

Wolverhampton City Council

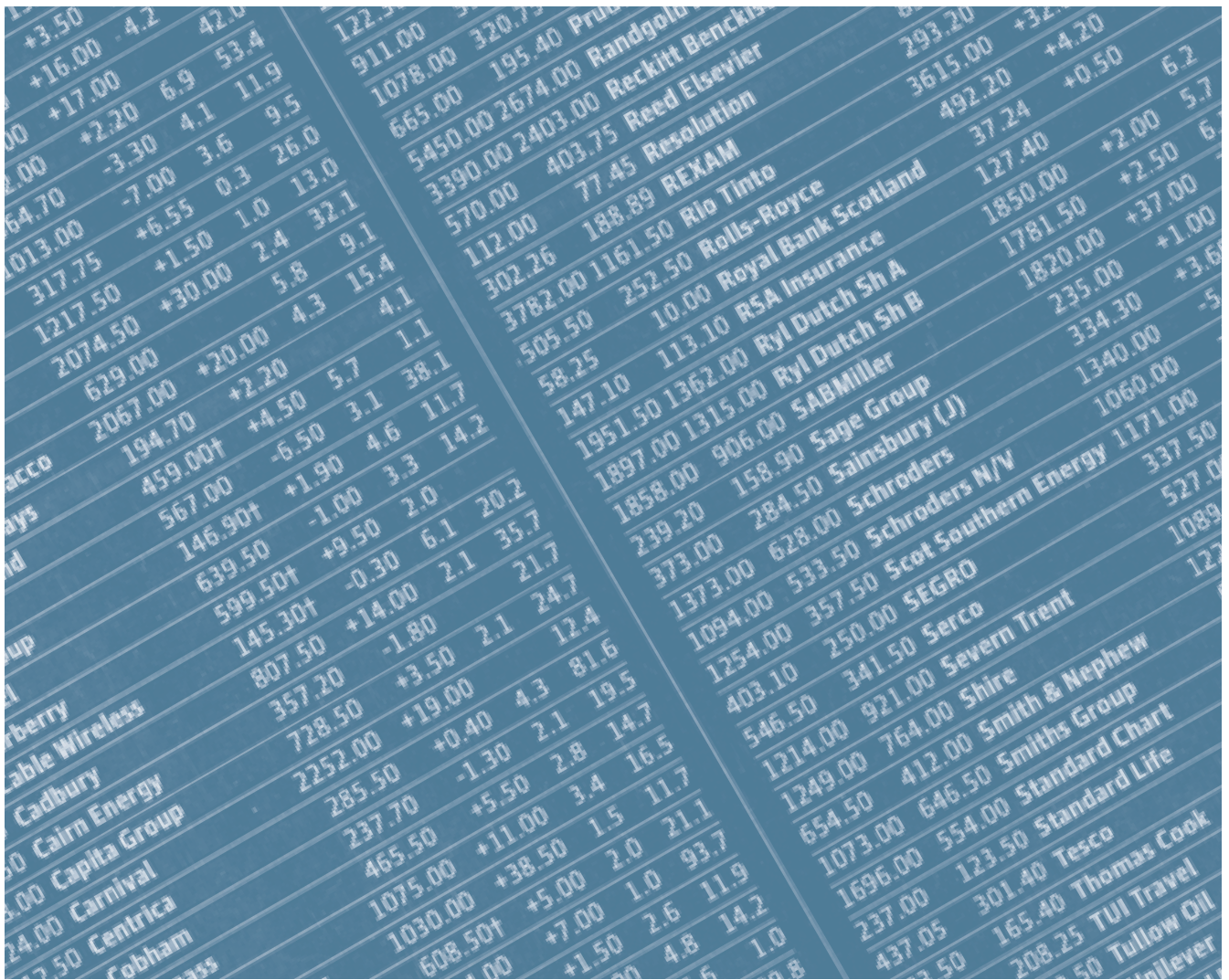
**OPEN INFORMATION ITEM**

Committee / Panel	<b><u>PENSIONS COMMITTEE</u></b>	Date	<b>27/02/2013</b>
Originating Service Group(s)	<b><u>WEST MIDLANDS PENSION FUND</u></b>		
Contact Officer(s)/ Telephone Number(s)	<b><u>GEIK DREVER</u></b> <b><u>2020</u></b>		
Title/Subject Matter	<b><u>COMBINED GOVERNANCE REPORT</u></b>		

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**Recommendation**

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



# Combined Governance Report

## February 2013

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 24th October 2012. Also attached are the Quarterly Engagement Report and the Autumn 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".

## TOBACCO INVESTMENT

In recent months, local authority pension funds have received press coverage over their investment in international tobacco companies. It is claimed that these investments are in conflict with councils' work and campaigning on health and anti-smoking. It is expected that the media activity will continue into 2013 when the responsibility for public health is transferred from the NHS to local authorities in England.

As at 31 December 2012, the Fund had around £58m invested in tobacco companies. This equates to just 0.6% of the total Fund. In addition, the majority of this amount is included in passive equity funds that are designed to reflect the performance of the entire market.

Rather than adopting a policy of exclusion to companies, the Fund has sought to ensure that all of the companies in which it invests adhere to the highest standards of social, environmental and governance standards through a programme of engagement. This is carried out with other like-minded investors through groups such as the Local Authority Pension Fund Forum. During the coming year, LAPFF will be considering the important issue of public health as part of their 2013 workplan.

Members will be updated as these discussions progress.

