

Wolverhampton City Council

**OPEN INFORMATION ITEM**

Committee / Panel	<b>PENSIONS COMMITTEE</b>	Date	<b>20 JUNE 2012</b>
Originating Service Group(s)	<b>PENSION SERVICES</b>		
Contact Officer(s)/ Telephone Number(s)	<b>GEIK DREVER 2020</b>		
Title/Subject Matter	<b><u>COMBINED GOVERNANCE ACTIVITY JUNE 2012</u></b>		

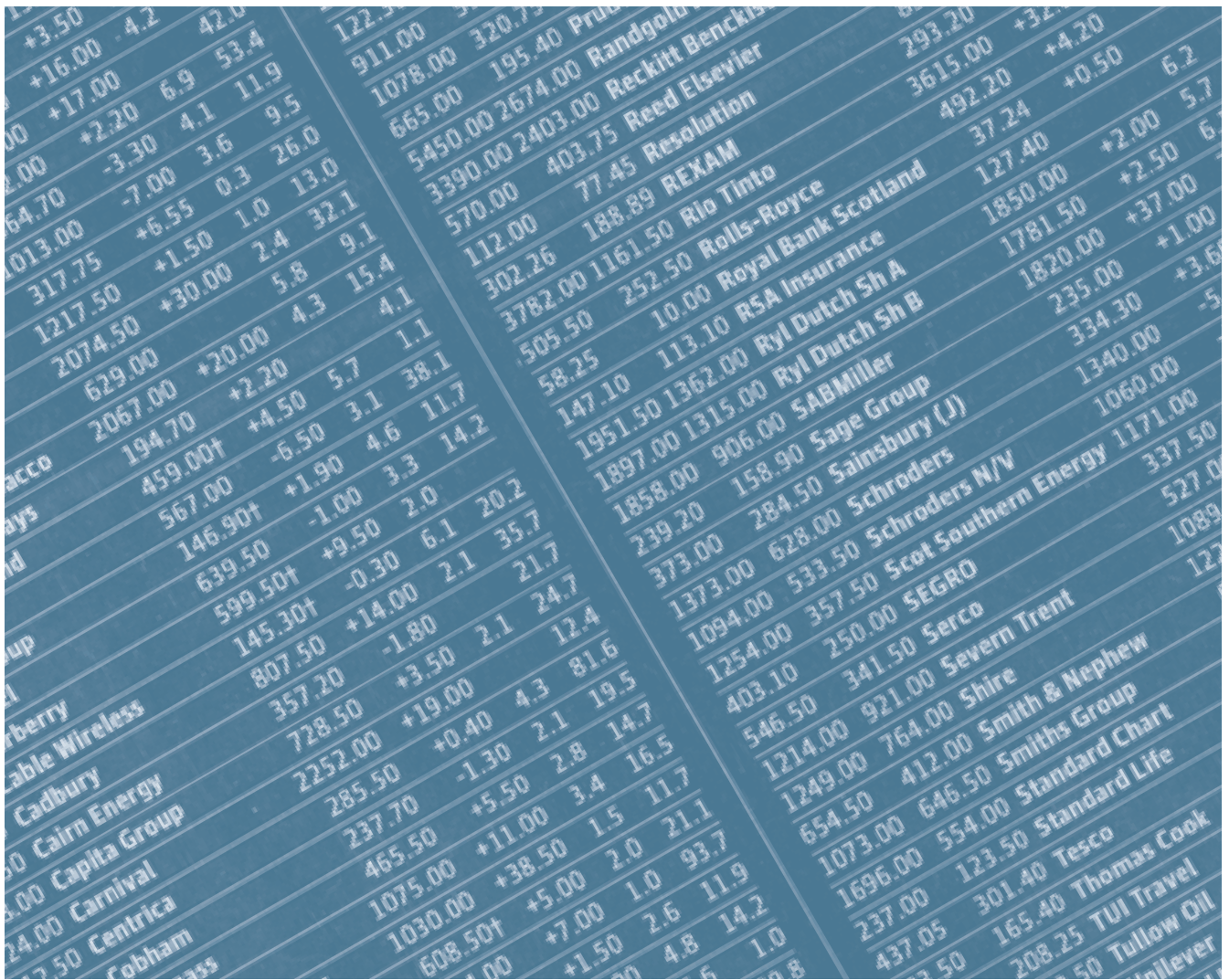
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1. **PURPOSE OF REPORT**

1.1 This report is submitted for Members' information. It provides an outline of the current issues being raised by the Local Authorities Pension Fund Forum, and the West Midlands Pension Fund's proxy voting activity for the quarter to 31st March 2012.

2. **RECOMMENDATIONS**

2.1. Members are requested to note the report.



# Combined Governance Report

## June 2012

WEST MIDLANDS



PENSION FUND

# Combined Governance 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 21st March 2012. Also attached are the latest bulletins to members and the Spring Newsletter.

