



QUARTERLY ENGAGEMENT REPORT

APRIL TO JUNE 2013



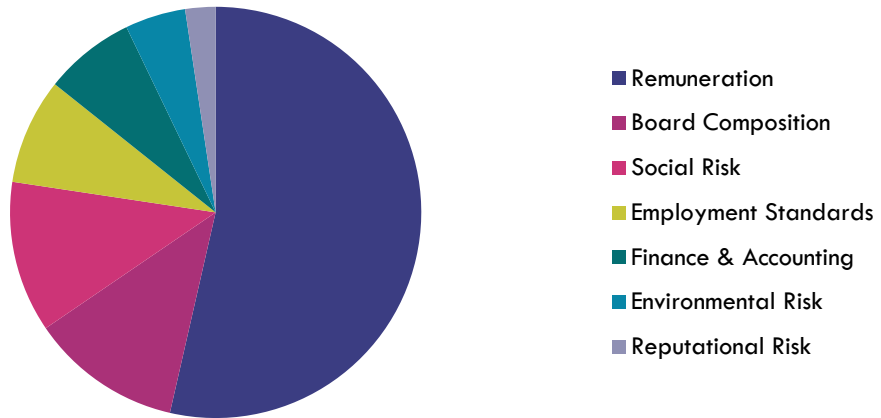
Local Authority Pension Fund Forum

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.

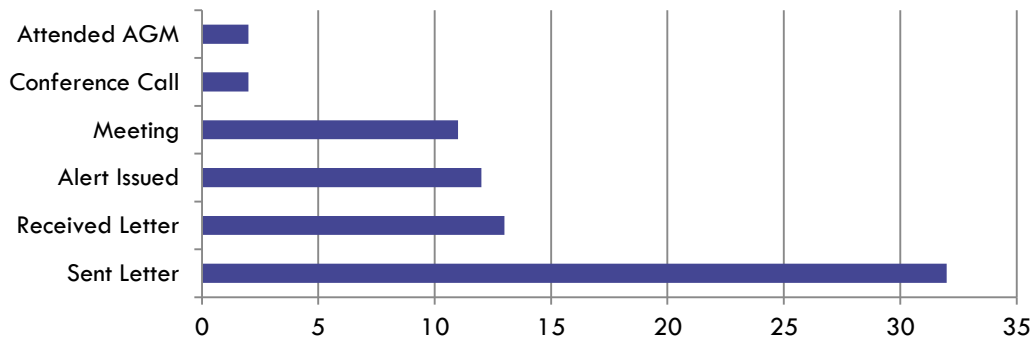
ENGAGEMENT SUMMARY

APRIL TO JUNE 2013

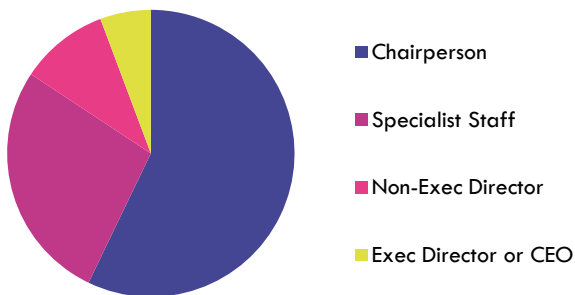
Topics



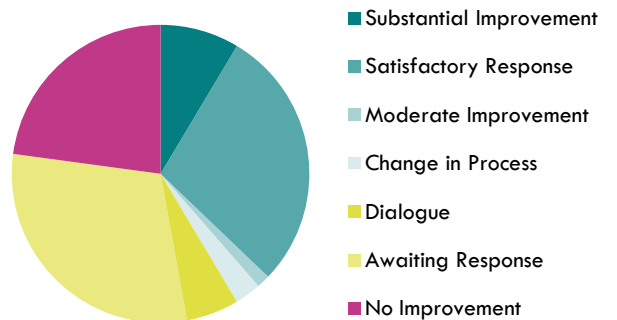
Activities



Company Contact



Outcomes



ACHIEVEMENTS

- Issued 14 voting alerts in the proxy season on a number of issues including on executive pay, joint Chair/CEO and carbon management: **Carnival, AstraZeneca, Barclays, National Express, BAE Systems, Aviva, Royal Bank of Scotland, Prudential, Comcast, JP Morgan, ExxonMobil, WPP, Marks & Spencer, and Freepoint McMoRan.**
- Attended the AGMs of **Barclays** and **National Express**.
- Met with the Chair of **Associated British Foods** regarding supplier employment standards following the Bangladesh factory tragedy. LAPFF also signed an investor statement calling for improvements to factory standards for workers' safety.
- Sent LAPFF's new **Expectations on Executive Pay** to the FTSE 350 seeking feedback from a list of 16 companies in advance of their AGMs.
- Held meetings with **Société Générale, WM Morrison Supermarkets, and Legal & General** on executive pay.
- Met with **Imperial Tobacco** to discuss the health risks of tobacco products and the company's harm-reduction strategy.
- Discussed carbon management strategy with representatives of **Rio Tinto**. Received feedback from **Centrica** regarding opportunities and risks in the UK shale gas market.
- Met with the Chairman of **Standard Chartered** regarding Board structure and renewal.