## VOTING ACTIVITY

During the period the Fund voted at a total of 174 company meetings – 99 UK, 19 European, 40 US, 8 Japanese and 8 Asian. In respect of these meetings (a mixture of EGMs and AGMs) the Fund opposed, abstained or withheld\* 683 resolutions out of a total of 2,147, representing approximately 32% of all resolutions. During this period there were 16 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
Easyjet PLC	EGM	To remove Sir Michael Rake from office as director and Chairman of the Company	53%
Investec PLC	AGM	Investec PLC – Issue shares for cash	46%
Investec PLC	AGM	Authorise the directors to issue up to 5% of the unissued Investec Ltd ordinary shares	41%
Babcock Int'l Group	AGM	Approve a new Deferred Bonus Matching Plan	41%
Big Yellow Group PLC	AGM	Re-elect Philip Burks	40%
Imagination Technologies Group PLC	AGM	Approve the Remuneration Report	33%

## Combined Governance Report

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:

### EASYJET PLC (EGM)

A request from easyGroup Holdings Limited (EHL) was received in July 2012 to remove Sir Michael Rake from office as director and Chairman of the Company under the Companies Act 2006. The two principal reasons relate to both his time commitments and his conduct in relation to Barclays involvement in the London Interbank Offered Rate (LIBOR) fixing scandal. Concerns raised over time commitments relate to the fact that Sir Michael holds a number of Board positions which lessen his ability to dedicate sufficient time to his role as Chairman of easyJet, also compounded by the contributions he will be required to make to the ongoing public and Parliamentary inquiry into the LIBOR scandal. In turn, it was claimed that Sir Michael's involvement would generate bad publicity for easyJet and risks tainting the 'easy' brand more generally.

The Board recommended voting against the proposal as Sir Michael had made a 'very significant contribution' since his appointment in January 2010. Additionally, the good corporate governance of the Company generally which, in compliance with the UK Corporate Governance Code affords shareholders the opportunity to vote on re-election of individual directors on an annual basis, was another reason for the Board's opposition to the proposal.

The Board also pointed out that this was the third time in 11 months that EHL had issued a statutory request to remove a director referring to their "continued campaign to undermine the good governance of the Company".

As previous concerns had been raised regarding potential aggregate external time commitments, Sir Michael's time was assessed and the Company provided specific details of the number of days he was contractually obliged to give to each of his various roles. However, despite his various commitments, Sir Michael still fulfilled all of his duties and obligations in respect of his role as Chairman of easyJet.

With regard to the LIBOR scandal EHL failed to demonstrate any clear evidence of either Sir Michael's culpability or, more specifically, of the negative consequences either for easyJet or the 'easy' brand generally.

#### The Fund opposed the resolution

### MITCHELLS & BUTLERS PLC (AGM)

The resolutions to issue shares for cash and to issue up to 5% of the unissued ordinary shares of the company both attracted a high level of opposition. However, each of the resolutions fell within the recommended limits and as a result, the Fund was able to vote in favour of both.

#### The Fund supported the resolution

### BABCOCK INTERNATIONAL GROUP PLC (AGM)

Shareholder approval was sought for the proposed introduction of a Deferred Bonus Matching Plan (DBMP) that allowed for matching share awards of up to 2 for 1 to be made on deferred bonus shares and additional voluntarily invested shares held for 3 years. The company stated that "although the proposed DBMP will still allow the Committee to grant share awards instead of paying out bonuses in cash, the DBMP will also give the Committee to make matching share awards".

Any matching share awards were to be subject to performance conditions based on EPS growth, relative Total Shareholder Return and Return on Capital Employed (ROCE) performance. The target for maximum vesting was ROCE of 20.5% and for threshold vesting it would be 17.5%.

This new DBMP will be used for Executive Directors and other senior employees of Babcock International Group PLC and its subsidiaries. However it was felt this resolution would only boost the maximum limit of future pay, making an already excessive remuneration structure even more excessive.

#### The Fund opposed the resolution

### BIG YELLOW GROUP PLC (AGM)

The company proposed to re-elect Non-Executive Director, Philip Burks. However he was not independent as he was a co-founder and former Executive of the Company. Therefore, it was recommended the vote be opposed as there was insufficient independent representation on the Board.

#### The Fund opposed the resolution

### IMAGINATION TECHNOLOGIES GROUP PLC (AGM)

Remuneration proved to be a contentious issue at the AGM of UK technology company Imagination Technologies. Whilst the report was adequate with regard to disclosure of cash remuneration and pension arrangements, remuneration policy failed to go beyond a generic need to "attract, develop and retain" key employees. There were insufficient links between the performance criteria used for performance-based executive compensation and the key strategic objectives of the company. The performance targets for the schemes were disclosed, but the maximum awards were not.

## Combined Governance Report

All of the remuneration plans that are currently in operation are based on share-price based performance criteria. However the use of share-price criteria as an incentivising tool remains questionable as share price movements are dependent on various factors most of which are outside the management's control. Uplift by favourable macroeconomic influences could see executives disproportionately rewarded for minimum effort, on the other hand downward and negative influences may lead the Remuneration Committee to exercise some discretion and still reward executives despite poor economic conditions.

### The Fund opposed the resolution

#### OVERSEAS ISSUES

##### TNT EXPRESS NV (EGM) – NETHERLANDS

Following the takeover bid (from UPS) and subsequent approval of TNT Express NV existing board members it is proposed to appoint new board members. UPS have proposed a conditional appointment of Mr J Barber as member of the Supervisory Board, however the overall board independence will suffer from the takeover and outgoing executive board members will receive a lucrative severance payment. As a result, the Fund decided to oppose the resolution.

### The Fund opposed the resolution

##### ELECTRONIC ARTS INC (AGM) – USA

The Board was seeking shareholder approval of the proposed Executive Bonus Plan that would allow the Company to continue to award annual bonuses with full tax deductibility under Section 162 (m) of the Internal Revenue Code. The individual cap per individual per year was \$5 million.

It was noted however, that whilst performance conditions may be attached to discretionary awards, the Committee would still have considerable flexibility in the payout of such awards. There were also concerns that awards may not have been subject to robust performance targets or be sufficiently challenging. In addition, the plan made no reference to comparative measures with peer company performance which is considered best practice.

### The Fund opposed the resolution

##### LIBERTY INTERACTIVE CORP (AGM) – USA

The company proposed to appoint KPMG as the auditors. Non-audit fees represented 19.82% of audit fees for the year under review, which is a level that initially did not raise concerns over the independence of the auditor. However it is noted that the chair of the Audit committee was a former audit partner of the firm's external auditors which did raise concerns over the Auditor's independence.

