



# QUARTERLY ENGAGEMENT REPORT

JANUARY TO MARCH 2013



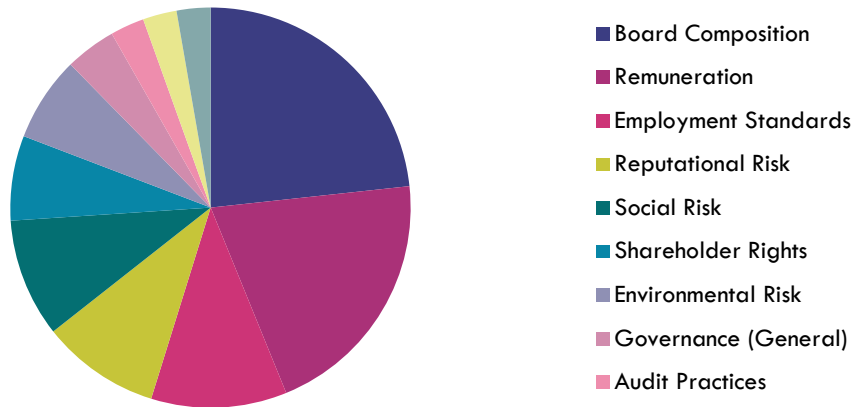
## Local Authority Pension Fund Forum

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

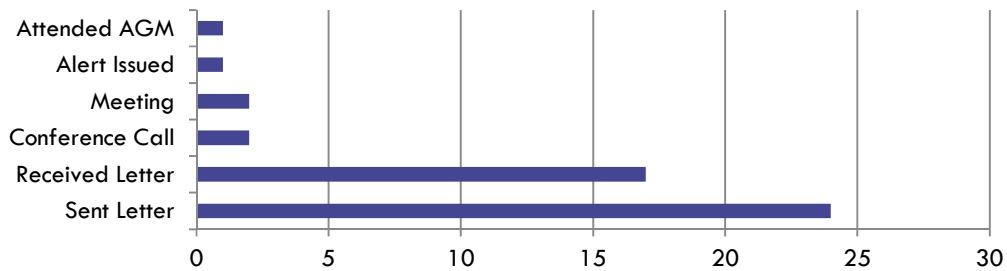
# ENGAGEMENT SUMMARY

JANUARY TO MARCH 2013

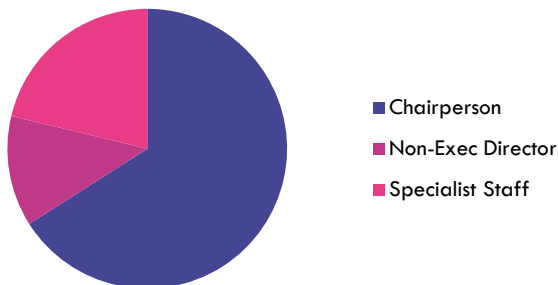
## Topics



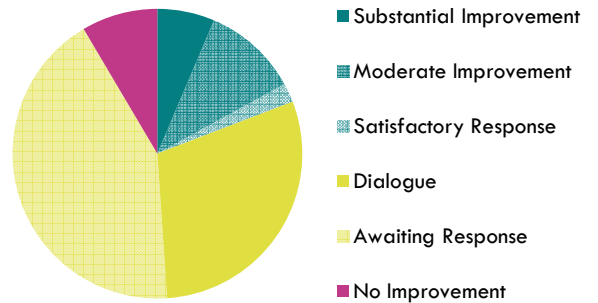
## Activities



## Company Contact



## Outcomes



# ACHIEVEMENTS

- Launched LAPFF's new 'Expectations for Executive Pay,' and sent the document to the FTSE 350 Chairmen for consideration.
- Met with the chairman of **British American Tobacco** to discuss health risks related to the manufacture and sale of tobacco products.
- Attended the **Lonmin** AGM to enquire about the company's ongoing response to issues flagged up by the violent strike at its Markiana mine.
- Received reply from **Tesco** on questions raised regarding business risks and labour concerns at its Fresh & Easy operations in the United States.
- Engaged in ongoing dialogue with **National Express** on disparity in application of global labour standards
- Wrote to **JP Morgan & Chase** welcoming the decision by the remuneration committee to reduce the CEO's remuneration following the recent trading scandal and subsequent financial losses in its London offices.
- Held a conference call with **Comcast** regarding separation of chair and CEO, majority voting and the company's dual class share structure.
- Participated in an investor call with directors of **Hewlett Packard** regarding the controversial takeover of **Autonomy** and subsequent questions raised about its Auditors.
- Met the senior independent director at **Société Generale** to discuss the concentration of power held by the joint chair/chief executive.