## BACKGROUND TO LAPFF

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 42 company meetings – 20 UK, 4 European, 17 US and 1 Japanese. In respect of these meetings (a mixture of EGMs and AGMs) the Fund opposed, abstained or withheld\* 125 resolutions out of a total of 433, representing approximately 29% of all resolutions. During this period there were 7 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 bye-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
Lonmin	AGM	Issue shares with pre-emption rights	32%
Mitchells & Butlers PLC	AGM	Authorise share repurchase	31%
Lonmin	AGM	Re-issue of treasury shares pre-emption rights disapplied	21%
Aberdeen Asset Management PLC	AGM	Approve the Remuneration Report	15%
Mitchells & Butlers PLC	AGM	Re-elect Douglas McMahon	13%
Mitchells & Butlers PLC	AGM	Re-elect Ron Robson	13%
WH Smith PLC	AGM	Approve annual share incentive plan	12%
Euromoney Institutional Investor PLC	AGM	Re-elect Sir Patrick Sergeant	12%

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 overleaf:

## Combined Governance Report

### LONMIN PLC (AGM)

Following the guidance of the Rights Issue Review Group, the company sought authority to issue shares with pre-emption rights and treasury shares. In the case of the ordinary shares, authority was limited to one third of issued share capital and two thirds of issued share capital if the issue was in connection with a pre-emption rights issue. The authority to reissue treasury shares was limited to 5% of issued share capital. Whilst the proposals received a high level of opposition, it was felt that there was sufficient independent supervision in place on the Board to monitor the use of the authority. Additionally, the authority that was sought was within recommended guidelines and the company has made a commitment to the annual election of directors. Therefore, the Fund was able to support the resolution.

#### The Fund supported the resolution

### MITCHELLS & BUTLERS PLC (AGM)

The company are seeking permission to buy back their shares, this can only be authorised by a Special Resolution. Although authority has been limited to 10% of the issued share capital (within the guidelines) and also a time restraint of 1 year, the company have not provided any assurance this will be taken into account when setting incentive awards.

#### The Fund opposed the resolution

Non-Executive directors Ron Robson and Douglas McMahon were standing for re-election. Neither was considered independent as they are appointees of major shareholder Piedmont Inc who own almost 23% of the shares. Moreover, there are insufficient independent directors on the board and Mr McMahon has been absent from two board meetings out of a total of eleven which could indicate time commitment issues.

#### The Fund opposed the resolutions

### ABERDEEN ASSET MANAGEMENT PLC (AGM)

The resolution to approve the remuneration report proved to be controversial at the AGM of fund management company Aberdeen Asset Management. Although 75% of the annual bonus was deferred into shares for three years, the size of the award received was based on performance for just one year.

Additionally, the remuneration committee increased the size of the bonus pool during the year following successful financial results however this was carried out without proper quantification of the pay-outs.

Although 75% of the annual bonus is deferred into shares for three years, the size of the award received would only be based on performance during one year and therefore raises concerns over the short-termism of such incentive arrangements.

#### The Fund opposed the resolution

### WH SMITH PLC (AGM)

The board wanted to introduce a new long term incentive plan where Executive Directors and members of the senior management team would be invited to invest part of their annual bonus in purchasing ordinary shares of the company. There were restrictions on value to be purchased as well as a number of time constraints built into the plan. At the end of the period the company would grant matching awards at a ratio of 2 times the amount of the bonus required to buy the shares. The performance conditions were based on earnings per share over a performance period of 3 years.

The remuneration committee retained the power to amend the plan which will be in place for ten years without shareholder approval. This proved to be a major concern. In addition, only one performance condition was to be applied and no reference was made to any peer group comparison. There was no absolute limit to the award and also there was no additional holding period beyond the 3 years.

#### The Fund opposed the resolution

### EUROMONEY INSTITUTIONAL INVESTOR PLC (AGM)

Non-Executive Director Sir Patrick Sergeant was standing for re-election. As he is a former executive director and has served on the board for forty years he is not deemed to be independent. He is currently the president of the company he founded in 1969. In addition he has a contract that can be terminated immediately but allows 12 months of expense allowance. Furthermore, there are insufficient independent directors on the board.

#### The Fund opposed the resolution

# Combined Governance Report

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## OVERSEAS ISSUES

### BANCO SANTANDER (AGM) – SPAIN

Remuneration was an issue at the AGM of the Spanish banking group Banco Santander. Although the company remuneration has not changed substantially in the past year, disclosure of the amounts awarded to individual executives and severance agreements, exceeds best practice. Moreover, there were concerns that variable remuneration may have been excessive as it may exceed 200% of fixed salary, especially as specific targets were not disclosed for the annual bonus, and neither performance criteria nor targets were disclosed for the long term plans.

#### The Fund opposed the resolution

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### WALGREEN (AGM) – USA

The Board at US pharmacy, Walgreen were seeking the authority to continue to award bonuses with full tax deductibility. Whilst the principle of performance-related pay can be supported, this plan allowed a maximum award of \$10 million to individual participants in any single year which was considered to be excessive. Additionally, the Compensation Committee retained the power to adjust any evaluation of performance criteria on the basis of a range of different events. Therefore the Fund was unable to support the resolution on the basis of inadequate disclosure and the excessiveness of potential awards.