### The Fund opposed the resolution

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



DRAFT

Report to the Local Authority Pension Fund Forum  
Business Meeting  
23 January 2013



Agenda  
Item: 3

Local Authority Pension Fund Forum  
Business Meeting Minutes  
Wednesday, 24 October 2012

Minutes

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## 1. Apologies

Received from:

Cllr Alec Kellaway  
 Mark Lyon  
 David Murphy  
 Cllr Wyn Evans  
 Anthony Parnell  
 Dylan Jones  
 Catherine Dix

LB Newham  
 East Riding Pension Fund  
 NILGOSC  
 Dyfed Pension Fund  
 Dyfed Pension Fund  
 Dyfed Pension Fund  
 Wiltshire Pension Fund

Present:

Cllr Mike Drew  
 Matt Betts  
 Tom Harrington  
 Cllr Kieran Quinn  
 Dafydd Edwards  
 Cllr Peter Brayshaw  
 Nigel Mascarenhas  
 Cllr Toby Simon  
 Howard Bluston  
 Cllr Richard Greening  
 Pauline Birbal  
 Keith Bray  
 Gerard Moore  
 Cllr Cameron Rose  
 Marlyn McConaghie  
 Leanne Clements  
 Mike Taylor  
 Owen Thorne  
 Cllr Geoffrey Watt  
 Alexander Younger  
 Robert Mayes  
 Cllr Alastair Bews  
 Caroline Mann  
 Tim Bush  
 Ashley Hamilton  
 Janice Hayward  
 Jim O'Loughlin  
 Alan MacDougall  
 Tom Powdrill  
 Tessa Younger  
 Jane Firth  
 Andy Hill

Avon Pension Fund  
 Avon Pension Fund  
 Greater Manchester Pension Fund  
 Greater Manchester Pension Fund  
 Gwynedd Pension Fund  
 LB Camden  
 LB Camden  
 LB Enfield  
 LB Harrow  
 LB Islington  
 LB Southwark  
 LAPFF Officer  
 LAPFF representative at ISLA  
 Lothian Pension Fund  
 Lothian Pension Fund  
 LPFA  
 LPFA  
 Merseyside Pension Fund  
 Merseyside Pension Fund  
 Norfolk Pension Fund  
 Norfolk Pension Fund  
 North East Scotland Pension Fund  
 North East Scotland Pension Fund  
 PIRC Ltd  
 PIRC Ltd  
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 PIRC Ltd  
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 PIRC Ltd  
 PIRC Ltd  
 PIRC Ltd  
 South Yorkshire Pensions Authority  
 Teesside Pension Fund

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Stephen Moore  
Cllr Chris Davis  
David Evans  
Claire Duggan  
Cllr Tersaim Singh  
Rodney Barton  
Ian Greenwood

Tyne & Wear Pension Fund  
Warwickshire Pension Fund  
West Midlands Pension Fund  
West Midlands Pension Fund  
West Midlands Pension Fund  
West Yorkshire Pension Fund  
West Yorkshire Pension Fund

Observers:

Madeleine Baxter

Royal Borough of Greenwich Pension Fund

## 2. Declarations of interest

None.

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

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

## 4. Note minutes of LAPFF Executive meeting held on 26 September 2012

The minutes were noted.

## 5. Report of the Hon Treasurer

Claire Duggan presented the report. Claire asked the membership to consider 4.1 of the report LAPFF Secretarial and Auditor Proposals.

Marlyn McConaghie asked whether a date had been set for the strategic review. The Chair advised that the Executive would be meeting on the 11 December 2012.

The report was noted.

## 6. Forum's officers report

Keith Bray presented the report.

The report was noted.



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## 7. a) Quarterly Engagement Report

Tom Powdrill presented a resume of the investor meetings attended by the Chair prior to the News Corporation's AGM held on the 16 October in Los Angeles. The Chair, Ian Greenwood attended the AGM on behalf of LAPFF in support of the resolution that LAPFF co-filed with the Christian Brothers Investment Services (USA) to appoint an independent chair. The Chair gave an overview of the AGM and the media interviews that he undertook whilst in Los Angeles. The Chair will be writing to Rod Eddington and Viet Dinh, non executive directors at News Corporation, to request a meeting.

TP reported that the result of the proxy vote was 30.5% in favour of the resolution. However, if you exclude the Murdoch votes, it equates to 67% of the shares not directly controlled by the family voted in favour of the resolution.

Marlyn McConaghie asked whether the campaign on News Corporation was value for money for LAPFF members as not many LAPFF members held shares in the company.

TP reported that two thirds of the LAPFF members who have provided copies of their portfolios held the stock. (31 members have provided their portfolio holdings out of 55 members, 20 members held the stock).

Cllr Toby Simon said that for small funds that are invested in passive indexed funds this is an important part of the membership of LAPFF so that their interests are represented through the direct engagement by LAPFF.

Cllr Kieran Quinn said that this campaign enhanced the way that LAPFF is perceived as being a major player. The fact that LAPFF had taken it all the way means that the next time LAPFF engages with a company they will be much more likely to take LAPFF very seriously. Cllr Quinn said that having that shareholder voice was very important for GMPF, and that they had been happy to provide the credentials to enable the Chair to attend the AGM in Los Angeles. (GMPF are investors in News Corporation).

Cllr Peter Brayshaw said that although a lot could be done behind closed doors, by also being prepared to engage in the public arena had really achieved results, the LAPFF profile is much higher and engagement meetings are usually carried out face to face with senior executives. Companies are taking notice of LAPFF's position and the tide was turning our way, although to some extent LAPFF has made its' own weather to very good effect.

The Chair advised that he had sent letters to the non executive directors at News Corporation advising that LAPFF would be focussing on the appointment of an independent Chair.

TP advised that last year investors felt that they should protect against the board, however, this year votes against the board of directors were down. It seems that LAPFF's strategy of focussing on the appointment of an independent Chair rather than individuals, paid off with regard to the voting outcome.

Ashley Hamilton presented on meetings with Barclays, Lloyds, HSBC and Standard Chartered. The Chair also discussed the engagement meetings with the banks.

