



QUARTERLY ENGAGEMENT REPORT

JULY TO SEPTEMBER 2012



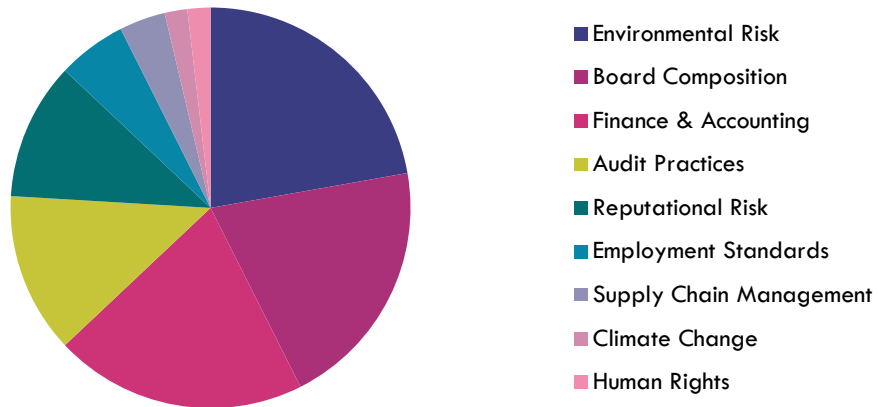
Local Authority Pension Fund Forum

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 55 local authority pension funds in the UK with combined assets of over £115 billion.