#### The Fund opposed the resolution

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**This information is provided by PIRC in accordance with the Fund's voting template.**



Draft

**Agenda  
Item:**

Local Authority Pension Fund Forum

Business Meeting Minutes

Wednesday, 21 March 2012

**Minutes**



## 1. Apologies

### Received from:

Geoff Reader  
Cllr Peter Brayshaw  
Barry White  
Mark Gayler  
Mark Lyon  
Cllr Toby Simon  
Mike Taylor  
Cllr John Gray  
David Murphy  
Tracey Milner  
Debbie Drew

Bedfordshire  
LB Camden  
Devon  
Devon  
East Riding  
LB Enfield  
LPFA  
LB Newham  
NILGOSC  
Surrey  
LB Waltham Forest

### Present:

Tom Harrington  
Cllr Kieran Quinn  
Peter Taylor  
Howard Bluston  
Cllr Richard Greening  
Keith Bray  
Cllr Nev Jackson  
Marlyn McConaghie  
Cllr Cameron Rose  
Leanne Clements  
Cllr Geoffrey Watt  
Owen Thorne  
Cllr Alec Kellaway  
Sarah Jukes  
Cllr Neil Fletcher  
Caroline Mann  
Tim Bush  
Ashley Hamilton  
Alan MacDougall  
Tom Powdrill  
Tessa Younger  
Jane Firth  
Stephen Moore  
Debbie Drew  
Chris Davis  
Geik Drever  
Cllr Tersaim Singh  
Rodney Barton  
Cllr Ian Greenwood

Greater Manchester Pension Fund  
Greater Manchester Pension Fund  
LB Camden  
LB Harrow  
LB Islington  
LAPFF Officer  
Lincolnshire CC  
Lothian Pension Fund  
Lothian Pension Fund  
LPFA  
Merseyside Pension Fund  
Merseyside Pension Fund  
LB Newham  
Norfolk Pension Fund  
North East Scotland Pension Fund  
North East Scotland Pension Fund  
PIRC Ltd  
PIRC Ltd  
PIRC Ltd  
PIRC Ltd  
PIRC Ltd  
South Yorkshire Pensions Authority  
Tyne and Wear Pension Fund  
LB Waltham Forest  
Warwickshire Pension Fund  
West Midland Pension Fund  
West Midlands Pension Fund  
West Yorkshire Pension Fund  
West Yorkshire Pension Fund

Catherine Dix

Wiltshire CC

It was noted that the meeting dates of the next Business meeting might be altered in order not to clash with LGA or other national events.

## 2. Declarations of interest

None

## 3. Approve minutes of the LAPFF Business Meeting held on 25 January 2012

The minutes were agreed. There were no matters arising not covered on the Business meeting agenda.

## 4. Note minutes of LAPFF Executive meeting held on 7 March 2012

The minutes were noted.

## 5. Report of the Hon Treasurer

Geik Drever presented the report. She noted that in future the budget would include projected outcome figures.

The Chair welcomed Geik Drever in her new role as Treasurer of the Forum.

The report was noted.

## 6. Forum's officers report

Keith Bray presented the report.

The report was noted.

## 7. Research and Engagement: Summary Report

Ashley Hamilton and Tessa Younger presented the report.

It was noted that the report would be issued as a public report, and therefore care was taken on reporting company engagement to be appropriate to such a report.

Various corporate engagements were described. The Chair noted that it was important to schedule engagements such that LAPFF met the better performing companies first in order to inform subsequent engagement.



Cllr Jackson raised the issue of water, the effect of farmers having to plant different crops and the subsequent need to import foods into the UK that can no longer be grown because of drought. He asked whether future engagement with the food and drinks sector could incorporate this issue. Cllr Kellaway noted the workings of Thames Water and their use of desalination technology. The Chair thought the water issue could be looked at and noted that this issue could be worth raising with other companies such as United Utilities.

Geik Drever noted the interest around tar sands and coverage in the FT. The chair described the Forum's approach on the issue to date.

Cllr Watt noted the concern in the UK over shale gas fracking. Tessa Younger noted that there was a forthcoming meeting with BP where the issue of tar sands regulation could be addressed, and referred to the Forum's co-signing of letters requesting information to companies in the US involved in hydraulic fracturing. Cameron Rose noted that development of shale gas in the UK represented a valuable energy source.

Howard Bluston asked about the letter LAPFF had written to BIS outlining concerns over proposals for refocusing and streamlining the FRC. Alan MacDougall responded that the minister's response would be made available to members on the website.

Geik Drever asked about the recently issued BIS consultation on executive pay. Alan MacDougall noted the document would be uploaded to the website, a draft response would be provided and member input sought.

The report was noted.

## 8. Update on News Corp and BSkyB

Tom Powdrill provided a verbal update on recent arrests of senior staff of papers owned by News Corp, James Murdoch's resignations from other companies where he held non-exec positions and the Leveson enquiry.

Christian Brothers Investment Services (CBIS) is filing a shareholder proposal at the next AGM to propose an independent Chair and is seeking co-filers. The draft resolution was circulated.

Cllr Jackson asked how independent any chair could be in light of family shareholdings. The Chair noted that Nicholas Ferguson at BSkyB could be an appropriate independent chair.

A number of funds indicated they would consider co-filing the resolution.

## 9. Update on IFRS

Tim Bush provided an overview on IFRS and how companies can work towards 'IFRS plus' reporting.

The EU Commission is not denying that IFRS is contrary to true and fair view principle of law. A debate in the House of Lords was highly critical of IFRS and of government complacency, with the response from government requested in writing by Lord Lawson.

Work around IFRS Plus needs to be associated with an information campaign to explain why IFRS is contrary to the law.

Cllr Neil Fletcher asked if there had been a response from the letter to the minister. Tim Bush answered that IFRS may be dropped for banks.

## 10. Engaging with Fund Managers: updated trustee guide

Tom Powdrill presented the updated Fund Manager Trustee Guide, which includes information on UNPRI and the Stewardship Code. Members commented that the Trustee Guide is likely to change and evolve over time. Tom Powdrill noted that the Guide will be a work in progress and may be posted on the website so it can be amended as needed.