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Questions from the members regarding LIBOR manipulation and litigation.

Tim Bush presented an update on IFRS issues and the IFRS action plan.

AH reported that LAPFF had contacted Lonmin following the news of the strike and violence in South Africa. LAPFF received a quick response from the Corporate Secretary at Lonmin, the letter had requested an independent third party to facilitate negotiations and that Lonmin apply best practice regarding human rights and security.

Lonmin has now reached agreement with striking workers, however, government investigations are ongoing.

AH also reported on supply chain engagement with Kingfisher (B&Q) and Reckitt Beckiser.

Tessa Younger reported on meetings with National Express regarding reputation on labour standards in US.

The Chair advised that during his visit to Los Angeles he was able to have a conference call with union members of National Express. LAPFF will be writing to National Express regarding the discussions held in the US.

The Chair also reported that he met with workers from Fresh and Easy (part of Tesco) whilst in Los Angeles to discuss their concerns regarding the treatment of workers that was having a detrimental affect on Fresh & Easy's business. LAPFF are to write to Tesco to suggest that senior managers in Tesco in the UK should go to the US to discuss the problems. As this was a significant threat to their business in the US.

TY reported on climate change engagement with Rolls Royce regarding the company's role in reducing airline greenhouse gas emissions through improved jet engine technologies.

## 8. Preview of new LAPFF website

AH presented a preview of the new LAPFF website which will be formally launched at the annual LAPFF Conference, on 28, 29, 30 November 2012.

## 9. Global Focus List 2012/13

AH presented the Global Focus List.

Discussions took place on LAPFF responsiveness to emerging issues. The Chair advised that this would be discussed at the Strategy meeting being held on the 11 December.

The recommendations were agreed.

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## 10. People and Investment Value: Trustee Guide

Jim O'Loughlin presented the report and Trustee Guide.

The recommendations were agreed.

## 11. Analysing the Shareholder Spring: voting at 2012 UK AGMs

TP presented the report.

The recommendations were agreed.

## 12. Getting Pay Right: a critique of executive remuneration

AH presented the report.

JOL facilitated a discussion. Members contributed their thoughts on executive pay.

The recommendations were agreed.

## 13. Template ESG section of Statement of Investment Principles

Noted

## 14. Lonmin update for members

Noted

## 15. Conference reminder and dates of future meetings

Annual LAPFF conference, 28, 29, 30 November 2012

LAPFF Business Meeting Dates:

Wednesday 23 January 2013 Business Meeting and AGM

Wednesday 20 March 2013 Business Meeting

Wednesday 19 June 2013 Business Meeting

Wednesday 16 October 2013 Business Meeting

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## 16. AOB

Private Equity Cooperation Platform (PECP) for Limited Partners

Mike Taylor presented information on the above initiative and asked members to contact him or his colleague Leanne Clements if they would like more information.

Voting and securities lending

Gerard Moore advised the meeting that the FRC would be publishing a paper on voting and securities lending. He will make it available to for distribution and for uploading to the LAPFF website.

## 17. Date of Next meeting

The date of the next LAPFF business meeting is Wednesday 23 January 2013.