THE FORUM IN THE NEWS

Pension funds call for review of accounting standards

[The Telegraph](#), [Bloomberg](#), [Reuters](#), [Washington Post](#), [The Guardian](#)

LAPFF questions RBS' accounts

[The Times](#), [Financial News](#), [Bloomberg](#), [The Scotsman](#)

Investors push for independent Chair at News Corp

[Professional Pensions](#), [The Guardian](#)

LAPFF opposes Barclays' accounts

[The Independent](#), [The Wall Street Journal](#), [Fox Business](#), [Bloomberg](#)

LAPFF recommends against AstraZeneca's pay

[The Telegraph](#), [Financial Times](#), [Reuters](#), [The Independent](#), [Bloomberg](#)

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

COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

In response to member concerns regarding the social and public health concerns associated with tobacco companies, LAPFF met with representatives of **Imperial Tobacco**. The issues discussed included harm reduction initiatives, regulatory risks, marketing and advertising practices, and global supply chain standards.

LAPFF also met with the Chairman of **Standard Chartered** at the Company's request to discuss ongoing changes at the Board level. Increasingly, companies are approaching LAPFF to initiate proactive discussions regarding governance, which demonstrates the progress LAPFF has made in terms of developing mutually beneficial relationships with the companies our members invest in.

We also held a meeting with **Trinity Mirror** to discuss ongoing investigations into phone hacking and the reputational consequences for the media industry.

PROMOTING GOOD GOVERNANCE

Global Focus List Engagement

Engagement with our focus list of companies on governance issues continued this quarter. Our activities focused more on issuing voting alerts in the run up to company annual meetings. We issued an alert on **JP Morgan**, recommending members vote for a shareholder proposal to appoint an independent Chair, and to vote against the re-election of Jamie Dimon, the Company's Chairman and CEO. The shareholder proposal received support from 32% of shareholders. LAPFF first initiated engagement with JP Morgan in 2012 in relation to the joint Chair/CEO role and on executive pay.



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LAPFF issued a similar alert on the joint Chair/CEO role at **Comcast Corporation**, a 2013 Global Focus List company. In this case, LAPFF recommended a vote against the Chairman and CEO, and against the Chairman of the Nomination Committee.

Financial Reporting & Audit

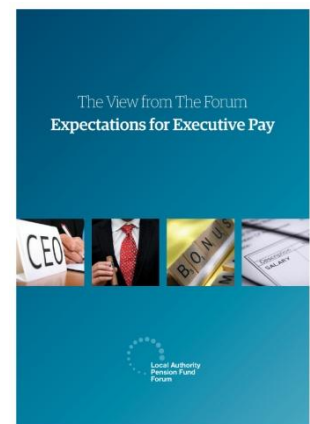
The Forum continues to be one of the leading advocates on the need for accounting standards to properly reflect a true and fair view of companies' financial position. The Forum is concerned that the true and fair view has been misrepresented, equating it to proper reporting against the accounting standards, rather proper reporting in line with the spirit of the law.

This quarter, we issued voting alerts at **Royal Bank of Scotland (RBS)** and **Barclays**, recommending members vote against the report and accounts on the basis that the companies' true financial position is not accurately reflected in their reports due to the use of International Financial Reporting Standards (IFRS). The Forum is concerned that the banks' reporting has implications for capital adequacy, noting that the Financial Policy Committee is making material adjustments to the public accounts. Press reports on the true capital positions of the banks are very similar to numbers LAPFF published in its [Bank Post Mortem](#) in 2011. RBS, which has the largest capital gap by both LAPFF's calculations and press reports, has not made any public disclosure of the company's estimate of the size of the gap.

LAPFF submitted evidence to the Commission to the **Parliamentary Commission on Banking Standards**, which reported in June. The QC opinion commissioned by LAPFF and several other investors raises significant concerns regarding the legal position of IFRS adoption and endorsement. The findings of the QC opinion have serious implications for all companies, the Financial Reporting Council, and the International Accounting Standards Board. As a result, the Forum has written to Standard Chartered, Barclays, HSBC and Lloyds seeking the Boards' views on the Opinion. You can view the full text of the [QC opinion](#) on the LAPFF website.