## 11. The LAPFF Pay Project

Alan MacDougall presented the outline for the LAPFF Pay Report which would provide a review and policy options for LAPFF on executive remuneration at publicly listed companies in the UK. This report would conclude with a review of a model LAPFF policy on executive remuneration to guide the Forum on policy positions that might be adopted for the 2013 proxy season and to underpin engagement with UK companies.

## 12. LAPFF policies – full and summary versions

Draft versions had been provided to the previous business meetings.

The reports were accepted and will be uploaded to the LAPFF website.

## 13. Any other business

None

## 14. Presentation: Daniel Summerfield, USS, Hedge Fund Strategies & Lessons for Pension Funds

Daniel Summerfield of USS gave an overview of USS's strategic asset allocation, their targets for benchmark allocations and described USS's exposure to Hedge Funds. He noted that around 10,000 hedge funds are domiciled in Cayman Islands; that 80% of the directors are from 'professional' directorship firms, with the top 40 directors sitting on more than 100 boards each. The challenges for investors are to ensure appropriate director capacity in terms of oversight, experience and their background.

LAPFF involvement would be welcomed in a USS-coordinated group to debate such issues. One area being developed is a standardised set of due diligence questions that help ensure investors are fully informed of directors' past history, for example their involvement in any areas of litigation, and to help determine their relative experience.

USS would also welcome LAPFF involvement in raising industry standards. Two main activities are a) lobbying the regulator in the Cayman Islands (the Cayman Island Monetary Authority) to provide a database of current directors and b) Drafting a Cayman Island Code of Best Practice for Hedge Fund Governance which take elements of a recent relevant judgement (Weaving Judgement) and put this into a comply-or-explain context.

Owen Thorne asked if the Hedge Fund Standards Board covered any of these types of governance issues. Daniel said it had some standards, but nothing of sufficient depth for these situations.

The Chair thanked Daniel for his interesting presentation and closed the meeting.

Number 43, February 2012



## LAPFF MEMBER BULLETIN



### LAPFF backs board diversity drive

LAPFF formally announced its support of the 30% Club Investor Group at the end of February, taking the assets represented by this group promoting board diversity to over £1.77 trillion. LAPFF chair Cllr Greenwood said, "Whilst our members are long-term investors in the UK's public companies, we would like to see speedier change in the make-up of Britain's boardrooms. We want the best candidates appointed to boards, and therefore strongly encourage companies to address diversity, for their benefit and for ours."

Speakers at the inaugural seminar of the Group included company chairmen Robert Swannell, M&S chair, and Sir Roger Carr of Centrica, as well as Baroness Hogg, Chair of the FRC and Helena Morrissey, CEO of Newton Investment Management. Sir Roger was clear on the impact of women on the board, noting that those boards with women had better dynamics and were more representative of employees and shareholders. It was recognised that progress cannot be made overnight, but investors such as the Co-operative Asset Management and Legal & General set out their strategies for voting where companies were not demonstrating measurable action in increasing female representation. The Forum will maintain involvement in the investor group and, as agreed at the January Business meeting, will be engaging with FTSE100 companies on diversity.

### The Forum engages with Gazprom

On behalf of LAPFF, PIRC participated in a conference call with non-executive director of Gazprom, Valery Musin. Mr Musin provided a short overview of the initiatives he will be spearheading at the company if re-elected by the shareholders. These include, making improvements to the company's sustainability report, adopting an environmental policy at the board level, and implementing both an insider information policy and a corporate ethics policy.

Investors were seeking more information about the company's remuneration practices, particularly on the initiation of paying directors a variable element in their remuneration. Gazprom currently does not include sustainability criteria in director remuneration as the company is focused on reducing costs. Investors also raised concerns about the lack of sufficient independent representation on the board. However, the company has no immediate plans to appoint additional independent directors. Disclosure for English-speakers is also a challenge, with one investor asking Mr Musin for additional English disclosure at the upcoming annual meeting. Mr Musin took this recommendation on board and agreed to raise it with the appropriate staff at

Gazprom. Finally, when probed on the company's operations in Iran and the potential consequences of growing political tensions, Mr Musin quoted a famous proverb: "commerce always goes ahead of politics."

### Update on Forest Footprint Disclosure

LAPFF is an investor signatory to the Forest Footprint Discloser (FFD), which aims to shed light on corporate supply chains and global deforestation. At an event to launch FFD's Third Annual review, a discussion was held on how climate change and biodiversity are intrinsically linked to the consumption of 'natural capital.' Corporate disclosure improved in 2011 with FFD reporting the participation of 87 companies, including 15 new companies, and an increase in the number of financial institutions endorsing the project. There has been very little participation from companies within the oil and gas industry but a significant increase in responses from developing markets and North America. In spite of this progress, the FFD continues to face challenges, and reports that a large amount of 'hand-holding' is required for participating companies.

James Hulse, the executive director of FFD, noted that FFD is making important steps forward in how the world's resources and 'natural capital' are perceived within the financial market. He explained that the failure to account for the loss of natural capital (the natural assets that provide inputs and environmental services for economic production) can be compared with inflation.<sup>1</sup> Although the world economy may seem as though it is growing, when account is taken of the value of the loss of important natural assets such as biodiversity, forest carbon sequestration, water filtration etc, it may appear that the economy is, in fact, stagnant. For these reasons, supporting the work of the FFD is vital in protecting the world's ecosystem and ensuring that companies begin to include the value of natural resources in their balance sheets and integrate sustainability into their business plans.