## THE FORUM IN THE NEWS

LAPFF's new expectations on executive pay - [Financial News](#), [Investment & Pensions Europe](#), [Bloomberg](#), [The Independent](#)

EU reviews accounting rules - [CityAM](#)

New LAPFF Chair – [Municipal Journal](#), [Investment & Pensions Europe](#), [Professional Pensions](#), [Portfolio International](#)

Investor concern over flaring of natural gas – [CSR Wire](#)

Pension funds & infrastructure investing – [The Guardian](#)

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

# COMPANY ENGAGEMENT

## LEADERSHIP ON KEY CAMPAIGNS

LAPFF initiated engagement this quarter with the two British listed tobacco companies in an effort to understand how they manage health and liability risks, as well as how they are planning for future restrictions on the sale of tobacco products. The Forum Chair met with the Chairman of **British American Tobacco** to discuss members' concerns regarding social and health concerns, regulatory risks, and voluntary restrictions on marketing and advertising.

Increasingly, companies are approaching the Forum to proactively seek its views on key governance issues. We were pleased when **Standard Chartered** and **Legal & General** contacted LAPFF this quarter seeking meetings to discuss governance issues. These approaches from companies are a testament to the progress LAPFF has made in positioning itself as the leading shareholder advocacy body that brings a unique perspective to the debate from local authority funds.

## PROMOTING GOOD GOVERNANCE

### Global Focus List Engagement

Continuing previous engagement, LAPFF met with the senior independent director of **Société Generale**, to follow up on a shareholder resolution, co-filed by LAPFF member, West Yorkshire, for the separation of powers at the head of the company.

Following on its engagement in 2012, LAPFF wrote to **JP Morgan & Chase**, welcoming the company's decision to adjust the CEO's pay downward this year as a result \$6 billion in losses from the "London whale" trading scandal. Last year LAPFF had expressed concern about remuneration at the company. In its letter, LAPFF also reiterated the call for the company to appoint an independent Chair.

"We've been a long-time believer in linking pay to performance, and we think that linkage was made in this case"

- California State Teachers Retirement System (CalSTRS) on JP Morgan Remuneration decision

The Forum held a conference call with **Comcast** to discuss concerns regarding the joint Chair/CEO position, majority voting, and the dual class share structure. We were also pleased to receive a letter from **Flir Systems** indicating that following engagement by shareholders, the company has agreed to declassify the board and implement majority voting for directors.

We received responses from several companies that we wrote to last quarter to congratulate them on achieving a good governance rating in LAPFF's annual Global Focus List review. The companies welcomed LAPFF's effort to write and acknowledge the positive governance

practices they had implemented. Finally, we wrote follow up letters to companies that had not responded to our request to meet, sent in December 2012.

## Financial Reporting & Audit

The Parliamentary Commission on Banking Standards has heard more evidence highlighting the problems with accounting standards. Head of Financial Stability Andrew Haldane said on 21<sup>st</sup> January 2013:

### Parliamentary Commission on Banking Standards

**Pat McFadden MP:** “Is this [IFRS] not like driving only with a rear-view mirror?”

**Professor Stella Fearnley:** “I think it is driving with a blindfold.”

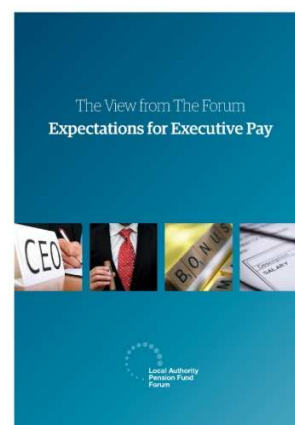
*“On our back-of-the-envelope estimates, the extent of structural under-provisioning by the UK banks pre-crisis ran to tens of billions of pounds – non-trivial amounts of money, which should have been set aside. Deducted from capital, that would have shown UK banks in somewhat less rude health than appeared to be the case in 2005 and 2006.”*

On the basis of the LAPFF [banks post-mortem](#) report, by the middle of 2008, UK banks were underprovided (i.e. loans were overvalued) by almost £100bn.