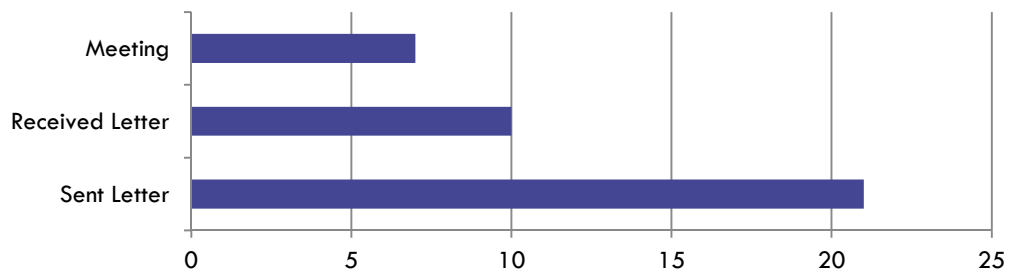
ENGAGEMENT SUMMARY

JULY TO SEPTEMBER 2012

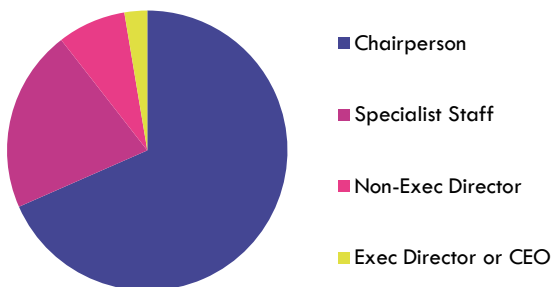
Topics



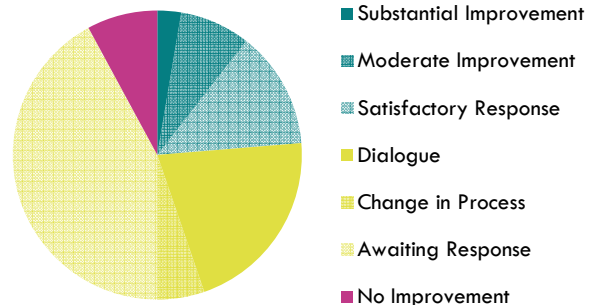
Activities



Company Contact



Outcomes



ACHIEVEMENTS

- Met with directors at **Barclays**, **Lloyds**, **HSBC** and **Standard Chartered** directors to discuss IFRS, 'true and fair view' accounting, as well as recent fines and reputational risk in the banking sector.
- LAPFF member funds signed an open letter to Rupert Murdoch from Class A shareholders asking the **News Corp** board to appoint an independent Chair at its successor companies.
- Wrote to the Chair of **Lonmin** to express deep concern regarding violence at the company's South African platinum mine and to encourage the board to implement best practice principles in its relationships with police and security forces.
- Discussed sustainability and responsible supply chain management with **Kingfisher**, the parent company of household name B&Q. Met with **Reckitt Benckiser** on labour standards and supply chain management.
- Met with **Rolls-Royce** to discuss the company's role in reducing airline greenhouse gas emissions through improved jet engine technologies.
- Received responses from **EOG Resources** and **Wal-Mart** to the request that they participate in the CDP Water questionnaire. Both companies have declined to participate again this year. LAPFF also wrote to ten companies requesting they provide a response to the **Forest Footprint Disclosure** project.
- Sent letters to 36 companies in the FTSE 350 encouraging them to meet the **board diversity** targets set out by the Davies Review. We received responses from 12 companies on their measures to consider diversity in the boardroom.

THE FORUM IN THE NEWS

Investor calls for audit reform – [Professional Pensions, 25 Sept](#)

Local investment opportunities – [AICIO, 20 Sept](#)

News Corp shareholder resolution – [Institutional Investor, 4 September](#), [Telegraph, 5 September](#)

Independent Chair at News Corp - [BBC News, 18 July](#), [The Telegraph, 18 July 2012](#), [International Business Times, 19 July](#)

Bob Diamond's Remuneration - [The Guardian, 3 July](#)

View more press coverage: http://www.lapfforum.org/press_coverage

COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

Upon hearing of the horrific violence at **Lonmin's** West Markiana mine, LAPFF wrote to the Chair, Roger Phillimore, to express deep concern regarding the violence, asking the board to take due care in its relationships with police and security forces. The letter encouraged the company to refrain from issuing back to work orders to striking workers, for fear it would lead to more violence. It also asked the company to review community and workplace grievance mechanisms in light of the social unrest. The company responded swiftly to LAPFF's letter outlining its position with regard to the conflict. LAPFF was pleased to hear that the company has softened its stance; however tensions at the mine remain high and the company faces real financial risk.

PLATINUM FACTS

- 80% of world's platinum reserves are in South Africa
- 12% of global supply is produced by Lonmin mines
- 31% is used for catalytic converters
- 28% goes to producing jewellery

Members of LAPFF signed an open letter to **Rupert Murdoch** sent by 18 investors holding non-voting Class A shares and representing US \$1.6 trillion in assets. The letter expressed the investors' support of the shareholder resolution filed by Christian Brothers Investment Services and co-filed by two LAPFF member funds requesting that News Corp appoint an independent chair. Class A shareholders do not have the right to file shareholder proposals or vote at the company's annual meeting. The LAPF chair met with UK investors to build support for the shareholder resolution and a webinar was held for US and other overseas investors.

Finally, LAPFF wrote to 36 companies on the FTSE 350 encouraging them to consider **diversity** when making appointments to the boardroom. To date, 12 companies have responded to the letter, highlighting the steps they are taking to implement the recommendation of the Davies Review which asks companies to achieve 25% women on the board by 2015. Many companies that responded highlighted their strategies to address diversity generally within the organisation, but there continues to be a serious disconnect between diversity in the workforce and diversity at the senior executive and director level.

PROMOTING GOOD GOVERNANCE

Financial Reporting & Audit

Criticisms of IFRS appear to be gaining steam as more investors and companies raise concerns about the distortive effects IFRS has on company balance sheets. LAPFF has initiated a round of meetings with the board chair or audit committee chair of each of the large

UK banks to discuss the Forum's concerns about accounting standards and the risk the standards pose to shareholder capital. This quarter, the Chair of LAPFF met with board directors and the finance directors of **Barclays, Lloyds, HSBC** and **Standard Chartered** to highlight the deficiencies in IFRS accounting and seeking each company's perspective on the issue. LAPFF has also arranged a meeting with **RBS**.