### Hacking continues to dog News Corp

Further developments in the hacking scandal engulfing News Corp were discussed in a PRI webinar at the start of February in which LAPFF participated.

Representatives from CalPERS and CalSTRS focused on the continued investor pressure for corporate governance reforms at News Corp. Engagement is ongoing, and investors are looking to non-executive director Viet Dinh, who is closely involved with the Management and Standards Committee, to reassure them that the company is dealing effectively with the various investigations. Many

<sup>1</sup> <http://stats.oecd.org/glossary/detail.asp?ID=1730>

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investors believe that James Murdoch's position at News Corp and BSkyB (and other companies) is problematic given that he had operational responsibility for the UK newspaper business when allegations of widespread phone-hacking first emerged publicly.

A representative of the Forum set out the scope of the inquiry by the Department of Culture, Media and Sport (DCMS) select committee into whether Parliament had been previously misled about phone-hacking. This included an overview of who might be criticised when the DCMS committee publishes its report. The presentation also focused on other investigations affecting News Corp, including those into payments to police and into allegations of computer hacking.

Since the webinar, News Corp has been hit by further arrests, this time at The Sun, in connection to payments to public officials (not just police officers). Deputy Assistant Commissioner Sue Akers, who leads the investigations into both phone-hacking and payments to police, told the Leveson Inquiry that there appeared to be a culture of illegal payments at The Sun tied to a "network of corrupted public officials." Separately, an individual alleged to have undertaken computer hacking for the News of the World has been jailed for illegally "blagging" information.

### Executive pay debate

The Forum has engaged with numerous companies over executive pay over the years, and continues to try and innovate in its approach to this perennial governance issue. Recently this has included looking into how non-financial rewards can be used to motivate. LAPFF continues to follow the executive pay debate closely and recently attended a Towers Watson event on the subject.

Panellists included a journalist, a company director, a governance expert and a recruitment consultant. The debate centred on the notion that executive pay has outpaced corporate performance. Some defended rising pay levels on the basis of globalisation and argued that historically pay has been too low. Others disputed this notion, arguing that current levels of pay do not adequately reflect the performance of most companies, and that executives have lost touch with what average workers earn. One panellist pointed out that most people do not get a bonus for showing up to work and completing the tasks outlined in their job description. He called for companies to stop awarding share incentives to executives altogether, noting that they do little to incentivise CEOs.

Through the discussion it became evident that the question of what truly motivates CEO performance was at the crux of the debate. Some admitted that power, status and knighthood were the main motivators, while others believed non-monetary incentives like creativity, a good challenge, feeling of accomplishment, entrepreneurship and respect were key factors. One panellist added that in his experience, not a single executive of a PLC has ever said that he does the job for the money.

### Cable & Wireless explains pay plans

The Forum met with Cable & Wireless Worldwide to review recent changes to the board and senior management as well as to discuss the company's remuneration strategy. In 2011, two senior executives left the firm and in the meeting, LAPFF discussed governance in the context of the company's struggle to return to profitability. Though there was much anticipation and expectation of good performance following the demerger, the company's hopes for a swift recovery have collapsed. Based on the meeting, it was clear that the company is in a transition period but executive compensation is on the board's agenda.

Regarding remuneration, the company emphasised that the proposed incentive plan put to a vote in 2011 was just a general authorisation for the board and therefore they expect the 2012 remuneration report to include more details.

### Better access to food and nutrition

LAPFF has engaged with food and beverage companies regarding health and nutrition issues and has supported the development of the 'Access to Nutrition Index' (ATNI). A recent seminar, hosted by MSCI, UKSIF and the Global Alliance for Improved Nutrition, discussed the key ESG challenges within this sector and the implications for investors.

Global food production and nutrition issues are increasingly becoming investment concerns as companies need to respond to world population growth, increasing healthcare costs and climate change. The ATNI Project uses an Index Ranking of major food and beverage companies, grading them on their nutrition practices. The index will then analyse the practices of 55 companies, engaging with them face to face and also sending them research to be verified. The pilot scheme will be launched at the end of 2012 with the aim to publish every two years. The index and associated engagement will play a major role in encouraging food and beverage companies to take steps to improve nutrition and address issues of malnutrition.

### Upcoming engagement meetings

Renault – Climate Change  
 Daimler – Climate Change  
 Meggit – Governance  
 Fiat Spa – Climate Change  
 BP plc – Oil Spill, Health & Safety  
 Stobart Group – Climate Change

### Contact

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## BIS sets out exec pay reform package

Pension funds and other investors could be given stronger powers to tackle executives under a package of reforms proposed by the Department of Business, Innovation and Skills (BIS).<sup>1</sup>

Under the proposals, in addition to the existing advisory vote on the remuneration report, shareholders would be given a forward-looking and binding vote on remuneration policy. This might cover proposed maximum awards and performance criteria for bonus and incentive schemes potentially giving shareholders real power to stop problematic elements in remuneration packages before they are adopted.

BIS has proposed that the binding vote require a higher level of support, possibly 75% of votes cast, in order to pass. It also proposes that if the existing advisory vote fails to gain 75% in favour then the company would have to issue a statement to the market detailing the main issues raised by shareholders and how the company proposes to respond. Given the rarity of company defeats over pay with the existing 50% threshold, it appears that these two proposals could be critical to the success of the overall package.

Finally, BIS also suggests that shareholders be given a binding vote on exit payments of more than one year's salary. This could significantly strengthen the hand of shareholders wanting to stop departing executives from being awarded significant pay-offs. If members would like further information or to provide input to this consultation, please refer to 'consultations' at <http://www.lapfforum.org/members-area>.