The International Accounting Standards Board (IASB), the Big 4, and Institute of Chartered Accountants of England and Wales (ICAEW) have taken an approach of denying the problem with IFRS. However there are signs from written evidence from Baroness Hogg of the Financial Reporting Council (FRC) that the FRC position is moving. Furthermore the ongoing FRC consultation on the Sharman Review of Going Concern reflects the concern that it is only possible to make a fair assessment of going concern status on the basis of prudent accounting policies.

## Executive Pay

In March, LAPFF launched a new document outlining fifteen key considerations for companies when setting executive pay. ‘[Expectations for Executive Pay](#)’ calls into question the recent steady increase in executive awards and sets out a new vision for executive pay. Features include a request that companies set incoming executive pay below that of their predecessor, discontinue the use of peer benchmarking for the purpose of pay, and phase out long-term incentive plans. The Forum expects to engage with corporate boards on these fifteen principles in an effort to address investor and stakeholder concerns about pay.



## MANAGING ENVIRONMENTAL RISK

### Climate Change

As part of its involvement with the Carbon Disclosure Project (CDP), LAPFF has joined the carbon action group which asks companies to implement cost effective carbon emissions reductions which deliver a satisfactory return on investment. Targeted engagement for 2013 will be oriented around member holdings.

LAPFF continues to be a signatory to CDP and to CDP water disclosure which engages companies to disclose their exposure to water risks and opportunities.

“Currently the world’s forests store 283 billion tons of carbon in their biomass”

-UN Food & Agriculture Organisation

### Environmental Risk Management

The **Forest Footprint Disclosure** project published its annual review, which indicated that 100 companies agreed to disclose information on their use of forest products, a 15% increase from 2011. Companies new to the disclosure process this year included **Colgate-Palmolive Co.**, **Groupe Danone**, **Gucci**, and **HJ Heinz Company**. Several British firms were highlighted as leaders: **Sainsbury’s**, **Marks & Spencer**, **BSkyB**, and **British Airways**. LAPFF is an investor supporter of the Forest Footprint Disclosure project, which canvasses companies’ use of key commodities with known ties to deforestation, namely soy, beef, palm oil, biofuels, and timber.

Given the substantial public interest in shale gas development in the UK, LAPFF wrote to **BG Group** and **Centrica** seeking information on the company’s intentions for shale gas development in the UK. The Forum is aware of the potential economic value of domestic shale gas development, but is also interested in monitoring the environmental and social risks.

## TARGETING SOCIAL ISSUES

### Employment Standards

Members of the Forum attended the annual meeting of platinum miner **Lonmin** this quarter to question the company on its response to the violent strike at its Marikana mine in August 2012. LAPFF wrote to the Chairman last August expressing condolences for the loss of life and urging restraint and caution with regard to the company’s negotiations with striking workers. Forty-six people were killed when violence erupted at the company’s South African mine.



### Lonmin's Plan

1. Improve union relations
2. Empower employees through share ownership & cooperation
3. Improve work-life balance for migrant workers
4. Revise the shift system to make better use of assets
5. Improve housing and accommodation

LAPFF was pleased by the Chairman's remarks at the Lonmin AGM, which highlighted the company's commitment to improve living conditions for workers, reconsider the company's shift-work structure, and engage more productively with communities and workers. Richard Greening, LAPFF Executive member and representative of Islington Pension Fund, spoke at the AGM to encourage the board to take steps to address the labour and human rights concerns at the mine. A follow up discussion with the corporate secretary following the meeting provided LAPFF with further insights into the company's plans to address some of the underlying concerns of the miners.

LAPFF received a response from **Tesco** regarding its letter on the company's labour practices and its business strategy in the US. Tesco's Fresh & Easy brand has been struggling, and the company announced it is selling the business. A request to meet with board members has been unsuccessful, however LAPFF plans to follow up with relevant senior managers. **National Express** and LAPFF also have an ongoing dialogue regarding its human capital management practices and union relations in the US.

## CONSULTATIONS & PUBLIC POLICY

### ENGAGING POLICY MAKERS



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LAPFF is a member of an investor coalition led by Universities Superannuation Scheme (USS) seeking to raise concerns with policy makers on the detrimental impact of IFRS on company accounts. The group met with Andy Haldane and others at the **Bank of England** in February 2013 to express its concerns and hear the views of the Bank on IFRS.