# QUARTERLY ENGAGEMENT REPORT

OCTOBER TO DECEMBER 2012



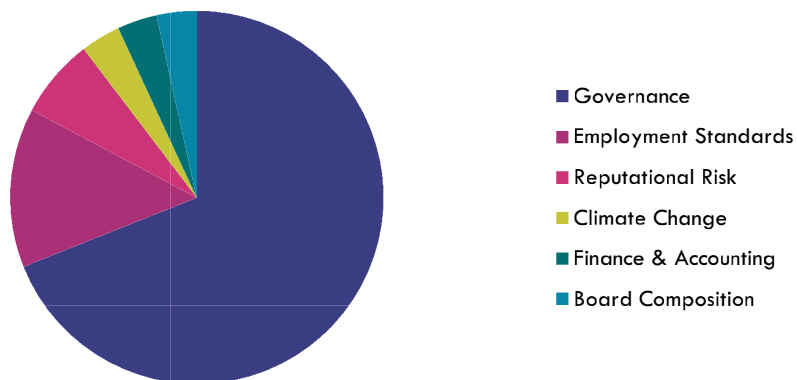
## Local Authority Pension Fund Forum

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

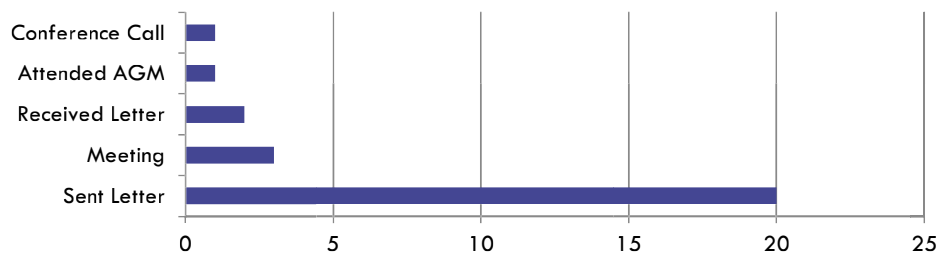
# ENGAGEMENT SUMMARY

OCTOBER TO DECEMBER 2012

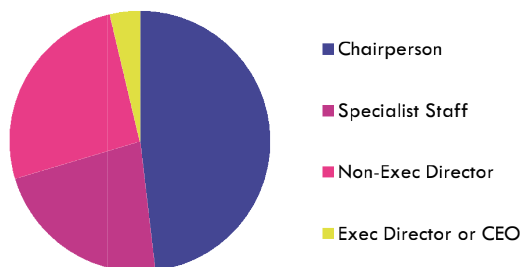
## Topics



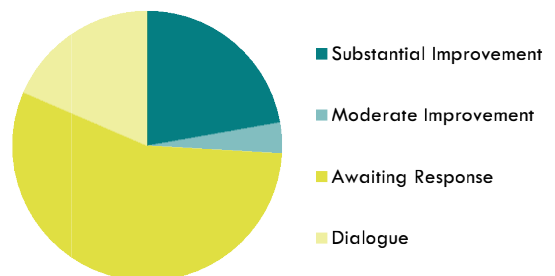
## Activities



## Company Contact



## Outcomes





## ACHIEVEMENTS

- Attended the **News Corporation** AGM in Los Angeles to speak to the resolution filed by LAPFF members and Christian Brothers Investment Services asking for an independent chair. It received 67% support from independent shareholders.
- Responded to DEFRA consultation on greenhouse gas emission reporting regulations flagged up the Forum's long-term support for **mandatory carbon emission reporting** being brought into effect by the regulations. Met with **BP**, together with CCLA, to discuss their carbon emissions management and positioning for a low carbon economy.
- Launched the 'Smith Institute' report '**Investing for Growth**' at a parliamentary event in October, co-sponsored by LAPFF. The Forum's '**People and Investment**' report was launched at the Forum's annual conference.
- Continued to engage companies and policy-makers on the basis that international accounting standards can overvalue assets and supported an USS-led investor coalition promoting **IFRS reform**. This position is beginning to be vindicated by statements by the Financial Policy Committee of the Bank of England.
- Discussed labour relations, succession planning and board diversity with **National Express**. Held a follow-up conference call focussed on employee relations in the US.
- Met with the chairman and chair of the audit committee of **Royal Bank of Scotland** to discuss IFRS, 'true and fair view' accounting, as well as recent fines and reputational risk in the banking sector.

### THE FORUM IN THE NEWS

Independent Chair at News Corporation - [Bloomberg TV](#), CNN, CNBC, [Sydney Morning Herald](#), [Independent](#), [Guardian](#), Telegraph

'Aiming for A' Improving carbon reporting at UK companies - [Financial Times](#)

'People and Investment' Report - [The Independent](#), [Employee Benefits](#), [Board Talk](#), Global Proxy Watch

International Financial Reporting Standards - [Responsible-Investor.com](#), [Financial News](#), [IPE](#), [Financial Times](#)

Infrastructure Investment: [Public Finance](#), [Guardian](#)

View more press coverage: <http://lapfforum.org/TTx2/press/in-the-news>

# COMPANY ENGAGEMENT

## LEADERSHIP ON KEY CAMPAIGNS

The LAPFF chair, Ian Greenwood, attended the AGM of **News Corporation** in Los Angeles and spoke in support of the resolution for an independent Chairman as part of ongoing constructive dialogue with company directors. Two LAPFF funds were co-filers on the resolution. In the run-up to the AGM the Forum spoke with several large News Corp shareholders and proxy advisory services. Subsequently both big US advisers, ISS and Glass Lewis, recommended a vote in favour of the resolution, and major investors including CalPERS and CalSTRS also stated their public support.

The resolution for Independent Chair at **News Corp** received 30% of the shareholder vote. Excluding the Murdoch family stake, this represents 67% of the vote.

LAPFF's participation in the investor group of the **30% Club**, continued with the group issuing an update on its Best Practice Guidelines on board diversity, '[Diversity and Stewardship: the Next Steps](#)' at an event to mark the second anniversary of the Group at the London Stock Exchange. The update includes proposed voting policies to promote diverse boards.

## PROMOTING GOOD GOVERNANCE

### Global Focus List Engagement

LAPFF wrote to fifteen companies, listed in the UK, US, France, Spain, Switzerland and Sweden. These companies have been selected for engagement by evaluating company performance on key governance issues. Companies include **Flir Systems**, a former focus list constituent, **Société Générale** where a LAPFF fund co-filed a resolution in 2011 relating to combined roles at the head of the company, and **Carnival Corporation**, where there are ongoing health and safety concerns. The Forum also wrote to five companies that achieved the highest scores in our evaluation in each of the markets to commend them on their good governance practices.

## People & Investment Value

The Forum launched a new publication at the annual LAPFF conference entitled the Forum's publication 'People and Investment Value: Appraising Employee Value Propositions to Distinguish Corporate Performance.' The report identifies how companies can create

"The science tells us committed, as opposed to motivated staff (at all levels), are driven by purpose, a desire to connect with like-minded colleagues, autonomy, mastery and a sense of achievement and progress."

-'People & Investment Value' Report

sustainable value using non-monetary mechanisms to attract, retain and motivate staff. Formulated as a guide for investors, it sets out questions investors can raise with companies or their investment managers.

The questions will enable investors to a) distinguish between companies with compelling employee value propositions and those with weak employee value propositions, b) engage with companies on this basis, and c) provide a platform to encourage companies to improve operating and stock price performance through better human capital management.

## Financial Reporting & Audit

In December, the Financial Policy Committee of the Bank of England warned that banks have been over-optimistic in valuing their books and will have either to restructure their businesses or raise new capital, and to do that will require prudent accounting. LAPFF continues to call for change to international accounting standards and is working with an investor group including the Universities Superannuation Scheme, Royal London Asset Management and others. The group has set out a [position paper](#) arguing that **International Financial Reporting Standards** (IFRS) has failed UK companies and has not provided investors with sufficient assurance that accounting figures prepared under the IFRS provide an accurate picture of the financial health of companies.

A [second position paper](#) signed by LAPFF together with twenty-eight other investors expresses deep concern regarding the failure of **auditors** to provide investors with adequate warnings prior to the financial crisis. It highlights problems in the audit profession and calls for improvements to audit quality, mandatory rotation of audit firms at a minimum every fifteen years, mandatory re-tendering every five to seven years, and setting limits on non-audit work conducted by the auditors.



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LAPFF finished its round of meetings with UK banks, with a meeting with the chairman and audit committee chair of **Royal Bank of Scotland** this quarter. At the meeting, the Forum raised its concerns about accounting standards and the risks they pose to shareholder capital, and sought the company's perspective on the issue.

