



QUARTERLY ENGAGEMENT REPORT

JULY TO SEPTEMBER 2013



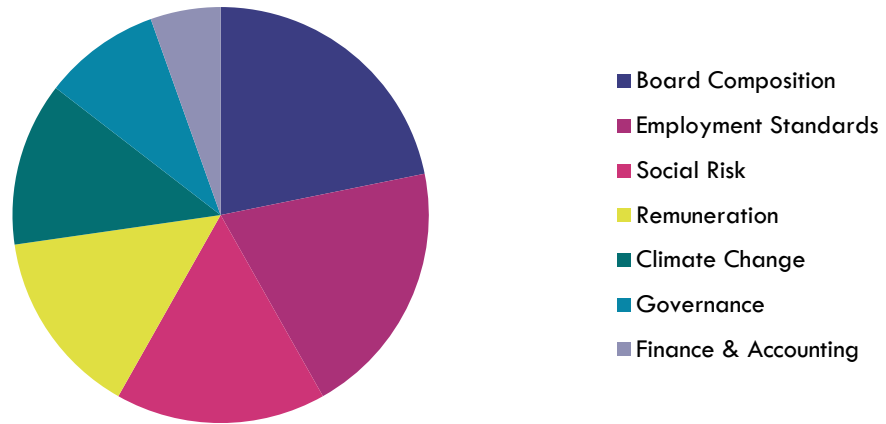
Local Authority Pension Fund Forum

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.