Executive Pay

In April, LAPFF launched its "**Expectations for Executive Pay**" document, which outlines LAPFF's new strategy on executive pay. There are a total of fifteen "expectations" set out for companies, some of which reference several long-standing LAPFF policies, such as "no golden hellos," the provision of fair pension arrangements, and exercising "reasonableness" with regard to the quantum of pay. The document also sets out several new policy positions, including the phase out of long-term incentive plans, the consideration of employee views, transparency in the executive recruitment process, and the publication of pay ratios.



Copies of the document were sent to the Chairmen of the FTSE 350 for their information, and a subset of 16 companies was asked for their specific response to our new proposals. Thirteen companies from the FTSE 350 list responded to indicate they had circulated the document to their Remuneration Committees, with two companies (**Centrica** and **Dunelm Mill**) indicating their Committees would specifically consider the document at upcoming Board meetings.

Four voting alerts recommending a vote against companies' remuneration reports were issued on the back of the launch of the Expectations document. At **AstraZeneca**, concerns were raised regarding a golden hello payment to the incoming CEO. For **Aviva**, **BAE Systems** and **Prudential**, LAPFF had concerns regarding the overall quantum of awards. On **Barclays**, LAPFF recommended an abstain vote on the remuneration report, in recognition of the Company's intention to review pay practices next year with a mind to simplifying the bank's pay.

LAPFF also held meetings with **WM Morrisons Supermarkets** and **Legal & General** to receive feedback on the Forum's new approach to pay.

MANAGING ENVIRONMENTAL RISK

Climate Change

LAPFF was joined by the Church Commissioners and the Church of England at a meeting with **Rio Tinto** to discuss the company's approach to carbon management. This is part of a wider investor initiative, 'Aiming for A' which aims to support companies working towards a transition to low-carbon production and to encourage improvement in CDP (carbon disclosure project) scorings. Rio Tinto agreed to continue communications regarding its business strategy for long-term sustainability.

"Adopt quantitative goals, based on current technologies, for reducing total greenhouse gas emissions from the Company's products and operations and report to shareholders...on its plans to achieve these goals"

- Shareholder Resolution at ExxonMobil

In keeping with previous years, LAPFF issued a voting alert at **ExxonMobil** recommending a vote in favour of a shareholder proposal asking the Company to set out greenhouse gas emissions reduction goals. The proposal has been filed at the Company for several consecutive years, and last year received 27% shareholder support. A recommendation was also made to vote for a proposal asking Exxon to appoint an independent Chair.

Environmental Risk Management

LAPFF met with **Centrica** this quarter to develop a better understanding of the Company's views on the potential risks and benefits of developing a UK shale gas market. The discovery of shale gas in the UK has the potential to provide a stable source of energy that will help bring energy prices down and supply the UK with energy for 40 years or more. However there are a number of risks associated with the extraction process, which uses hydraulic fracturing. Centrica shared its views on the potential for large scale shale gas development in the UK, and how it believes the environmental and social risks can be managed.

TARGETING SOCIAL ISSUES

Employment Standards

Following the tragic factory collapse in Bangladesh, LAPFF wrote to **Associated British Foods (ABF)** to seek a meeting to discuss the Company's response. ABF and LAPFF have a history of engagement concerning overseas supply chains, and had discussions on this issue several times between 2005 and 2011. After several improvements in the Company's reporting and disclosure, LAPFF determined it was satisfied with the Company's progress. However following the tragedy in Bangladesh, clearly there was a need to re-initiate discussions in an effort to support the Company as it works collaboratively with other companies to improve overseas factory standards.



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In response to a complaint about labour practices filed by unions under the OECD multinational enterprises guidelines, LAPFF held a conference call with the head of investor relations at **Deutsche Post DHL**. The company agreed that employment practices in some markets, such as Turkey, had fallen short of its expectations, and it was looking to roll out global standards across the group. Dialogue will continue once the response to the OECD is clear.

As part of its continuing engagement with **National Express** over employment issues in its US schoolsbus business, LAPFF signed a statement calling on the company to improve oversight and reporting of human capital issues. LAPFF issued an Alert ahead of the AGM, and vice-chair Ian Greenwood attended and spoke at the meeting. The company continues to defend its stance and has offered a further meeting with the LAPFF chair.