The Forum co-signed an investor letter to the **European Commission** (EC) on mandatory auditor rotation and recommended that auditors should not receive fees for non-audit services equal to more than 50% of the statutory audit fee to help avoid problematic conflicts of interest. The investor group also called for an investigation as to whether IFRS could provide a 'true and fair' view.

MANAGING ENVIRONMENTAL ISSUES

Environmental Risk Management

LAPFF is a long-term supporter of the **Forest Footprint Disclosure Project** and the **Water Disclosure Project**. This quarter the Forum wrote to 12 companies asking them to respond to these initiatives. Wal-Mart and EOG Resources replied to LAPFF's request stating that they did not intend to reply to the CDP Water questionnaire in 2012.

In March, LAPFF joined 35 other global funds, to write to **21 oil and gas companies** that are producing shale oil, asking for information about how much they are flaring and their plans to reduce flaring. Twelve of the 21 companies have responded, with a further three planning to do so. An investor webinar in September outlined potential follow-up investor engagement with these companies regarding flaring and other environmental risks related to shale oil.

30 investors with assets of **US \$2.5 trillion** signed up to the Forest Footprint Disclosure project in 2012

A meeting with **Rolls-Royce** was very informative in explaining the company's technological approach to meeting demanding carbon reductions and its investment in newer technologies such as tidal power. The Forum expressed the view that the company could reinvigorate its message from the board on the strategic importance of carbon management to the business.

TARGETING SOCIAL ISSUES

Employment Standards & Sustainable Supply Chains

Meetings were held with **Reckitt Benckiser** and **Kingfisher** on the issue of sustainable supply chains and labour standards. Kingfisher, the parent company to UK 'do it yourself' chain B&Q described its recent Net Positive sustainability strategy which sets out a vision to not only 'do no harm', but to have a net positive impact on the environment. Kingfisher has set stringent

Kingfisher sold **7.1 million m³** of timber products in 2011/12, roughly equivalent to the size of **Switzerland**.

-Kingfisher 2012 Sustainability Report

targets for sourcing sustainable timber, and for energy efficiency. The company has also recently improved its communication to shareholders about its sustainability initiatives and how they contribute to the bottom line.

The Forum's interest in meeting with Reckitt Benckiser was to learn from one of the market-leading companies on sustainability, how they integrate sustainability into the supply chain. LAPFF encouraged the company to continually improve its disclosure with regard to supply chain audit results and remediation practices.

In July, the Forum formally signed up to the **Access to Nutrition (ATN) Investor Statement**, following four years of engaging with UK companies on the investment risks posed by obesity. LAPFF's support for the initiative signifies the continued relevance of health and nutrition as an investor concern.

CONSULTATIONS & PUBLIC POLICY

ENGAGING POLICY MAKERS AND CONSULTATION RESPONSES

Following the publication of an SEC review of IFRS, LAPFF wrote to the **Office of the Chief Accountant at the SEC** to raise concerns about conflicts of interest within the IASB – the international body that sets accounting standards. The US has yet to adopt IFRS and is undertaking a review of the standards.

The Forum was represented in a meeting between several institutional investors and Senior Advisors at the **Bank of England** to discuss IFRS accounting at UK banks in July. The investors expressed serious reservations about the current accounting framework and advocated for a return to prudence and the 'true and fair view' in UK accounting. Representatives from LAPFF also met with the Department for Business Industry and Skills (BIS) and the Financial Reporting Council (FRC) to highlight concerns regarding inherent risks in IFRS accounting for institutional investors. The meeting was productive and LAPFF is working with other investors to further engage with key policy decision-makers on this issue.

LAPFF was also pleased to read that [consultation responses](#) submitted to regulators in Denmark have quoted the Forum's research into IFRS, highlighting the role the accounting standards played in the financial crisis.

