

Annual Report 2010

Local Authority Pension Fund Forum



1. Chairman's Statement



Councillor Ian Greenwood
West Yorkshire Pension Fund
Chair

This time last year, the Forum anticipated twelve months in which the implementation of governance and other financial reforms would be centre-stage. This has indeed been the case in 2010, with efforts to develop and embed new standards of best practice, for both companies and investors, still underway.

From remuneration, to audit, to ownership responsibilities, governments and regulators around the globe are continuing to put in place policies and structures that seek to mitigate the threat of future crises. For the Forum, as an organisation committed to active ownership, the reforms underway have had an impact on our work. In 2010 the Forum continued its company engagement programme, but its public policy work, particularly responding to consultations on relevant reforms, has been a significant part of this year's activity.

In the UK, 2010 saw the publication of a revised Corporate Governance Code with its controversial recommendation that directors in FTSE350 companies face annual election. In addition, the Financial Reporting Council has launched the Stewardship Code – a pioneering attempt to formalise best practice in ownership activity. For the Forum, taking long-term shareholder value and the stewardship of our investments seriously has always been at the centre of what we do. But the Stewardship Code will encourage LAPFF and its members to redouble our efforts.

Another important reform theme in many markets has been the attempt to ensure that executive rewards are better linked to risk adjusted performance. In 2010 LAPFF has continued its efforts to promote the use of non-financial business metrics in executives' long-term incentive plans.

LAPFF has also continued to promote improved governance practices at UK, US and European companies through its global focus list project. A fruitful year of engagement meetings allowed LAPFF to learn about other markets while pushing for adherence to governance best practice.

Sometimes it takes time for engagement to pay off, but as long-term investors we can often afford to be patient. The Forum has been engaging with Morrisons since 2003 over its failure to publish an ethical trading policy; this year it finally did so. It was a long time coming, but a very welcome victory.

Of course, the Forum sometimes also needs to respond quickly to issues that emerge during the season. For instance, this year many LAPFF members received emails from beneficiaries asking how they were going to vote on shareholder resolutions filed at BP and Shell on this issue of the development of oil sands in Canada. The Forum organised meetings for members with both the companies, and the proponents of the resolutions, to enable a better understanding of the issues. We also subsequently issued a public statement setting out our view that management at both companies should be supported. I think this is a good example of the practical support LAPFF provides to member funds.

So, all in all, 2010 has been another busy year for LAPFF and, if anything, we can expect more of the same in 2011. With the Stewardship Code setting out for the first time an 'official' view of best practice in engagement, the focus will continue to be on ensuring shareholders behave as responsible owners. As an organisation that has championed such an approach since its formation in 1990, the Forum is well placed to help members meet the challenges ahead.

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Appendix: Record of companies engaged with collaboratively (439 companies listed).



