

PENSIONS COMMITTEE – 8 JUNE 2005

LOCAL AUTHORITY PENSION FUND FORUM UPDATE

SUMMARY

This report highlights the issues considered at the Local Authority Pension Fund Forum (LAPFF) meetings since the last meeting of the Committee.

RECOMMENDATION that

This report on the activities of the LAPFF be noted.

1. Background

The Committee agreed in February 2003 that the Council should become a member of LAPFF. This report notes the main issues discussed at the LAPFF's meeting in April.

2. Main Issues

(a) Shareholder Action Engagement

Directors' Remuneration

PIRC continued to send out regular alerts to LAPFF members regarding concerns over companies' remuneration policies, so that consideration can be given as to how to vote at the relevant company's AGM. Since April this alert service has been expanded to include other issues of corporate governance and social responsibility. The alerts continue to receive press coverage and put pressure on companies to conform to best practices, but remuneration issues still attract most coverage.

In Bexley, when an alert relates to a company in which the Pension Fund holds shares, the alert is brought to the attention of the appropriate investment manager. Their voting intentions are requested in the light of the alert and comments sought.

Overseas Employment Standards

Interviews with selected companies are underway to discover how they are addressing and managing the risks relating to operating in China, particularly with respect to labour standards in the supply chain.

Pressure continues to be put on Morrisons to persuade them to be more open and act upon their proposals for better corporate governance.

Greenhouse Gas Emissions

LAPFF commissioned a report from consultants Envirosearch on the best way forward on these issues. Their main recommendations, which have been endorsed, are:-

- That direct engagement should be undertaken with companies on issues of climate change in sectors with long-term research and development programmes. Dialogue with particular companies would be around the range of climate change management issues identified by the Envirosearch study, which apply particularly to the sector.
- That the engagement strategy be formulated to provide trustees with a convincing set of arguments based on the research and analysis provided of why climate change is an issue; how it will impact on portfolio investments and what changes companies should be adopting to mitigate these impacts. The primary goal is to influence companies to make a positive response to the challenge of climate change in their long term R&D practice to change the way in which they undertake their business.
- That the results of engagement with companies be designed to show that there will be a notable difference in company actions. This improvement should be illustrated through a commitment to better practice and better disclosure on a range of issues. The aim of the engagement process with companies is to have a greater impact than that created by focussing purely on disclosure of direct emissions.
- That LAPFF determines the universe from which companies are to be selected, with the FTSE 350 proposed initially. To start with, as a pilot study, the oil and gas sector has been chosen by the Executive and the criteria set out in 'implications for shareholder engagement' in the Envirosearch study is to be applied using all available information to determine and select poorer performing companies for engagement.
- That, in parallel with the pilot study, the largest shareholdings of LAPFF members should be identified and used to select future sectors and companies for engagement.

(b) Company Workforce Practices

LAPFF are preparing an Investor Guide to act as the basis for engagement with companies over workforce issues.

Engagement with companies seen to be under-performing in certain sectors continues, with current work in the Leisure and Food Producers sectors.

(c) Fund Managers and Good Practice In Corporate Governance

LAPFF are producing a best practice guideline against which to evaluate fund managers.

(d) Other Items

LAPFF are also looking at the corporate governance aspects of mergers and acquisitions, and how influence can be brought to bear on the agenda for audit reform.

3. Summary of Financial Implications

The cost of membership of the LAPFF is met by the Pension Fund.

4. Summary of Other Implications

Membership of LAPFF seeks to address issues of how the Council's Pension Fund investment can take account of environmental, human rights and equal opportunities issues.

Local Government Act 1972 – section 100d

List of background documents

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