## LAPFF joins BP investor call

BP hosted a conference call for SRI analysts to discuss its sustainability report prior to the April AGM. According to BP, the report will offer insight into how non-financial incentives have been imbedded into its overall company strategy and how they will be aligned to its environmental and financial initiatives in the Gulf of Mexico. Further information on the company's improved risk management and increased transparency within the sector will also be included.

Roundtable members questioned how BP will re-establish itself as a sustainable business and to what extent sustainability will be integrated into the company's strategy. The company said that increased visibility from the CEO down coupled with a redefined infrastructure grounded in prevention and strengthening the company will help to reposition it as sustainable. This event helped inform a meeting LAPFF representatives had a couple of days later with the chairman, Carl Svanberg.

<sup>1</sup> <http://tinyurl.com/cmzy5vh>

## Engaging over auto sustainability

LAPFF has been engaging with automotive and freight companies on their climate change policies and responses to regulation of greenhouse gas emissions. EU regulation reducing the amount of greenhouse gas emissions that vehicles should produce is challenging the automotive industry to develop new technologies to meet these targets. In March the Forum has had conference calls with Renault, Fiat and Daimler and has met with Stobart Group on these issues.

Companies were selected after undertaking industry analysis on relevant disclosure and performance. Key areas of discussion included whether companies were on track to meet EU targets, their strategies for new technologies, improved levels of disclosure and company predictions in terms of new regulation and infrastructure. Although the companies had adopted varying strategies it remained clear that the continued improvement of fuel efficiency, vehicle design and development of alternative fuels and technologies would remain priorities until governments invest sufficiently to ensure that technologies such as electric vehicles are viable for a significant proportion of the population.

The growth in demand for mobility in developing markets, in particular China, means these are fast becoming companies' biggest markets. The size of demand cannot be met by standard fossil fuel vehicles. The need for new infrastructure and technologies has increased within these markets, serving as a potential catalyst for developing more sustainable options.

## Kay Review issues interim report

The Kay Review of equity markets issued its interim report this month, and the early signs are that the review could come out with some important ideas.

The interim report suggests that, given the declining role of traditional asset owners in the UK, it is asset managers who have the largest role as shareholders. Notably the report also highlights early on that stewardship – the relationship between companies and their shareholders – will form the large part of its work. The report suggests that stewardship goes wider than just concerns about the governance of companies, and implies a long-term relationship.

The report states that: "Asset managers are stewards of the funds entrusted to them by investors. They discharge that function most effectively by acting as stewards of the corporate assets they control by virtue of their management of these funds. Such stewardship is the only means by which, taken as a whole, the financial services sector can discharge its responsibilities to those who entrust funds to it."



LAPFF Member Bulletin Number 44, March 2012

Significantly the report also suggests that there may be arguments in favour of tilting the playing field slightly in favour of long-term investors. The report says: "If shareholders were not treated equally, then some shareholders who did not receive the advantages given to others might be discouraged from entering the market. It is not obvious that such discouragement would always be a bad outcome. Measures to favour some shareholders might plausibly be to the benefit of shareholders as a whole if it facilitated better governance and decision making within companies."

The review will take evidence up until 27<sup>th</sup> April. Any members who wish to contribute to this are directed to [www.lapfforum.org/members-area](http://www.lapfforum.org/members-area).

### USS takes on Cayman Island funds

Attendees of the LAPFF Business meeting on 21 March received an interesting overview of the Universities Superannuation Scheme's (USS) strategic asset allocation initiatives. Daniel Summerfield, co-head of responsible investment at USS, described the challenges facing investors to ensure appropriate director capacity in terms of oversight, experience and background. Daniel explained USS's targets for benchmark allocations and described its exposure to hedge funds. He noted that around 10,000 hedge funds are domiciled in the Cayman Islands and that 80% of the directors are from 'professional' directorship firms with the top 40 directors sitting on more than 100 boards each. USS is working to improve asset management industry standards and welcomed involvement from LAPFF as part of a USS-coordinated group to debate such issues.

USS is currently involved in developing a standardised set of due diligence questions. These are designed to help ensure that investors are fully informed of a director's past history, involvement in any areas of litigation and a clear understanding of relative experience. Raising industry standards is also central to protecting pension fund investment. As such, USS is currently focused on two main activities and would welcome LAPFF involvement with: lobbying the regulator in the Cayman Islands (the Cayman Island Monetary Authority) to provide a database of current directors and drafting a Cayman Island Code of Best Practice for hedge fund governance, which takes elements of a recent 'Weaving Judgement' and puts them into a comply-or-explain context.

### News Corp hacking scandal deepens

Another bad month for News Corp has seen the company hit by further hacking allegations, seen current and former employees arrested and renewed regulatory scrutiny of its broadcasting interests.

The latest allegations relate to NDS, a company specialising in set-top box technology that News Corp part-owned until recently and on which James Murdoch has been a director. According to claims in a Panorama programme on the BBC, News Corp cracked the code of a rival company's smart card and made it available to

hackers in order to do commercial damage. News Corp has vehemently denied claims.

Earlier in the month former News International chief executive and News of the World editor Rebekah Brooks was arrested, along with five others, on suspicion of conspiracy to pervert the course of justice. This appears to relate to the alleged destruction of evidence correlating to phone hacking.