## MANAGING ENVIRONMENTAL RISK

### Climate Change

The Forum's ongoing involvement in influencing carbon management at corporations continued with the 'Aiming for A' engagement, in conjunction a group of UK charities and pension funds led by investment firm CCLA. The focus of the initiative is on engaging high emitting utilities and extractive companies that have been identified as slower than their peers in implementing carbon reduction measures. An initial meeting was held with representatives of **BP** where we discussed how companies can balance short-term demands against long-term regulatory requirements. Shareholder resolutions are planned for 2013/2014 for those companies that do not provide evidence of how they are improving.

The LAPFF Chair, Ian Greenwood, also met with the Chair of the Institutional Investor Group on Climate Change (IIGCC), Donald Macdonald, to explore where the Forum might align its policy work with that of the IIGCC. The IIGCC has recently announced an agreement to work with similar investor networks in the US and Australia to form the Global Investor Coalition on climate change (GIC).

### Environmental Risk Management

In collaboration with other investors, LAPFF helped increase corporate responses to the CDP **Water Disclosure Project**. Overall, investors wrote to 41 companies in 2012 that had not yet committed to improve disclosure of water-related risks. Five of the companies later agreed to respond to the annual water questionnaire. Both **Marathon Oil** and **McDonalds** agreed to improve water disclosure after receiving letters co-signed by LAPFF. Despite these successes, overall engagement for the group was less effective than in 2011. Future engagement will focus on supply and/or operational risks in the food, beverage or textiles sector.

"More than 600 million people are expected to lack access to safe drinking water by 2015"

-*Global Environmental Outlook, 2012*

## TARGETING SOCIAL ISSUES

### Employment Standards

Engagement with **National Express** continued in October as LAPFF met with the company to discuss unionisation in the US and board diversity issues. Following meetings with union representatives in the US, LAPFF held a second conference call in November. LAPFF outlined its concerns regarding the company's approach to labour relations in the US and there was an agreement to meet again in the New Year.

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## Quarterly Engagement Report | October to December 2012

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The Forum also wrote to **Tesco** this quarter to discuss the future of the US business Fresh & Easy. LAPFF previously identified Tesco's Fresh & Easy subsidiary as presenting certain risks, as it faced significant commercial challenges. There have also been questions regarding human capital management, with reduced staffing levels affecting employee morale and customer service.

# CONSULTATIONS & PUBLIC POLICY

## ENGAGING POLICY MAKERS

LAPFF is a member of the Investor Network on Climate Risk, which now forms part of the new Global Investor Coalition on Climate Change (GIC). GIC, together with UNEP FI and PRI, [released a letter](#) to the governments of the world's largest economies calling for stronger climate and clean energy policies. The letter was announced ahead of international climate negotiations in Doha and coincided with the public launch of GIC.

The Forum met with Baroness Hogg, chair of the **FRC** and Roger Marshall an FRC Board Member to raise concerns regarding IFRS-audited accounts. LAPFF believes that the IFRS accounts of the UK's largest banks do not provide investors with a 'true and fair' view of companies' financial position. The discussion was productive, and extended to cover issues related to the ownership and stewardship responsibilities of investors more generally.

## CONSULTATION RESPONSES

LAPFF responded to a consultation on **greenhouse gas emission reporting regulations** in October, by the Department for the Environment, Food and the Regions (DEFRA). Having long pushed for mandatory reporting, the Forum welcomed the new regulations for providing more consistent advice and support to businesses. The Forum noted that companies need to provide adequate information so investors can determine how carbon management is being factored into business strategy. The Forum further commended the principles-based approach of the Carbon Disclosure Standards Board which aims to align reporting with existing principles and objectives of financial reporting.

The Institute for Chartered Secretaries and Administrators, **ICSA**, issued a consultation this quarter on engagement between companies and investors. LAPFF welcomed the ICSA approach but suggested that an overly bureaucratic approach to engagement can dilute the investor message and lead to less productive outcomes in company meetings. The Forum does not see a need for any intermediary mediation service and prefers direct engagement with company representatives.

The Department for Communities and Local Government's consultation on **Investment in Partnerships** afforded the Forum an opportunity to set out its view on amendments that might

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**Quarterly Engagement Report | October to December 2012**

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appropriate to remove barriers that currently prevent scheme funds from investing in infrastructure projects. The Forum supported the proposal for an increased limit of 30% on investment in limited partnerships. The response also highlighted recent research by the [Smith Institute](#), which was co-sponsored by LAPFF.

All consultation responses submitted by LAPFF can be viewed online at: <http://www.lapfforum.org/consultations>.

## NETWORKS & EVENTS

The LAPFF conference met the usual high expectations with a sell-out event in Bournemouth, with the keynote speaker, **Robert Swannell** chair of M&S starting the event with high praise for the Forum in its previous engagement with the company. Sir Michael Darrington set out his vision for the future on a panel discussing the problem of ballooning executive pay. The panel on the banking crisis addressed concerns regarding IFRS and highlighted the growing chorus of investors voicing concerns. The conference ended with a fascinating keynote speech by Michael Woodford, the former CEO of Olympus, on his experience exposing widespread fraud and mismanagement by the company's directors. Next year's event is expected to take place in Bournemouth in late November or early December 2013.

- **'Investing for Growth'** parliamentary report launch
- **Board Evaluation** seminars by Board Insight & Ffion Hague
- **Institutional Investor Group on Climate Change** AGM
- **Church Investors Group** observer during CDP session
- **Plastic Disclosure Project** webinar on plastic risks
- **Focussed on the Future**, Martin Currie conference on global investment

LAPFF co-sponsored a report, **'Investing for Growth'** which looks into opportunities and barriers to local authority pension fund investment in local projects that offer wider socio-economic benefits. The report was launched at a parliamentary event in October chaired by Clive Betts MP, chair of the DCLG select committee, Paul Hackett of the Smith Institute, and Ian Greenwood.

LAPFF representatives also attended two events that explored current best practice and relevant success factors in revising the UK Corporate Governance Code. The Code introduced provisions on board evaluation almost ten years ago, and more recently has suggested that FTSE 350 companies should have their board evaluations externally facilitated at least every three years.



