



LAPFF Special Interest Group Annual Report for LGA

LAPFF MISSION STATEMENT

The Local Authority Pension Fund Forum (LAPFF) was set up in 1991 and is a voluntary association of 53 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 they invest. The Forum's members currently have combined assets of over £95 billion.

DESCRIPTION OF LAPFF AND CURRENT MEMBERSHIP

Bringing together a diverse range of local authority pension funds, LAPFF provides a unique opportunity for discussion of investment issues and shareholder action by Britain's local authority pension funds.

Local authority pension fund investment policies have important implications for their beneficiaries, local communities, council tax payers and the wider economy. The powerful influence gained by such funds acting together as shareholders on issues of common concern has considerable potential in relation to companies where they invest.

The Forum meets quarterly to discuss and debate a broad range of investment issues concerned with shareholder responsibilities and action and has discussed papers on wide range of topics. Agendas are constructed by members of the Forum themselves, and meetings are serviced by PIRC Limited, as the appointed research and engagement partner to the Forum.

The Executive Committee consists of the Forum's Chair: Cllr Ian Greenwood, Bradford MDC (West Yorkshire Pension Fund); Hon Treasurer, Brian Bailey, Wolverhampton MDC (West Midlands Pension Fund); Deputy Chair, Cllr Cameron Rose, City of Edinburgh Council (Lothian Pension Fund); Cllr Neil Fletcher, Aberdeen City Council (North East Scotland Pension Fund); Cllr Jim Middleton, Trafford MDC (Greater Manchester Pension Fund); Cllr Peter Brayshaw, Camden LBC; Cllr Geoffrey Watt, Wirral MDC (Merseyside Pension Fund); & Cllr Toby Simon, Enfield LBC.

SOME KEY OUTCOMES

- At Marks and Spencers, Marc Bolland took over as CEO and Robert Swannell was appointed as Chairman. This followed a long process of engagement on separation of powers at the head of the company and included the Forum's 2009 shareholder resolution which asked the company to appoint an independent chairman by July 2010.
- W M Morrisons published its ethical trading code in 2010. This was a key Forum 'ask' in engaging with the company and is part of our work to encourage best practice in overseas employment standards.
- The Forum's global focus list, which identifies companies with risk profiles on a range of governance issues, has seen notably positive responses to engagement in 2010 with a near 100% response rate and most companies demonstrating improvements.
- In its policy engagement the Forum supported the FRC recommendation on annual election of directors which is now incorporated in the UK Corporate Governance Code.

Summary of Activities

Corporate Governance Activism

The LAPFF Global Focus List continued to guide focussed engagement on governance concerns with companies in the UK, Europe and the US. Using top stocks in each market and screening them against a market-specific set of metrics, LAPFF identified companies performing poorly in respect of remuneration practices and other core corporate governance issues. A major achievement of this year's engagement is the increase in the response rate from companies, their willingness to meet with LAPFF and ultimately evidence provided in a significant number of cases of a move towards better practice.

Executive pay: non-financial drivers of results and reward

In 2010, activity was focussed on contributing to the reform agenda, engaging with leading companies, and planning further work. In 2010, LAPFF met with then Department of Business, Innovation and Skills (BIS) minister Ian Lucas, to set out LAPFF's thinking on issues such as remuneration reform and shareholder engagement. In addition LAPFF met with then Treasury select committee chair, John McFall, to detail the Forum's engagement with the UK banks. In February engagement letters were sent to Legal and General and United Utilities to request meetings with the companies' remuneration consultants. In September the LAPFF chair met with Legal & General's remuneration committee chair, Sir David Walker, who led the 2009 review of the governance of banks and other financial institutions.

Audit

LAPFF responded to a number of consultations during the year relating to audit and associated regulatory functions. These included the Auditing Practices Board's (APB) consultation advocating a prohibition of the provision non-audit services by the audit firm; the BIS consultation on Notices of auditors leaving office; the APB consultation on Auditor Scepticism and the EC Green Paper on Audit policy.

The FSA showed a particular interest in LAPFF's work on audit committee reporting and took the opportunity to meet and discuss this.

Climate Change

The Forum further developed its position on climate change by publishing the LAPFF statement on climate change and the LAPFF Trustee Guide on Climate Change. Engagement continued with BP and Shell, in particular on tar sands developments and related shareholder resolutions filed at their AGMs. Voting advice was provided for member on related topics at a number of other oil and gas company AGMs. Engagement with BP also continued around health and safety risk management, brought into greater focus by the Gulf of Mexico oil spill.

Further collaborative approaches to palm oil were developed; initially through meeting with WWF to discuss their Palm Oil Buyers' Scorecard which assesses company performance. The Forum joined a group of investors co-ordinated by the UNPRI investor group which is currently liaising on a working group membership of the Roundtable on Sustainable Palm Oil (RSPO). The Forum also continued to support the Forest Footprint Disclosure project, and wrote to a number of companies to promote the initiative.

LAPFF continued its support of the Carbon Disclosure Project (CDP) by signing up to the CDP 2010. The Forum collaborated with the UNPRI CDP10 engagement group feeding into follow-up activity as in previous years. The Forum became a signatory to the CDP's new water disclosure initiative and wrote to 304 companies expressing support along with other investors.

On the policy front, LAPFF was a co-signatory to letters to the Security and Exchange Commission (SEC) chair Mary Shapiro to support issuing interpretive guidance on climate change.

Employment Standards

Ongoing engagement paid off in 2010 as LAPFF saw Morrisons publish an Ethical Trading Code which has been sought by the Forum through ongoing discussions since 2003. In addition, improvements in the company's governance of sustainability issues in their annual reporting were supported.

LAPFF continued engagement on dual approaches to labour standards at National Express and Deutsche Telekom regarding employee relations in the

US. In both cases, US unions had alleged that the companies' policies are not in line with the UK and German standards of operation. LAPFF also engaged with both British Airways and the Unite trade union to express concern over the financial impact of ongoing industrial action. In May the Forum met with Tesco on the issue of the treatment of workers in the UK meat and poultry supply chain.

Obesity

The Forum met again with the chair of Associated British Foods, Charles Sinclair, the company secretary and deputy company secretary in February 2010. At this meeting a commitment was given by the company on its CR reporting and specific concerns over supply chain management and health issues were discussed. The company subsequently issued its first CSR report in December 2010.

In July, LAPFF continued its dialogue with Professor Tim Lang of City University who expressed his support for the Forum's engagement work and the possibility of collaborating in the future.

Positioning the Forum

Part of LAPFF's remit is to liaise with government, opposition parties and the investment industry to promote LAPFF views and influence policy relating to corporate governance and responsible investment. An integral part of this is Forum responses to appropriate consultations, and LAPFF provided its input to thirteen different consultations in 2010. These ranged from setting out LAPFF's position on the UK Stewardship Code, responding to the Hutton report and to the BIS consultation on the future of narrative reporting.

Collaborative engagement

In order to achieve the most effective use of resources, the Forum will take the opportunity to engage collaboratively where there are appropriate opportunities. In particular, the Forum participated in a number co-ordinated through the UN Principles for Responsible Investment (UNPRI) Clearing house. These included engagement with South Korean companies on improving environmental, social and governance (ESG) disclosure; participation in the Sudan engagement group; the palm oil working group; engaging with Vedanta and participation in a consortium on 'Acting in Concert' (AIC) regarding clarifying AIC legislation in EU member states. LAPFF is a signatory to the PRI as a professional service provider, and provides a reporting template to member funds on completing the PRI annual assessment.

LAPFF Member Authorities

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