In addition, broadcasting regulator Ofcom has renewed its focus on the 'fit and proper' test in relation to BSkyB. It appears that Ofcom, under an initiative called Project Apple, will consider both News Corp as an investor and James Murdoch as a board director.

The company still faces the publication of the Department of Culture, Media and Sport select committee's report into the phone-hacking scandal. The report, which is not now expected to be published until mid April at the earliest, could put pressure on James Murdoch to quit BSkyB.

### Carbon Tracker Initiative

A representative of LAPFF attended a round table discussion on listed carbon assets organised by the Carbon Tracker Initiative. Presentations on resource companies highlighted the conflict created by the valuation of companies' fossil fuel reserves floated on the stock market as assets and the potential environmental impact if these reserves are extracted and used in their entirety. Current estimates show that FTSE-listed companies possess over ten times the UK's domestic carbon budget for 2011 to 2050 thereby creating an investment vulnerable to carbon regulation and the possibility of stranded assets.

The roundtable debate suggested that pricing assumptions within the industry need to be disclosed and that analysts should model more scenarios and futures. Concerns were also raised about the dearth of standardised climate narratives within investment banks and the need for further analysis for investors to make informed decisions. Lack of materiality in company reporting was also considered a roadblock to determining climate change risks to businesses.

A panel member suggested that given the inherent long-term interest of pension funds and institutional investors, they are in prime position to assist with the regulation of carbon assets and climate change. Carbon Tracker will meet with the Bank of England in April to raise its concerns on regulation, placing the emphasis on regulators to protect the London Stock Exchange from the aforementioned concerns.

### Upcoming engagement meetings

Conoco – Remuneration & Climate Change  
Meggitt – Remuneration & Governance  
IIGCC – Climate Change

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# the view from the **forum**



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**New LAPFF Executive  
elected**

The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of 55 public sector pension funds based in the UK. LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.

For more information about the Forum, contact Forum Officer, Keith Bray on 07811 800612.

Alternatively, you can email [postmaster@keithbray.plus.com](mailto:postmaster@keithbray.plus.com) or visit our website at [www.lapfforum.org](http://www.lapfforum.org)

### LAPFF membership as at 1 March 2012

- 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 PTA Pension Fund
- West Yorkshire Pension Fund
- Wiltshire Pension Fund
- Worcestershire County Council

# Women on the board

**In 2010, women made up only 12.5% of directors on FTSE 100 boards.**

The Lord Davies Review released in February 2011 examined the issue of women on the board and acknowledged the slow pace of change: **“Based on the current trend it would take 70 years for women to hold half the FTSE 100 directorships.”** The review referenced studies produced by McKinsey & Co and other firms demonstrating that companies with a higher proportion of women on the board and in senior management perform better, and that the presence of women on boards has a positive impact on performance.

Davies recommended that UK companies strive to achieve 25% women directors by 2015 and suggested companies should announce their aspirational goals for achieving this target by September 2011. He made further recommendations regarding company policies and their reporting on gender diversity, and with regard to the role of nomination committees in promoting diversity.

The LAPFF's response to the Davies Review expressed support for its recommendations and the Forum proposes to conduct initial research into how many companies in the FTSE 350 have responded to the Davies Review and how many have committed to reaching the target of 25% women on the board by 2015.

Based on the findings of the research, we will contact and congratulate all companies that have replied positively to the Davies Review by indicating that they will strive to reach the target; and we will



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encourage those companies that have not responded positively to the review to do so and urge them to set targets for increasing the representation of women on the board.

The 30% club was formed in November 2010 by Helena Morrissey (*pictured above*), CEO of Newton Investment Management, and others with the goal of increasing women's participation on UK boards to 30%. The members of the club are all chairmen of UK companies that are committed to working towards that goal (30 supporters to date).

continued overleaf →



**LAPFF formally announced its support of the 30% Club Investor Group at the end of February, taking the assets represented by this group promoting board diversity to over £1.77 trillion. LAPFF chair Ian Greenwood said, "While our members are long-term investors in the UK's public companies, we would like to see speedier change in the make-up of Britain's boardrooms. We want the best candidates appointed to boards, and therefore strongly encourage companies to address diversity, for their benefit and for ours."**

Speakers at the inaugural seminar of the group included company chairmen Robert Swannell of M&S and Sir Roger Carr of Centrica, as well as Baroness Hogg, Chair of the FRC and Helena Morrissey. Sir Roger was clear on the impact of women on the board, noting that those boards with women had better dynamics and were more representative of employees and shareholders. It was recognised that progress cannot be made overnight, but investors such as the Co-operative Asset Management and Legal & General set out their strategies for voting where companies were not

demonstrating measurable action in increasing female representation. The Forum will maintain involvement in the investor group and we will monitor progress and undertake follow up activities with companies during 2012, and continue to participate in relevant collaborative initiatives with other investors.



The 30% Club chairmen and the Steering Committee met with the Prime Minister at a Women in Business reception on 12th October. The PM reiterated that "This is not a 'special interest' or a 'women's' issue, but a business issue", recognising that progress was being made gradually but slowly.

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## The LAPFF Workplan 2012

The 2012 work plan follows the strategy LAPFF has undertaken over the past few years.



The main focus of engagement in 2012 will be on key campaigns such as the banking sector, corporate governance reform, climate change, employment standards and executive pay. LAPFF also proposes to continue dialogues with key high profile companies such as BP, Shell, News Corp and BSkyB.