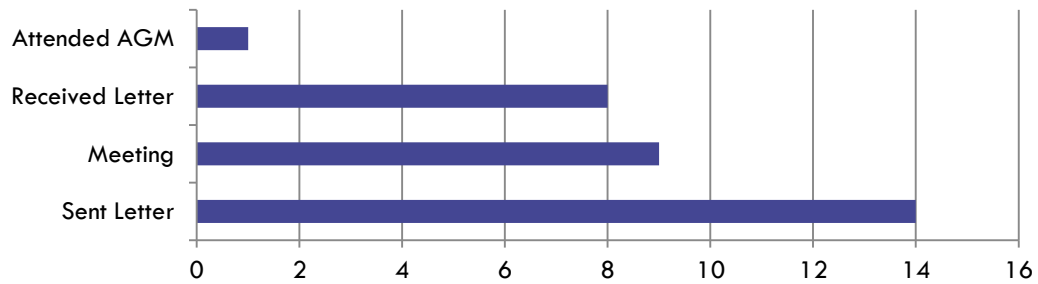
ENGAGEMENT SUMMARY

JULY TO SEPTEMBER 2013

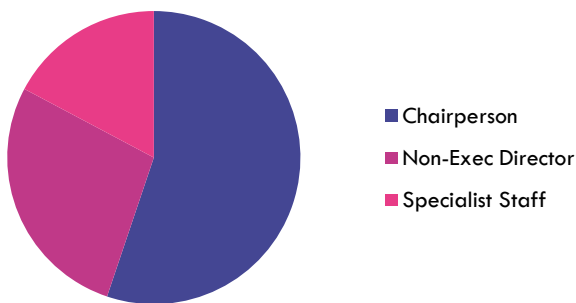
Topics



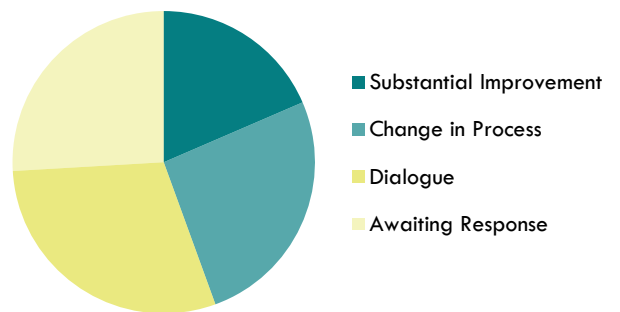
Activities



Company Contact



Outcomes



ACHIEVEMENTS

- Attended the annual meeting of **Marks & Spencer** to express support for the Chairman Robert Swannell and the CEO, Mark Bolland. Held meetings with three companies identified in our annual global focus list: **Burberry**, **Bellway** and **Imagination Technologies**.
- Met with **Sainsbury's plc** to enquire about the impact of the Bangladesh factory tragedy on its supply chain and sourcing practices. Met with **Lonmin** to discuss ongoing challenges at the Marikana mine and the efforts by the company to settle the union dispute and improve working conditions.
- Focused on carbon emission management with **National Grid** chair, the company subsequently improved its CDP scoring, as did **Rio Tinto**, with whom the Forum met earlier in the year.
- Received responses from **Lloyds**, **HSBC** and **Standard Chartered** on their views on the impact of the Bompas QC opinion on the legality of IFRS. Barclays replied last quarter.
- Corresponded with **Kier Group** about the recent concerns that UK companies were involved in blacklisting staff that raised health and safety concerns with management.
- Advocated in favour of mandatory audit re-tendering in a letter to the **UK Competition Commission**.

THE FORUM IN THE NEWS

Investors question the credibility of IFRS
[Compliance Week](#), [The Telegraph](#)

LAPFF attends Marks & Spencer AGM
[The Telegraph](#), [Herald Scotland](#), [Euronews](#)

Climate change collaborative engagement with Rio Tinto
[Responsible Investor](#)

LAPFF maintains pressure on executive pay
[Professional Pensions](#)

Investors want better tax disclosure from extractive companies
[aiCIO](#)

COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

Four years after tabling a resolution at the **Marks & Spencer** annual meeting seeking an independent chair, LAPFF returned to the M&S AGM this year to express its support for the board, the leadership of Robert Swannell and the governance changes the company has made. LAPFF is aware of the pressures the company is under to turn around its clothing business and upgrade its IT and logistics infrastructure, but believes that taking a long-term view of the company's strategy is most prudent.



The Forum also continues to follow the phone hacking scandal. During the quarter, **News Corporation** shareholders approved a break-up of the company. The television and entertainment business is now owned by the surviving entity which was renamed **21st Century Fox**, and the publishing and newspaper business is owned by a new entity going by the name of News Corporation. Rupert Murdoch remains Chair and CEO of 21st Century Fox, and the Chairman of News Corporation. The original resolution filed at News Corp to appoint an independent Chair, which is supported by LAPFF, will be on the ballot at the October annual meeting of 21st Century Fox, the surviving entity.

Finally, LAPFF wrote to the Lead Director of **JP Morgan** welcoming the more robust powers granted to him, but re-iterating our request that the Company appoint an independent Chair.

PROMOTING GOOD GOVERNANCE

Global Focus List

In our governance engagement, LAPFF followed up with several companies we corresponded with during the proxy season. In a meeting with **Imagination Technologies** LAPFF expressed concerns about executive pay, board diversity, director nominations, and poll voting. The company has grown significantly in recent years and is in the process of revising its governance to keep pace with this change.

LAPFF approached **Bellway** plc regarding its director nomination process and the decision to appoint the CEO as Chair while delaying the vote on his re-election until 2014. LAPFF also discussed its views on Board diversity in the meeting and was encouraged by the company's recruitment process and the number of women on its recruitment short-list.

Aiming for A Investor Group

'It is our collective fiduciary duty to engage in transformational change, through amplifying long-term investor voices on climate change.'

Financial Reporting & Audit

Following the publication of the Bompas QC opinion on International Financial Reporting Standards (IFRS) last quarter, LAPFF continued to campaign for improvements to the financial accounting standards. Bompas highlighted serious issues regarding IFRS that have implications for director duties.

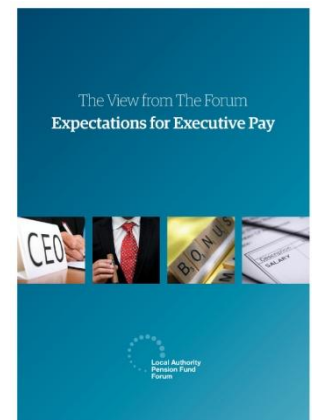
LAPFF wrote a follow up letter to each of the banks seeking their views on the Bompas opinion. Each bank responded to our letter indicating they were aware of the

opinion and were currently considering the report of the **Parliamentary Commission on Banking Standards**. They also indicated they were waiting for more guidance from the Bank of England, the Financial Conduct Authority and the Prudential Regulation Authority before formulating a further response.