3. LAPFF Executive



**Councillor
Ian Greenwood**
West Yorkshire
Pension Fund
Chair

**Councillor
Ann McLachlan**
Merseyside
Pension Fund
Deputy Chair



**Councillor
Cameron Rose**
City of Edinburgh
Council
Deputy Chair

**Councillor
Neil Fletcher**
Aberdeen
City Council
Forum Executive



Brian Bailey
West Midlands
Pension Fund
Treasurer

Councillor Jim Middleton
Greater Manchester
Pension Fund
Forum Executive



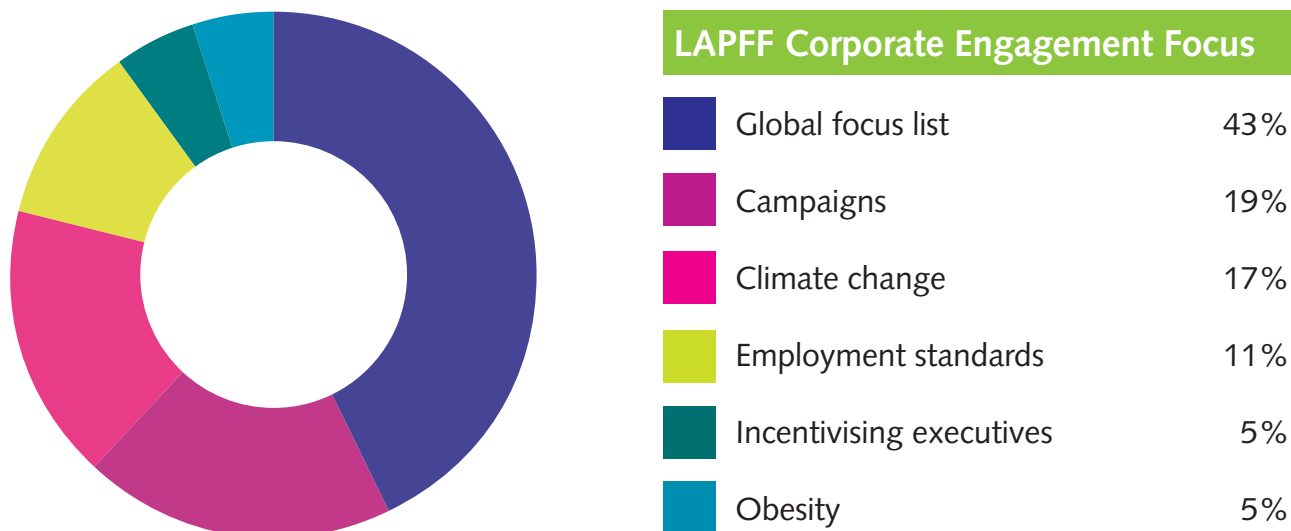
2010 Achievement Highlights

1 Morrisons published its ethical trading code in 2010. This was a key Forum ask in our engagement with the company and is part of our work to encourage best practice in overseas employment standards.

2 The Forum's global focus list has seen notably positive responses to engagement this year with a near 100% response rate and most companies demonstrating improvements.

3 At M&S, 2010 has seen Marc Bolland take over as CEO and Robert Swannell's appointment as chairman. This has followed the Forum's 2009 shareholder resolution which asked the company to appoint an independent chairman by July 2010.

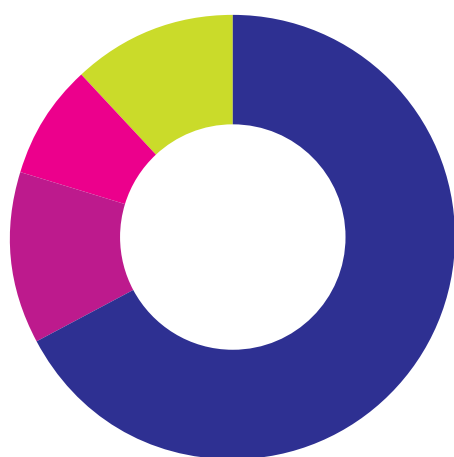
4 In its policy engagement, the Forum supported the FRC recommendation on annual election of directors which is now incorporated in the UK Corporate Governance Code.



The graph illustrating LAPFF's focus is based on corporate engagement over the last year via letters, conference call or meeting.

2010 Policy Engagement Summary

Department or body	Subject/issue	Date
Consultation submissions		
Department for Business, Innovation and Skills	Consultation on auditors leaving office	January 2010
Auditing Practices Board	Consultation on the provision of non-audit services	January 2010
Financial Reporting Council	Consultation on the Corporate Governance Code	March 2010
Financial Reporting Council	Consultation on the Stewardship Code	April 2010
Basel Committee on Banking Supervision	Consultation on Principles for enhancing corporate governance	June 2010
Takeover Panel	Review of existing arrangements in respect of takeovers	July 2010
HM Treasury	Independent Public Service Pension Commission	July 2010
European Commission	Corporate governance in financial institutions and remuneration policies	September 2010
Financial Services Authority	Consultation on Conduct of Business Rules and the Stewardship Code	September 2010
Financial Reporting Council	LAPFF signed a joint letter to the FRC supporting the introduction of the Stewardship Code	September 2010
Department for Business, Innovation and Skills	Consultation on narrative reporting	September 2010
Policy meetings		
Treasury Select Committee	Meeting with former committee chair to discuss shareholder engagement, remuneration, etc	January 2010
Department for Business, Innovation and Skills	Met with then BIS minister Ian Lucas to discuss shareholder engagement and remuneration	January 2010



Press highlights (almost 150 media hits)

UK	70%
India	12%
US	7%
Rest of the world	11%

After experiencing a dramatic surge in media coverage in 2009, driven largely by the Marks & Spencer campaign, the Forum has had a quieter year in 2010. That said, LAPFF's media profile is still higher than in previous years, and we saw a significant amount of coverage of our decision to back management at BP and Shell over the development of oil sands. The Forum also drew attention for its joint letter with the NAPF to the FTSE350 seeking better disclosure of executive pension provision. Notably, almost a third of the Forum's media coverage now comes from outside the UK.