In an effort to be more focused and strategic about the engagements we undertake in 2012, we propose to reduce commitments to two existing projects: obesity and Sudan.

The LAPFF work on obesity is coming to a natural close. We had productive discussions with Greggs and Premier Foods and are satisfied that nutrition issues are on the companies' agendas for managing risk. Similarly, we propose to end our formal engagement on Sudan.

The primary reason is that the focus of the UNPRI Sudan dialogue is increasingly targeting quasi-state owned firms and companies based in East Asia, which are not all widely held by LAPFF members.

The LAPFF will re-focus its efforts regarding palm oil, choosing to participate in fewer collaborative



initiatives. We propose to continue a watching brief as part of the initiative coordinated by the UNPRI. One-to-one engagement on climate change with select companies in the transport sector will continue, as will our climate policy activities.

Additionally, the Forum will position itself at the forefront of new ESG agendas where it can provide new leadership on investment issues that reflect the broad allocations within member equity portfolios and market wide concerns to all pension funds. As such, we will seek to expand our work in new strategic areas such as capital market reform, board diversity, international accounting standards, revenue transparency and local economic development.

As in previous years, resources will continue to be allocated to responding to key ESG issues and campaigns as they arise, issuing consultation responses, communicating our activities to members and the wider investment community, and responding to member enquiries.



## LAPFF global focus list - key achievements in 2011

**In total, LAPFF engaged with twelve companies, three listed in the US, four in the EU and five in the UK.**

### **Key governance areas where we sought improvements:**

- Board structure (size, independent representation, succession planning).
- Separation of power (combined chairman/CEO, former chairman as CEO).
- Controlling shareholder influence and ensuring rights of minority shareholders.
- Appropriateness of remuneration incentives (disclosure of awards, nature of targets).
- Auditor independence (audit fee disclosure, high relative non-audit fees).

### **Key engagement outcomes included:**

- successfully communicated the Forum's views of governance best practice and its approach to the use of non-financial incentives in remuneration;
- six companies committed to make governance changes, improve disclosure or review governance practices in light of the Forum's engagement dialogue;
- the Forum issued two voting alerts in cases where companies did not show willingness to improve practices; and
- improved understanding of governance practices in Switzerland and Belgium.

## Securities lending update

The securities lending pages of the LAPFF website have now been updated to include the latest report from Gerard Moore. It covers the proceedings of the first meeting of The International Securities Lending Association (ISLA)'s re-convened Corporate Governance Sub-Committee, which included the 'borrowing to vote, issue, the EU Transparency Directive and the anticipated revision of the Stewardship Code.

## New LAPFF Executive elected

The following members were elected to the Forum's Executive at the AGM in January.

	Cllr Ian Greenwood	West Yorkshire Pension Fund - Chair of LAPFF
	Cllr Cameron Rose	City of Edinburgh Council - Deputy Chair of LAPFF
	Cllr Geoffrey Watt	Merseyside Pension Fund - Forum Executive
	Cllr Kieran Quinn	Greater Manchester Pension Fund - Forum Executive
	Cllr Toby Simon	London Borough of Enfield - Forum Executive
	Cllr Peter Brayshaw	London Borough of Camden - Forum Executive
	Cllr Richard Greening	London Borough of Islington - Forum Executive
	Rodney Barton	West Yorkshire Pension Fund - Forum Executive
	David Murphy	NILGOSC - Forum Executive
	Mike Taylor	LPFA - Forum Executive
	Brian Bailey until 31 March 2012	West Midlands Pension Fund - Honorary Treasurer
	Geik Drever from 1 April 2012	West Midlands Pension Fund - Honorary Treasurer

When she takes up her position as our Honorary Treasurer (see page 8 of this newsletter), Geik Drever will be the only woman on the Executive. The Forum is eager to see greater representation and involvement from women in LAPFF affairs and will be seeking to achieve this by encouraging more participation from women members.

## LAPFF Honorary Treasurer, Brian Bailey, retires



**Geik Drever is appointed as new Honorary Treasurer**

Following her appointment as Director of Pensions at the West Midlands Pension Fund, we are delighted that Geik Drever has agreed to take on the role of LAPFF Honorary Treasurer. Geik is extremely well known to the LGPS – her former fund, the Lothian Pension Fund, has been a longstanding member of the Forum, so she is very familiar with our work.

Welcome aboard, Geik!

The Forum's Honorary Treasurer, Brian Bailey has announced his retirement. He will leave his post as Director of Pensions at the West Midlands Pension Fund at the end of March.

Brian has given invaluable service for many years in his role as treasurer to the LAPFF. He has, of course, provided the highest standards of stewardship and financial advice to the Forum's Executive, but his contribution to our development has in fact been far greater.

In 1990, as lead officer at the Fund, Brian was there at the very beginnings of what is now the LAPFF,

when the Fund was one of those funds that first joined together to collaborate in the promotion of shareholder activism among local authority funds, to promote high stands of corporate governance and corporate social responsibility at the companies in which they invested.

While there are many that have contributed to the development of the LAPFF, no-one has done more than Brian; his commitment to and enthusiasm for the Forum's work has been immense. As an officer member of the Forum's Executive he has been the

initiator of and the energetic driving force behind many of our activities, while at the same time never failing to provide a voice of caution when he felt it necessary to do so.

In short, words cannot adequately convey the value of his contribution or the debt of gratitude that the Forum owes to Brian.

We will miss you Brian - we thank you for all that you have done for the LAPFF and wish you a very well-deserved, long, happy and healthy retirement.



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