Executive Pay

Following on the successful launch of LAPFF's new [Expectations for Executive Pay](#), we held meetings with Afren and Burberry to discuss each company's approach to executive pay. **Afren** recently lost its remuneration vote by a wide margin confirming shareholders' ongoing concerns about pay at the company. LAPFF had last met with Afren in 2012 to discuss pay. In the meeting this quarter LAPFF sought an explanation of the poor vote results from the new remuneration committee chair and expressed concerns about the pay structure, performance conditions, and discretionary bonuses. While the company is in the process of reforming its pay, this is a company LAPFF will continue to watch.

A meeting has been arranged with **Burberry** due to concerns about the company's adjusted profit measures and the impact this had on pay in the year. LAPFF also has questions about the board, and the plans for appointing new independent non-executive directors.



MANAGING ENVIRONMENTAL RISK

Climate Change

As part of the 'Aiming for A' coalition with other investors, LAPFF is advocating that major UK-listed utility and extractive companies make carbon management an integral part of the business strategy. Companies are encouraged to aim for inclusion in CDP's Climate Performance Leadership Index (CPLI) by achieving an 'A' rating.

At a meeting with the Chairman of **National Grid**, LAPFF supported progress on governance, strategy and target-setting, as well as initiatives contributing to emission reductions. The

company has subsequently raised its CDP rating from a 'C' to a 'B'. The rating for **Rio Tinto** which the Forum engaged with in the last quarter, also improved from a 'C' in 2012 to a 'B' in 2013.

A meeting with representatives from **Royal Dutch Shell**, included discussion of action the company can take relating to its Scope 3 emissions (those related to commercial activities) which are much larger than their direct emissions. The company remained a 'B' in the 2013 scorings which were revealed in September. Taking into account feedback from a range of company meetings, the group is encouraging CDP to develop sector frameworks, to more closely reflect the strategic challenges unique to the energy, materials and utilities sectors.

In September, LAPFF joined other investors representing almost \$3 trillion in assets under management writing to the world's 50 largest energy and power companies on carbon asset risk. Companies were asked to disclose information on capital expenditure plans and the risks associated with development and use of reserves in light of the emerging stranded assets debate.

TARGETING SOCIAL ISSUES

Employment Standards

The RANA Plaza factory collapse in Bangladesh has had a significant impact on how companies think about factory safety. Following our meeting with Associated British Foods last quarter, LAPFF wrote to **Sainsbury's**, **Tesco**, **Next**, and **N Brown Group** to ask how those companies have responded to the increased scrutiny on Bangladesh.

Although **Sainsbury's** did not have suppliers in the RANA Plaza, it was clear from our meeting with the company that they are not resting on their laurels and have put in place a number of initiatives to address building safety concerns. **Next** had a similar response.

More than 4 million people work in the garment industry in Bangladesh. It is the second largest apparel exporter next to China.

LAPFF also met with the Chair of **Lonmin** this quarter to get an update on the company's response to the Marikana mine incident in August 2012. We were pleased to hear Lonmin has reached a settlement with the Association of Mining and Construction Workers. It has also put in place a strategy to implement the five point plan to address working conditions and community relations which was first announced at its January 2013 annual meeting.

Finally, on the back of recent media reports that several UK construction firms were involved in blacklisting of union workers that reported health and safety concerns, LAPFF wrote to **Kier Group** to seek the companies' views. Kier Group replied, stating that its joint venture BFK had agreed a statement with Unite on the issue.

CONSULTATIONS & PUBLIC POLICY

ENGAGING WITH POLICY-MAKERS

The Forum exchanged letters with the **Financial Reporting Council (FRC)** regarding the Bompas QC opinion on IFRS. LAPFF has done further research on earlier FRC Opinions regarding the issue of true and fair view. Our research shows that the Bompas Opinion does not disagree with Mr Moore's 2008 Opinion for the FRC on the law. Mr Bompas' concern with the Moore Opinion is that he cannot extract a true and fair view (or fair presentation) requirement from IAS 1, nor is there an ability to override an IFRS in order to achieve it.

