

**Spring 2011 Edition**

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**Local Authority  
Pension Fund  
Forum**

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joins the Forum

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The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of 53 public sector pension funds based in the UK. LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.

For more information about the Forum, contact Forum Officer, Keith Bray on 07811 800612.

Alternatively, you can email [postmaster@keithbray.plus.com](mailto:postmaster@keithbray.plus.com) or visit our website at [www.lapfforum.org](http://www.lapfforum.org)

## LAPFF membership as at 1 March 2011

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

# Work Plan 2011-2012



## Positioning the Forum in 2011-2012

**The LAPFF will maintain and develop its identity as a key 'voice' representing long-term investor interests. We will:**

- liaise with government, opposition parties and the investment industry to promote LAPFF's views, and influence policy on corporate governance and responsible investment;
- respond to the ongoing governance reform agenda arising from the financial crisis and increase LAPFF's profile in the public policy arena, especially outside the UK;
- engage with investment managers regarding their ESG performance;
- respond to specific member requests relating to the work plan.

**The LAPFF will ensure that it is aware of and responding to key ESG risks globally and is identifying appropriate engagement strategies. We will:**

- respond to and develop engagement strategies on issue-led or company specific instances of concern on environmental, social and governance (ESG) issues including developing collaboration with other investors;
- develop engagement strategies for companies in emerging markets/Asia Pacific.

**The LAPFF will ensure that we are maintaining networks and monitoring developments. We will:**

- maintain market intelligence on issues relating to LAPFF mission statement and areas of interest;

continued overleaf →

- optimise collaborative opportunities in engagement programmes.

## **Corporate governance activism**

**The LAPFF will continue to foster engagement and links with other investors establishing LAPFF as a global activist organisation. We will:**

- implement the Forum's global, focus-list based engagement strategy by engaging constructively on governance concerns with identified companies in order to improve long-term value;
- build relationships with overseas companies and develop the Forum's understanding of the corporate governance systems particular to these markets.



**The LAPFF will promote the Forum's views on incentivising executives. We will:**

- pursue the Forum's engagement strategy on non-financial business performance, remuneration and motivation;
- take the lead among institutional investors on the development of a consensus approach to incentivising executives.

**The LAPFF will develop critical awareness of the limits of contemporary auditing practice, insofar as it departs from stewardship based audits for the benefit of the shareholders, and continue direct engagement with company audit committees and regulatory bodies on such limitations. We will:**

- develop the Forum's approach on current issues by monitoring and responding to appropriate reports and consultations putting particular emphasis on ensuring the consistent delivery in policy making of the corporate protection 'stewardship' aspect of the audit work;
- pursue direct company engagement focusing on quality of audit committee reports and on disclosure of policies of awarding non-audit work;
- develop the Forum's approach on audit firm-specific issues in respect of their general business model and terms of appointment/re-appointment.

## Corporate responsibility engagement

**The LAPFF will maintain engagement focus to promote critical awareness of the impact of climate change on company and industry sectors and the associated risks to shareholder value in order to promote transparency, longevity and certainty for investee companies on the management of climate change risk. We will:**

- further LAPFF engagement with global companies concerning the likely impacts of climate change on industry sectors and associated risk to shareholder value;
- pursue engagement with Government to seek certainty on UK objectives regarding managing systemic climate change risks, mandating emission reporting and encouraging emission reductions through effective legislation;
- maintain and strengthen collaborative partnerships to promote focussed engagement.

**The LAPFF will continue developing a critical awareness among companies and investors of the importance of linking the value of human capital management to company business strategy in a transparent and meaningful way. We will:**

- further the adoption of best practice in labour standards internationally by focussing on harmonising labour standards within global companies linking

the value of human capital management to company business strategy in a transparent and meaningful way;

- maintain momentum in the engagement with the FTSE 100 on overseas employment standards and on employment issues with identified company under-performers.



**As well as looking forward to 2011/12, the January business meeting gave members the opportunity to reflect on Forum activities and achievements in the latter part of 2010. These included:**

- the launch of the trustee guide 'Investing in a Changing Climate';
- regulatory engagement including responses to Auditing Practices Board; Department for Business Innovation and Skills and Financial Services Authority consultations;
- in December, after two years of engagement emphasising the value of a group-wide approach to managing overseas employment standards, Associated British Foods (ABF) published its first group-wide corporate responsibility report.

