Latina Logistica	Climate change	Satisfactory response	JP Morgan	Governance (general)	Awaiting response
Antofagasta plc	Board composition	Change in process	Kesa Electricals plc (Darty)	Board composition	Change in process
Archer-Daniels Midland	Environmental risk	Awaiting response	Kingfisher	Supply chain, employment standards	Substantial improvement
Ashtead Group	Board composition	Moderate improvement	Kraft Foods Inc	Environmental risk	Awaiting response
Associated British Foods	Board composition	Change in process	Legal & General	Incentivising execs, remuneration	Moderate improvement
Barclays	Finance & accounting, reputational risk	Dialogue	Lloyds Banking Group	Finance & accounting, reputational risk	Dialogue
Berendsen	Board composition	Change in process	Lonmin	Human rights, employment standards	Awaiting response
Berkeley Group	Board composition, remuneration	Satisfactory response	Luxottica	Supply chain, employment standards	Awaiting response
Boeing Company	Climate change	Awaiting response	Marathon Oil	Environmental risk	Awaiting response
BP plc	Employment standards, environmental risk	Change in process	Marks & Spencer	Governance (general), social risk	Satisfactory response
British Sky Broadcasting	Board composition	Dialogue	McDonalds Corp	Environmental risk	Moderate improvement
Bunge Limited	Environmental risk	Awaiting response	Meggitt	Board composition	Substantial improvement
Cable & Wireless Worldwide	Remuneration, board composition	Change in process	Millennium & Cophorne Hotels	Board composition	Change in process
Capital Shopping Centres	Board composition	Change in process	Mitchells & Butlers plc	Board composition	Change in process
Carnival Corp	Reputational risk, employment standards	Dialogue	N Brown Group plc	Board composition	Change in process
Catlin Group Ltd	Board composition	Change in process	National Express	Employment standards, board composition	Awaiting response
Colt Group SA	Remuneration, board composition	Satisfactory response	News Corp	Board composition, reputational risk	Dialogue
Compass Group plc	Board composition	Change in process	Next plc	Board composition	Change in process
ConocoPhillips	Environmental risk	Change in process	Nokia	Governance (general)	Awaiting response
Cookson	Remuneration	Awaiting response	NYSE Euronext	Other	Awaiting response
Daily Mail & General Trust	Reputational risk, board composition	Change in process	Olam International Ltd	Environmental risk	Awaiting response
Daimler	Climate change	Satisfactory response	Pearson	Reputational risk	Satisfactory response
Dairy Crest Group plc	Board composition	Change in process	Power Assets Holdings	Climate change	Satisfactory response
Danone	Remuneration, board composition	Substantial improvement	Qualcomm	Board composition, remuneration	No Improvement
Danone	Environmental risk	Awaiting response	Randgold Resources Ltd	Board composition	Change in process
Deutsche Telekom	Employment standards	Dialogue	Reckitt Benckiser	Supply chain, employment standards	Satisfactory response
Diageo	Employment standards, environmental risk	Satisfactory response	Renault	Climate change	Satisfactory response
Easyjet	Climate change, governance (general)	Change in process	Repsol	Governance (general)	Awaiting response
Eiffage	Climate change	Satisfactory response	Rolls-Royce	Climate change	Satisfactory response
EOG Resources	Environmental risk	No improvement	Royal Bank of Scotland	Finance & accounting, audit practices	Dialogue
Essar Energy plc	Board composition	Change in process	Ryanair	Climate change	No Improvement
ExxonMobil	Climate change	No improvement	Savills plc	Board composition	Change in process
Fiat Spa	Climate change	Substantial improvement	Schlumberger Ltd	Reputational risk	Awaiting response
Firstgroup plc	Board composition	Change in process	Shell	Environmental risk	Moderate improvement
Flir Systems	Governance (general)	No improvement	Sika AG	Climate change	Satisfactory response
Fresnillo	Board composition	Moderate improvement	Société Générale	Board composition	Awaiting response
Gazprom	Remuneration, board composition	Satisfactory response	Standard Chartered	Finance & accounting, audit practices	Dialogue
General Mills, Inc	Environmental risk	Awaiting response	Stantec Inc	Climate change	Satisfactory response
Glencore International plc	Board composition	Change in process	Stobart Group	Climate change	Change in process
Goldcorp Inc.	Climate change	Satisfactory response	Tate & Lyle plc	Board composition	Change in process
Goldman Sachs	Remuneration	Moderate improvement	Teck Resources	Climate change	Satisfactory response
Greene King plc	Board composition	Change in process	The Paragon Group of Companies plc	Board composition	Change in process
Greggs	Board composition	Satisfactory response	The Restaurant Group	Board composition	Change in process
Halfords Group	Board composition	Satisfactory response	Total	Climate change, environmental risk	Dialogue
Heineken NV	Board composition, remuneration	Moderate improvement	Trinity Mirror	Reputational risk	Satisfactory response
Hewlett Packard	Governance (general),	Satisfactory response	UniCredit	Shareholder rights, remuneration	Awaiting response
Hikma Pharmaceuticals	Board composition	Satisfactory response	Vodafone Group plc	Board composition	Change in process
Home Retail Group plc	Board composition	Change in process	Walgreen	Supply chain, employment standards	Awaiting response
HSBC Holdings plc	Finance & accounting, reputational risk	Dialogue	Wal-Mart	Environmental risk	No Improvement
Husky Energy	Climate change	Satisfactory response	Wal-Mart Stores Inc	Environmental risk	Awaiting response
Inchcape plc	Board composition	Change in process	WH Smith plc	Board composition	Change in process
Informa	Board composition	Change in process	Whitbread	Remuneration, audit practices	Substantial improvement
International Consolidated Airlines Group SA	Board composition	Change in process	Wilmar International Ltd	Environmental risk	Awaiting response
Intertek	Board composition	Moderate improvement	Xstrata	Board composition	Change in process
			Yum! Brands Inc	Environmental risk	Awaiting response

15 List of Members

- Avon Pension Fund
- Bedfordshire Pension Fund
- Cheshire Pension Fund
- City of London Corporation
- Clwyd 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
- London Borough of Brent
- 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
- Lincolnshire County Council
- 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
- Shropshire Council
- Somerset County Council
- South Yorkshire Pensions Authority
- South Yorkshire Integrated Transport Authority
- Surrey County Council
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire County Council
- West Midlands Pension Fund
- West Midlands ITA Pension Fund
- West Yorkshire Pension Fund
- Wiltshire Pension Fund
- Worcestershire County Council



**Local Authority
Pension Fund
Forum**

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