## COMMUNICATIONS

Forum communications have had a 'revamp' with a redesigned website ([www.lapfforum.org](http://www.lapfforum.org)), the publication of LAPFF's 2012 [Annual Report](#), and an update to the layout and format of the members' monthly email bulletin.

## COMPANY PROGRESS REPORT

Company	Topic	Progress
ASML Holding	Governance	Awaiting Response
Assurant Inc.	Governance	Awaiting Response
Bellway	Governance	Awaiting Response
BNP Paribas	Governance	Awaiting Response
BP plc	Climate Change	Dialogue
Burberry	Governance	Awaiting Response
Carnival Corp	Governance	Awaiting Response
Centrica	Governance	Awaiting Response
Coach Inc.	Governance	Awaiting Response
Cognizant Technology Solutions	Governance	Awaiting Response
Comcast Corp	Governance	Awaiting Response
CRH plc	Governance	Awaiting Response
Flir Systems	Governance	Awaiting Response
Freeport McMoran	Governance	Awaiting Response
Imagination Technologies	Governance	Awaiting Response
Inditex	Governance	Awaiting Response
Lindt & Sprungli	Governance	Awaiting Response
Marshalls	Governance	Awaiting Response
National Express	Employment Standards	Dialogue
News Corporation	Board Structure, Reputational Risk	Dialogue
Resolution Ltd	Governance	Awaiting Response
Royal Bank of Scotland	Finance & Accounting	Dialogue
Société Generale	Governance	Awaiting Response
Svenska Handelsbanken	Governance	Awaiting Response
Tesco	Employment Standards, Reputational Risk	Dialogue



**The Local Authority Pension Fund Forum** was established in 1991 and is a voluntary association of local authority pension funds based in the UK. It exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which its members invest. The Forum's members currently have combined assets of over £115 billion.

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

**PIRC**

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

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

**AUTUMN 2012  
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 **Local Authority  
Pension Fund  
Forum**

# the view from the forum

**Pension Funds Investing  
for Growth**

**Forum Calls for Independent  
Chair at News Corp**

**FRC Consultation on  
Corporate Governance Code  
& Audit Committees**

**Response to FRC  
Stewardship  
Code Consultation**

**Robert Swannell,  
Chairman of M&S,  
to speak at LAPFF  
Conference**



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 October 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

# Pension Funds Investing for Growth

**Many local authority pension funds are starting to show an interest in capital projects (like social housing) that offer wider socio-economic benefits as part of their investment strategies, according to a study produced by The Smith Institute and a research consortium of the Institute, the Centre for Local Economic Strategies (CLES), PIRC and LAPFF.**

The report identifies the challenges facing large scale investment in economic growth potential by local authority government pension funds. The report calls on Government, local government, and the pension fund industry to do more to catalyse the sector including:

- blending and pooling funds,
- better guidance and training for trustees and pension fund officers,
- reforming the rules on the management and investment of funds, and
- establishing a new independent platform (clearing house) to assess the economic, social and environmental value of projects.

The local economic development world, including local enterprise partnerships, also need to improve engaging with and presenting investment opportunities to local authority pension funds.

The detailed and wide-ranging study found that almost all funds have responded to the turbulence in world markets by increasing their exposure to 'alternatives' - private equity and infrastructure. Infrastructure investment was cited in approximately four-fifths of the research interviews. There is a growing interest and action by trustees towards developing new and alternative sources of investment.



But fiduciary responsibilities and 'finance first' were cited as the main reasons for not developing extensive impact investments for wider economic benefit. The question of social return cannot intrude on return or fiduciary responsibilities. No funds said they would be prepared to accept 'less returns' in exchange for achieving social benefit. Equally, current examples of layered investments were in a minority, despite a growing interest to learn more about these types of opportunity.

The report will be launched at Parliament at an event on Wednesday 24th October.



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## Forum Calls for Independent Chair at News Corp

**The Forum has continued to make the headlines during the so-called 'shareholder spring' as a result of its role in challenging pay and accounting standards at UK banks.**

The Forum is stepping up the pressure to reform corporate governance at News Corp, which holds its AGM in Los Angeles on October 16th. As LAPFF members will be aware, some of our members co-filed a shareholder resolution at the company with US-based shareholder group Christian Brothers Investment Services. This called on the company to adopt a policy that the chair of the company should be independent.

This is similar to the resolution the Forum filed at Marks & Spencer in 2009. The Forum has engaged extensively with the company for a number of years over the need for more independent representation on the board, and this escalated again when the hacking scandal broke last year. The engagement with News Corp directors has been positive in tone throughout, and the Forum welcomes the efforts the company has made, albeit belatedly, to clear up the mess left by the scandal.

Nonetheless, on the specific issue of governance reform LAPFF believes that there has not been significant change and we, therefore, decided to proceed with the shareholder resolution. Forum members were sent a LAPFF Alert on News Corp including voting guidance for the AGM encouraging members who hold News Corp to vote in favour of the resolution. In addition, members were encouraged to find out how their asset managers plan to vote on the resolution.

In order to build support for the initiative, the Forum's chair, Ian Greenwood, has met and talked with major News Corp shareholders. LAPFF also held a PRI webinar in order to reach out to global investors. Initial indications indicate that the resolution could achieve a significant vote in favour. We will update members on the level of support following the AGM, which the LAPFF Chair is to attend, in person, to speak in favour of the resolution.



## FRC Consultation on Revisions to the Corporate Governance Code and Guidance on Audit Committees

**In LAPFF's view, the Financial Reporting Council (FRC) needs to be very careful about creating a governance framework that is departing from those duties and protections offered in company law.**

This particular consultation demonstrates how the Code is becoming further removed from the approach of the Cadbury Committee. The Cadbury Report was actually entitled *'The Financial Aspects of Corporate Governance'* and it was explicitly linked to the respective responsibilities of directors and auditors in law, which is to have properly audited accounts that give a 'true and fair view' which provides a standard of accounting practice aimed at the protection of the interests of shareholders and creditors

In our response to the consultation, we have noted the following examples of the FRC moving away from the Cadbury model based on the law:



- The FRC is proposing to introduce the non-statutory term 'fair, and balanced' for the 'annual report as a whole', when in law it is the 'true and fair' view standard of accounting for the accounts, on which the creditor and shareholder protection aspects of financial governance depends.
- The proposal to make it a requirement in the Code for directors to 'engage on governance' with individual bondholders. However, in law, directors already have duties to the company for the protection of its creditors collectively (solventy, going concern and not paying dividends out of capital). Bondholders also have class rights, often policed by trustees to the issue, for which audited financial accounting to a 'true and fair' view standard is evidence of the directors having discharged their duties. Shareholder-led governance, (properly accountable to the shareholders as a class) is then built on top of that.