No formal consultation responses were submitted by LAPFF this quarter. All consultation responses submitted by LAPFF to date can be viewed online at: <http://www.lapfforum.org/consultations>.

NETWORKS & EVENTS

- **News Corp:** webinar on shareholder resolution to appoint an independent chair
- **Oil sands** webinar on environmental & social risks by Ceres
- **30% Club** celebrates reaching over 50 Chairmen supporters
- **Food Ethics Council** Roundtable 'Overcoming commercial and political short-termism'
- **Integrated Reporting** webinar by Paul Druckmann, CEO, IIRC
- **UKSIF** annual lecture: Big Society Capital
- **Green Investment Bank** webinar by UKSIF & Transform UK

The Forum chaired a webinar to highlight the rationale for the shareholder resolution for an independent chair, and to debate wider concerns about the governance of News Corp.

The **30% Club** celebrated reaching over 50 FTSE 100 Chairman supporters in July. Attendees were advised of the progress of the initiative to date and of plans to develop the momentum behind this business-led approach to better balanced boards. Many board appointments have been to non-executive roles so it is intended to have a greater focus on the executive pipeline at companies.

LAPFF also participated in a **Ceres** webinar highlighting key social and environmental risks in the oil sands. Oil sands operating companies have recently set up an industry association to examine sustainability in oil sands operations and accelerate the pace of environmental improvement. The webinar outlined some practical steps companies can take to address issues such as water management, reclamation, biodiversity and greenhouse gas emissions. It also suggested how investors can engage with companies to encourage prudent environmental management in the extraction of oil sands.

The issues of commercial, political and consumer short-termism were debated at a **Food Ethics Council Roundtable** which explored key challenges faced by food businesses in progressing towards a sustainable food system and how this can be influenced by relevant players in the investment chain.

COMPANY PROGRESS REPORT

Company	Topic	Outcome
Archer-Daniels Midland	Environmental Risk	Awaiting Response
Ashtead Group	Board Composition	Moderate Improvement
Barclays	Finance & Accounting, Reputational Risk	Dialogue
Berendsen	Board Composition	Change in Process
Bunge Limited	Environmental Risk	Awaiting Response
Danone S.A.	Environmental Risk	Awaiting Response
EOG Resources	Environmental Risk	No Improvement
Fresnillo	Board Composition	Moderate Improvement
General Mills, Inc	Environmental Risk	Awaiting Response
Greggs	Board Composition	Satisfactory Response
Halfords Group	Board Composition	Satisfactory Response
Hikma Pharmaceuticals	Board Composition	Satisfactory Response
HSBC Holdings plc	Finance & Accounting, Reputational Risk	Dialogue
Intertek	Board Composition	Moderate Improvement
Kingfisher	Supply Chain, Employment Standards	Substantial Improvement
Kraft Foods Inc	Environmental Risk	Awaiting Response
Lloyds Banking Group	Finance & Accounting, Reputational Risk	Dialogue
Lonmin	Human Rights, Employment Standards	Awaiting Response
McDonald's Corporation	Environmental Risk	Awaiting Response
National Express	Employment Standards, Board Composition	Awaiting Response
News Corp	Board Composition, Reputational Risk	Dialogue
Olam International Limited	Environmental Risk	Awaiting Response
Reckitt Benckiser	Supply Chain Management	Satisfactory Response
Rolls-Royce	Climate Change	Satisfactory Response
Royal Bank of Scotland	Finance & Accounting, Audit Practices	Dialogue
Standard Chartered	Finance & Accounting, Audit Practices	Dialogue
Wal-Mart Stores Inc	Environmental Risk	Awaiting Response
Wilmar International	Environmental Risk	Awaiting Response
Xstrata	Board Composition	Change in Process
Yum! Brands Inc	Environmental Risk	Awaiting Response



Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum was established in 1991 and is a voluntary association of 55 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
Brent LB
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
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
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