LAPFF also co-signed a letter with other global investors to **US regulators** calling for improvements to the country's corporate governance regime. The letter is a follow up to a similar letter signed by LAPFF in 2009.

### CONSULTATION RESPONSES

Two consultation responses were submitted this quarter. The first was to the **Financial Services Authority (FSA)** on the UK listing rules. LAPFF argued against the proposal for a two-step process for electing directors and reiterated that it should raise the 25% threshold.

The second consultation was in response to the **Financial Reporting Council (FRC)** on financial reporting disclosure. In this response, LAPFF opted to write a letter to Baroness Hogg expressing concern about the consultation itself and choosing not to answer the specific consultation questions. In the Forum's view, the FRC consultation fails to address the key issues of financial reporting failures. LAPFF's pointed to a previous meeting with Baroness Hogg in which the Forum expressed serious concerns about the role that IFRS has in distorting financial reporting.

All consultation responses submitted by LAPFF can be viewed on [our website](#).

## NETWORKS & EVENTS

- **Employee Engagement** – 'Practically Positive' research presentation
- **Forest Footprint Disclosure project** – annual review launch
- **Beyond business as usual** – Food Ethics Council report
- **PRI signatory event** – panel discussions on responsible investment
- **Sustainable Capitalism** – Tomorrow's Finance event
- **PIRC corporate governance conference** – presentation on LAPFF's new strategy on executive pay

## ANNUAL ELECTIONS

Cllr Kieran Quinn of Greater Manchester Pension Fund was elected as LAPFF's new Chair at the January annual meeting, with Ian Greenwood and Cameron Rose appointed as Vice-Chairs. Cllr Geoffrey Watt retired from the LAPFF Executive Committee and the Executive thanks him for his contribution to the Forum over the last several years. Cllr Patricia Glasman of Merseyside Pension Fund and Cllr John Gray of Newham were elected to the Executive.



**Cllr Kieran Quinn, Chair**  
Greater Manchester Pension Fund



**Cllr Patricia Glasman**  
Merseyside Pension Fund



**Cllr John Gray**  
LB of Newham



# COMPANY PROGRESS REPORT

Company	Topic	Outcome
Bellway	Board Composition, Shareholder Rights	Awaiting Response
BG Group	Environmental Risk, Climate Change	Satisfactory Response
BNP Paribas	Board Composition, Remuneration	Awaiting Response
British American Tobacco	Social Risk, Reputational Risk	Dialogue
Burberry	Board Composition, Remuneration	Awaiting Response
Carnival Corp	Remuneration, Employment Standards	No Improvement
Centrica	Environmental Risk, Social Risk	Awaiting Response
Coach Inc.	Board Composition, Remuneration	Awaiting Response
Cognizant Technology Solutions	Shareholder Rights	Awaiting Response
Comcast Corp	Board Composition, Shareholder Rights	No Improvement
CRH plc	Governance (General)	Substantial Improvement
Deutsche Post	Employment Standards, Reputational Risk	Dialogue
Flir Systems	Board Composition, Remuneration	Moderate Improvement
Freeport McMoran	Remuneration, Social Risk	Awaiting Response
Hewlett Packard	Audit Practices	No Improvement
Imagination Technologies	Shareholder Rights, Remuneration	Awaiting Response
Imperial Tobacco	Social Risk, Reputational Risk	Dialogue
Inditex	Board Composition, Remuneration	Dialogue
JP Morgan	Remuneration, Board Composition	Moderate Improvement
Legal & General	Remuneration	Dialogue
Lindt & Sprungli	Board Composition, Remuneration	Awaiting Response
Lloyds Banking Group	Finance & Accounting	Substantial Improvement
Lonmin	Employment Standards, Reputational Risk	Dialogue
Marshalls	Governance (General)	Substantial Improvement
National Express	Employment Standards, Reputational Risk	Dialogue
National Grid	Climate Change	Awaiting Response
RBS	Finance & Accounting	Dialogue
Reckitt Benckiser	Environmental Risk	Moderate Improvement
Resolution Ltd	Campaign (General), Audit Practices	Awaiting Response
Rio Tinto	Climate Change	Awaiting Response
Société Generale	Board Composition	Moderate Improvement
Standard Chartered	Board Composition	Dialogue
Svenska Handelsbanken	Board Composition	Dialogue
Tesco	Employment Standards, Reputational Risk	Dialogue



# Local Authority Pension Fund Forum

**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  
Greenwich 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  
Staffordshire Pension Fund  
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