Companies featuring in this report

Amazon.com, Inc	Global focus list	5.1	LG Chemical	Campaign	7.1.4
Apache Corp	Global focus list	5.1	LG Electronics	Campaign	7.1.4
Associated British Foods plc	Employment standards and obesity	6.2; 6.3	Marks & Spencer Group plc	Marks & Spencer resolution	7.1.1
Banco Santander	Global focus list	5.1	National Express Group plc	Employment standards	6.2
BP plc	Climate change and campaign	6.1; 7.1.2	News Corp	Global focus list	5.1
British Airways	Employment standards	6.2	Pernod Ricard	Global focus list	5.1
Capital Shopping Centres Group plc	Global focus list	5.1	Persimmon plc	Global focus list	5.1
Chesapeake Energy	Climate change	6.1	POSCO	Campaign	7.1.4
Colt Group SA	Global focus list	5.1	Royal Dutch Shell plc	Climate change	6.1
Conoco Philips	Climate change	6.1	Samsung Electronics	Campaign	7.1.4
Deutsche Telecom	Employment standards	6.2	Shinhan Financial Group	Campaign	7.1.4
Exxonmobil Corp	Climate change	6.1	SK Telecom	Campaign	7.1.4
G4S	Employment standards	6.2	Société Générale	Global focus list	5.1
Greggs	Climate change	6.1	Stagecoach Group plc	Climate change	6.1
Hunting Plc	Global focus list	6.1	Tesco plc	Employment standards	6.2
Hynix	Campaign	7.1.4	Total SA	Campaign and climate change	6.1; 7.1.5
Hyundai Motor	Campaign	7.1.4	Tullett Prebon plc	Global focus list	5.1
Iberdrola	Global focus list	5.1	United Utilities	Incentivising executives	5.2
Illinois Tools Works Inc.	Global focus list	5.1	Vedanta Resources plc	Campaign	5.1; 7.1.3
Korea Electric Power Corporation	Campaign	7.1.4	Wellstream Holdings plc	Global focus list	5.1
Korea Telecom	Campaign	7.1.4			
LaFarge SA	Global focus list	5.1			
Legal & General	Incentivising executives	5.2			

4. Corporate Governance Activism

4.1 Global focus list

Our objective

- To more effectively implement the Forum's global focus list-based engagement strategy

In its second year, the LAPFF global focus list continued to guide engagement with companies in the UK, Europe and the US. Using top stocks in each market and screening them against a market-specific set of metrics, LAPFF identified companies performing poorly in respect of remuneration practices and other core corporate governance issues. A major achievement of this year's engagement is the increase in the response rate from companies and their willingness to meet with LAPFF. All but one of the 15 companies responded and as the last company's AGM has not yet taken place, the overall response rate may yet reach 100%.

Meetings or conference calls were held with 33% (5) companies to date. Of these, two were held with US companies which, given the reluctance US companies often show towards engagement, is a major success. The general success of this year's project can in part be attributed to the Forum's constructive approach to engagement and relationship-building. This was demonstrated by one company on the list (Colt Telecom) deciding to make a specific mention of the productive discussion it had with LAPFF in their annual report.

Face-to-face meetings can be invaluable, especially when gauging governance performance in markets outside the UK. In particular, the Forum's dialogue with **News Corporation** was a highlight. Discussions about independence, succession planning and compensation provided the Forum with a useful insight into the company's structures as well as lessons about US corporate governance more generally.

The use of a global focus list was driven by a shift in asset allocation amongst LAPFF members away from the UK market. UK pension funds have steadily moved their equity holdings overseas, with only 42% of assets allocated to the UK in 2008, compared to 70% in 2001¹. 15 companies were selected across the three regions. From last year's list engagement continued with **Vedanta Resources**.

The 15 companies and their markets:

- **Colt Group SA** (UK and Luxemburg)
- **Banco Santander** (Spain)
- **Capital Shopping Centres Group plc** (UK)
- **Iberdrola** (Spain)
- **Hunting plc** (UK)
- **Persimmon plc** (UK)
- **Société Générale** (France)
- **Wellstream Holdings plc** (UK)
- **LaFarge SA** (France)
- **Xstrata plc** (UK)
- **Pernod Ricard** (France)
- **Apache Corp** (USA)
- **Amazon.com, Inc** (USA)
- **Illinois Tools Works, Inc** (USA)
- **News Corporation** (USA)

Work is well underway on the 2011 list. Planned improvements are to foster even more productive engagement by approving the list earlier thus leaving more time for meetings and dialogue.

They said:

"Colt welcomes engagement with shareholder activists and corporate governance professionals. Our senior independent director and company secretary met senior representatives from PIRC and LAPFF in 2010 and were impressed with the open and constructive dialogue."

Colt Telecom, October 2010

¹WM Performance Services: UK Pension Funds Annual Review 2008.

4.2 Executive pay: non-financial drivers of results and reward

Our objectives

- To implement the Forum's engagement strategy on non-financial business performance and remuneration
 - To take the lead amongst institutional investors on the development of a consensus approach to incentivising executives
-

Remuneration has been an important governance issue for LAPFF many years, and continues to attract much attention in the wake of the financial crisis. Over the past four years, LAPFF has focused on the subject of incorporating non-financial performance metrics into long-term reward.