There are issues around the 1993 Opinion of Mary Arden QC. An academic paper from 1993 written by a former ASB and IASB board member, states that Arden QC had confirmed that what true and fair view *meant* was changeable according to the views of accountants. However, neither that Opinion, nor those before or after it, all from the same chambers, says anything of the sort. The opinions could not be more explicit that what true and fair view means is the same as it did when it first went into legislation in 1947. The opinions state that the content to achieve it is dynamic and can change, but not the meaning. The 1983 Hoffman/Arden Opinion states that true and fair view is the standard required for the accounts to comply with company law irrespective of any codification of accounting methods also put into statute. The function of company law, and the accounts for it, is shareholder accountability including capital maintenance for shareholder and creditor protection (solvency and lawful distributions included).

In June 1993 David Tweedie is quoted in a Financial Times article saying that the 1993 Opinion had changed the law, giving him power to take standards in a different direction. It has been the false impression, created by accountants, around a legal opinion that itself is correct on the law that has been used to set standards, and a Framework (for both the ASB and the IASB) that positively deviates from company law, including masking insolvency, a situation entirely at odds with the law.

On other issues, LAPFF sent a letter to the **UK Competition Commission** to advocate in favour of mandatory audit retendering and raising concerns about the concerns about market concentration in the audit industry. The Forum also joined other investors in writing both to the **US Securities and Exchange Commission** and **Natural Resources Canada** to urge the adoption of a consistent global standard for all significant tax and royalty payments made by extractive companies across their global operations.

In 2011, the Forum supported the US **Environmental Protection Agency's (EPA)** authority to regulate carbon emissions. Via its membership of the Investor Network on Climate Risk (INCR) LAPFF co-signed a letter to President Obama this quarter to support carbon pollution standards for electric power plants, the biggest source of carbon emissions in the US. The EPA has now proposed new performance standards for gas and coal-fired electricity generation stations.

The LAPFF Chair also met with the **Green Investment Bank** who wished to discuss the substantial carbon savings to be had from investments such as off-shore wind, waste and energy efficiency projects which provide the right level of financial returns.

CONSULTATION RESPONSES

LAPFF submitted a consultation response to the **International Integrated Reporting Council** (IIRC) on its draft reporting standards. In our response, we welcomed efforts by the IIRC and advocated that any future reporting standard should provide concise communication on strategy, governance, performance and prospects in the context of short, medium and long-term value creation.

As it continued to push for improved regulations on corporate governance, LAPFF responded to a consultation by the **Department for Business Innovation and Skills** (BIS) consultation on transparency of UK company ownership and increasing trust in UK businesses.

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

NETWORKS & EVENTS

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

- **Marks & Spencer annual meeting**
- **30% Club Global Launch** – hosted by EY
- **Responsible Tax seminar** – hosted by UK SIF
- **Sustainable Investing best practice lecture**
- **Analysis of reporting trends in the FTSE 100** – hosted by Black Sun
- **Zero Carbon Britain** – hosted by the All Party Parliamentary Group on Climate Change
- **Portfolio Carbon** – hosted by UNEP FI

COMPANY PROGRESS REPORT

Company	Topics	Outcome
Afren	Remuneration, Board Composition	Change in Process
Bellway	Board Composition, Governance	Substantial Improvement
Burberry	Remuneration, Board Composition	Dialogue
HSBC	Finance & Accounting	Dialogue
Imagination Technologies	Board Composition, Remuneration	Change in Process
J Sainsbury	Employment Standards, Social Risk	Substantial Improvement
JP Morgan	Board Composition	Awaiting Response
Kier Group	Employment Standards	Dialogue
Legal & General	Remuneration	Dialogue
Lloyds	Finance & Accounting	Dialogue
Lonmin	Employment Standards, Social Risk	Change in Process
Marks & Spencer	Board Composition, Governance	Substantial Improvement
N Brown Group	Employment Standards, Social Risk	Awaiting Response
National Grid	Climate Change	Change in Process
Next plc	Employment Standards, Social Risk	Dialogue
Royal Dutch Shell	Climate Change	Dialogue
Standard Chartered	Finance & Accounting	Dialogue
Tesco	Employment Standards, Social Risk	Awaiting Response



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

Avon Pension Fund
Barking and Dagenham LB
Bedfordshire Pension Fund
Camden LB
Cheshire Pension Fund
City of London Corporation
Clwyd Pension Fund
Croydon LB
Cumbria Pension Scheme
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
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 Midlands PTA Fund
West Yorkshire Pension Fund
Wiltshire CC
Worcestershire CC