The core problem is that the accounting regime is creating less assurance for creditors and shareholders due to IFRS accounts overvaluing assets and leaving out losses and contingent liabilities.

continued overleaf →



However, in our view, this FRC proposal, rather than dealing with this is proposing to have creditors individually interfering in corporate governance instead.

In summary, the proposed Code changes are not acceptable as they are deviating from the model of responsibilities of a unitary board in law. The Code is becoming further removed from the approach of the Cadbury Committee. The proposals also suggest the Audit Committee will be expected to take on a new responsibility, beyond that of discharging the duties of the whole board. The proposal suggests the Audit Committee must report on whether the annual report and accounts as a whole are fair, balanced and reasonable. This will require directors to make superfluous statements potentially exposing them to countersuits from auditors for contributory negligence when, in fact, the operational fault is with executives and auditors for providing

directors with faulty information. This does not give a true and fair view, an audited test of director discharge, which has not been adequately considered in the proposed Code changes. There continue to be concerns about the governance of the FRC itself.

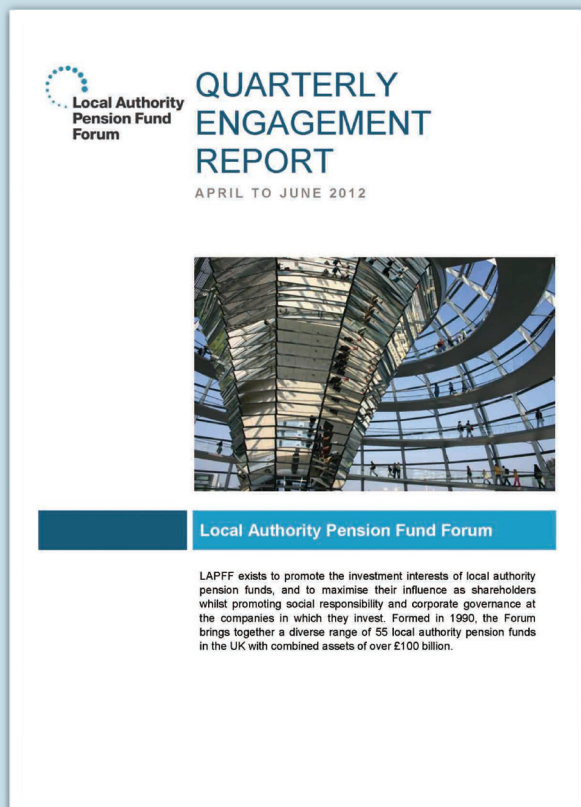
**LAPFF favours the 'true and fair view' standard of accounting, in accordance with the UK Companies Act and EU law and is opposed to the inclusion of any reference to the non-statutory term 'fair and balanced' for the 'annual report as a whole'.**



## Quarterly Engagement Report - April to June 2012

As from the March 2012 business meeting, LAPFF now publishes a research and engagement report as a public document entitled the '*Quarterly Engagement Report*'. This report sets out Forum policy on relevant consultation responses, company engagement and voting recommendations as well as some of the more innovative discussions with companies, such as around the use of non-monetary tools to attract, retain and motivate staff.

The latest report which lists Forum activities and achievements during the last quarter is available at <http://www.lapfforum.org/engagement-reports>



## Response to FRC Stewardship Code Consultation

The Forum has discussed the Code at a number of meetings, in addition to producing a number of briefing papers to assist members in both applying it, and understanding how their asset managers might seek to apply it. As a group of UK asset owners, the LAPFF is interested in promoting long-term investment interests of its beneficiaries. The Forum was created as a collaborative body of shareholders who aim to enhance the long-term value of companies in which it invests. It is a body of active owners. LAPFF is therefore supportive of the aims of the Stewardship Code.

We are, of course, responding in detail but believe that the revised text is generally clearer, and we welcome the emphasis on stewardship being a shared responsibility, rather than something that is done by shareholders to companies.

## Forum Appoints Joint Deputy Chair



The LAPFF is pleased to announce that Peter Brayshaw (*above*), currently chair of the London Borough of Camden Pension Fund, has been appointed as a Joint Deputy Chair of the Forum alongside Councillor Cameron Rose of the Lothian Pension Fund. Councillor Brayshaw, who also chairs Camden's audit and corporate governance committees said: "I believe LAPFF continues to grow in numbers and influence. The coming year will one of great opportunity for our voice to be heard."

## LAPFF 17th Annual Conference

**Robert Swannell**, Chairman of Marks & Spencer, will be the headline speaker at this year's annual conference. Following its high profile engagement with M&S in 2009, the Forum has built a very positive relationship with the company, so this will be an ideal opportunity to hear the inside story from the company. Other confirmed speakers include **John Kay**, author of the recent review on behalf of the Government into short-termism in the equity markets, and **Sir Michael Darrington**, former head of Greggs plc and vocal critic of current executive remuneration practices. In addition, **Michael Woodford MBE**, the former Chief Executive of Olympus, will speak about his experience of the scandal that engulfed the company, and his role in uncovering it. Topics on the agenda of this year's event include the 'shareholder spring', the reputational crisis in the UK banking sector, and the future of the LGPS.

The conference takes place at our usual venue, the Bournemouth Highcliff Marriott Hotel, from November 28th to 30th. To book your place, contact Janice Hayward at [JaniceH@pirc.co.uk](mailto:JaniceH@pirc.co.uk) or telephone 020 7392 7894



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