# LAPFF engagement with BP

The Forum has engaged with BP since 2006 on its health and safety management, including promoting the linkage of health and safety management to executive incentives. After the Gulf of Mexico oil spill in 2010, BP announced its intention to conduct a fundamental review of how the group incentivises business performance, including reward strategy, with the aim of encouraging excellence in safety and risk management.

The US Christian Brothers Investment Services, co-filed a resolution to the BP 2011 AGM asking the independent members of the board to conduct a review of the current risk assessment and risk management plans including emergency response plans in place for each of the company's major projects in North America. Other co-filers included the Finnish pension insurer, Ilmarinen; the Swiss Ethos Foundation, Calvert; financial services group, Everence, and the investor coalition, Ceres.

Since the oil spill, there have been significant structural changes at the company, including new plans to overhaul safety operations and a detailed review of how third-party contractors are managed. On withdrawing the resolution, the filers stated they wanted to engage with the company - using "tried and tested local stewardship approaches" - in the hope that BP can demonstrate it is systematically addressing its operational and strategic risks.



The US Chemical and Hazard Investigation Board (CSB) is currently conducting an investigation into the BP oil spill. The CSB had identified "several emerging key issues" about the way safety was managed at BP's Macondo well, including a failure to ensure a 'separate and distinct' focus on preventing major accidents. The CSB also cited problems associated with inappropriate performance indicators and reward systems, which were linked to personal safety and not systematic safety issues and indicators.



*Oil slick in the Gulf of Mexico*

©Associated Press

The US is heavily regulated, but this had not prevented the catastrophic spill in the Mexican Gulf, and there is additional concern regarding BP's joint venture in Russia and the relative level of regulation likely to be imposed in that region. Unsurprisingly therefore there is a high level of debate within the industry over what is the most appropriate safety strategy at the regulatory level. Currently, the US approach heavily focuses on detailed rules and regulations, which some argue fails to identify potential problems, while the UK system places the legal and financial responsibility on oil and gas companies to determine potential risks on the drilling rig or production platform, after which regulators are provided with the practices and technologies that would be used to avoid or deal with the mishap. The UK approach is often referred to as the "safety case" approach. The US government is reportedly studying this approach as a possible template for their country moving forward.

In December 2010, the US Justice Department announced that it had filed a civil lawsuit against BP in a New Orleans court over the Macondo spill. BP's partners, who are also included in the lawsuit including Mitsui, Anadarko Petroleum, deepwater rig owner Transocean, and the Macondo rig's insurer QBE, a unit of Lloyds of London, are all in the firing line. It should be noted that QBE is also held by a number of LAPFF members. The US government is accusing all the companies involved of breaking a host of federal safety and operational regulations. The exact monetary amount for potential damages is unknown at this time.

LAPFF last met the BP chairman, Carl-Henric Svanberg, in September 2010, and is seeking a meeting with the new CEO, Bob Dudley, and with Mark Bly, head of safety. LAPFF's ongoing engagement with BP will continue and will take into account the worldwide risk management issues for BP.



# Bedfordshire Pension Fund

The Bedfordshire Pension Fund is the latest fund to join the Forum, taking our membership to 53 funds. **Forum Chair, Councillor Ian Greenwood, said: "We are delighted that the Bedfordshire Pension Fund has joined our ranks. Every additional member enhances the LAPFF's**

**effectiveness in taking forward our engagement activities on environmental, social and governance issues, as well as broadening the spectrum of views that we can draw upon when addressing the wide range of issues confronting LGPS funds."**

## New LAPFF Executive elected

**The following members were elected to the Forum's Executive at the AGM in January.**

<b>Cllr Ian Greenwood</b>	West Yorkshire Pension Fund	Chair of LAPFF
<b>Cllr Cameron Rose</b>	City of Edinburgh Council	Deputy Chair of LAPFF
<b>Cllr Neil Fletcher</b>	NE Scotland Pension Fund	Forum Executive
<b>Cllr Geoffrey Watt</b>	Merseyside Pension Fund	Forum Executive
<b>Cllr Jim Middleton</b>	Greater Manchester Pension Fund	Forum Executive
<b>Cllr Toby Simon</b>	London Borough of Enfield Pension Fund	Forum Executive
<b>Cllr Peter Brayshaw</b>	London Borough of Camden	Forum Executive
<b>Brian Bailey</b>	West Midlands Pension Fund	Honorary Treasurer

**It was also agreed that the LAPFF constitution be amended to allow up to three officers to be elected to serve on the Executive.**



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