The Forum held a meeting with **Tesco** to discuss the announced review of its US business Fresh & Easy. LAPFF had previously engaged with Tesco over employment issues, and the former chair met with Fresh & Easy employees in the US, at which point it became clear that the business was in difficulties and a further meeting was sought. LAPFF asked whether the company had learned lessons from the US experience and could have engaged with employee concerns earlier. The company agreed that earlier engagement may have been beneficial and said that lessons had been learned, but that there had also been benefits to the US experience.

CONSULTATIONS & PUBLIC POLICY

CONSULTATION RESPONSES

The Forum submitted several consultation responses this quarter. We expressed support for the **Financial Reporting Council's (FRC)** proposed reforms to require the auditor's report to address risks of material misstatement, materiality and a summary of the audit scope. LAPFF also issued a response to **The Sharman Inquiry** on Going Concern. In its paper, LAPFF highlighted that assessing going concern requires prudent accounting policies, and that this assessment is not consistent with IFRS in several material respects. LAPFF co-signed a paper to the **UK Competition Commission** to advocate in favour of mandatory audit rotation, and backed a letter to the **Financial Conduct Authority (FCA)** raising concerns regarding the failure of the listing regime to provide basic corporate governance protections for investors.

NETWORKS & EVENTS

Representatives of LAPFF regularly attend conferences and events on behalf of members. A list of recent events is listed below.

- **Barclays annual meeting**
- **National Express annual meeting**
- **Unburnable carbon** - UKSIF sponsored event
- **Commodities trading** – UKSIF sponsored event
- **30% Club Seminar** – hosted by Bloomberg
- **RI Europe Conference** – hosted by responsible-investor.com
- **Investors and Diversity Panel** – hosted by BNY Mellon
- **Board effectiveness** - Centre for Financial Innovation roundtable
- **Access to Nutrition Index** – hosted by F&C

COMPANY PROGRESS REPORT

Company	Topics	Outcome
Anglo American	Remuneration	Satisfactory Response
Associated British Foods	Employment Standards, Social Risk	Satisfactory Response
AstraZeneca	Remuneration	No Improvement
Aviva plc	Remuneration	No Improvement
BAE Systems	Remuneration	No Improvement
Barclays	Finance & Accounting	Awaiting Response
British American Tobacco	Social Risk	Satisfactory Response
British Sky Broadcasting	Remuneration	Awaiting Response
Burberry	Remuneration, Board Composition	Dialogue
Carnival Corp	Remuneration	Awaiting Response
Centrica	Environmental Risk, Social Risk	Satisfactory Response
Comcast Corp	Board Composition	No Improvement
Deutsche Post	Employment Standards	Dialogue
Dunelm Mill	Remuneration	Satisfactory Response
Enterprise Inns	Remuneration	Satisfactory Response
ExxonMobil	Environmental Risk, Board Composition	No Improvement
Freeport McMoran	Board Composition	Moderate Improvement
Fresnillo	Remuneration	Satisfactory Response
Glencore International	Remuneration	Awaiting Response
Hays	Remuneration	Satisfactory Response
HSBC	Finance & Accounting	Awaiting Response
Imagination Technologies	Remuneration	Awaiting Response
Imperial Tobacco	Social Risk, Reputational Risk	Satisfactory Response
JP Morgan	Board Composition	No Improvement
Laird PLC	Remuneration	Satisfactory Response
Land Securities	Remuneration	Satisfactory Response
Legal & General	Remuneration	Substantial Improvement
Lloyds	Finance & Accounting	Awaiting Response
Meggitt	Remuneration	Satisfactory Response
Melrose plc	Remuneration	Satisfactory Response
National Express	Employment Standards	No Improvement
National Grid	Remuneration	Dialogue
Petra Diamonds	Remuneration	Satisfactory Response
Prudential	Remuneration	No Improvement
Resolution Ltd	Remuneration	Awaiting Response
Rio Tinto	Environmental Risk	Change in Process
Royal Bank of Scotland	Finance & Accounting	No Improvement
SABMiller	Remuneration	Awaiting Response
Smith & Nephew	Remuneration	Awaiting Response
Société Générale	Remuneration	Substantial Improvement

Company	Topics	Outcome
Standard Chartered	Board Composition, Remuneration	Satisfactory Response
Tesco	Employment Standards	Change in Process
Trinity Mirror	Reputational Risk, Social risk	Dialogue
Vesuvius (formerly Cookson)	Remuneration	Awaiting Response
Weir Group	Remuneration	Satisfactory Response
WM Morrison Supermarkets	Remuneration	Substantial Improvement
WPP	Remuneration	No Improvement



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

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 Council
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
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North Yorkshire CC Pension Fund
Northamptonshire CC
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