The project was initiated after the blast at BP's Texas City refinery in 2005. It was important to LAPFF that long-term performance drivers such as health and safety management be linked to executives' long-term rewards. A LAPFF survey of FTSE 100 companies found only seven companies incorporating non-financial metrics into long-term incentive schemes. That research and follow-up engagement also provided insights that aided the forum's 2009 meeting with banks post-crisis.

This year's activities were focused on contributing to the reform agenda, engaging with leading companies, and planning further work. In early 2010, LAPFF met with then **Business, Innovation and Skills** minister Ian Lucas, to set out LAPFF's thinking on issues such as remuneration reform and shareholder engagement. In addition, LAPFF met with then **Treasury Select Committee** chair, John McFall, to detail the Forum's engagement with the UK banks.

In January, LAPFF approved developments to the project to include survey work to better understand the judgement used by remuneration committee when exercising discretion on awards. LAPFF is also working on a survey to explore the non-financial rewards used by companies to motivate executive interests.

Throughout the year LAPFF promoted its views on the reforms needed to remuneration structures in the following consultations: **FSA consultation on Revising the Remuneration Code**, the **Basel Banking Committee Consultation**, the **European Commission's Green Paper on Governance at financial institutions**, and the **FRC consultation on the revised UK Corporate Governance Code**.

In relation to directors' pensions, a joint letter on the need for proper disclosure of directors' entitlements was agreed with the NAPF and has been sent to the chairs of the FTSE350.

LAPFF has also highlighted the role that remuneration consultants play. In particular, pay benchmarking, which often forms a core part of the work performed by consultants for remuneration committees, can act to drive executive rewards even higher. Having carried out a benchmarking exercise, consultants and remuneration committees are reluctant to recommend below average packages. In February, engagement letters were sent to **Legal and General** and **United Utilities** to request meetings with the companies' remuneration consultants.

On the 15 September the LAPFF chair met with Legal & General's remuneration committee chair, **Sir David Walker**, who led the 2009 review of the governance of banks and other financial institutions (BOFIs). LAPFF discussed how L&G could work to set the bar for a new standard of remuneration design. Sir David took onboard the Forum's views and agreed L&G had a leadership role to play. An influential player in the UK governance reform agenda at BOFIs, Sir David also expressed his views on various governance matters including the new Stewardship Code.

We said:

"LAPFF believes that non-financial business performance measures should form a significant part of the performance assessment process, and that poor management of non-financial areas such as risk management, can be detrimental to performance. We believe that such measures could be used to more effectively align the interests of owners and managers."

LAPFF response to EC Green Paper: Corporate governance in financial institutions and remuneration policies

4.3 Audit

Our objectives

To develop the Forum's approach to audit and business risk management including developing an understanding of companies' financial and internal control principles by:

- Responding to appropriate reports and consultations
- Continuing regulatory engagement and engaging in relevant lobbying activities
- Pursuing direct company engagement focusing on quality of audit committee reports, policies for awarding non-audit work and management of business risk

The financial crisis has put concerns about the audit profession on the agenda once again. During the year financial regulators have sought an understanding of how useful the current audit system is through several consultations and discussion papers.

A ban on auditors also providing non-audit services to companies was a recommendation that came out of the **Treasury's Select Committee's** report on reforming corporate governance in the City. As a response to this recommendation the **Auditing Practices Board (APB)**, issued a consultation document on firms providing non-audit services to the companies they audit. LAPFF responded to this consultation in early 2010 advocating a prohibition of the provision non-audit services by the audit firm. The Forum argued that such a prohibition should be enacted by amending the Auditing Practices Board's Ethical Standards, the Guidance on Audit Committees and the UK Corporate Governance Code.

According to the APB, most investors felt that there should be no outright prohibition on the provision of non-audit services. However, many investors perceive that confidence in audit can be reduced where non-audit services are provided. Therefore, the APB has developed a proposal which focuses on transparency in disclosure of non-audit services. These improvements entail changes to both its own Ethical Standards for Auditors and the Guidance on Audit Committees with further consultation and development likely in the future.



During the year, LAPFF also provided a response to the **Department for Business, Innovation & Skills (BIS)** consultation on *"Notices of auditors leaving office: consultation on simplification for companies and auditors"* published in November 2009.

The consultation sought views on whether the current system of auditors leaving office could be simplified and streamlined. LAPFF responded that the current framework of the 2006 Companies Act regarding auditor's resignation should be retained. The Forum stressed that shareholders must always receive both the statement from the auditor and from the listed company as to the circumstances around their departure.

In addition, the **FSA** has shown an interest in LAPFF's work on audit committees and sought an opportunity to meet and discuss this.

We said:

"Reliable financial reporting is the lifeblood of capital markets. Investors must be able to rely on companies' audits, and auditors."

LAPFF statement on the financial crisis, May 2009

5. Promoting Corporate Responsibility

5.1 Climate change

Our objective

- To engage with companies on the likely impacts of climate change on industry sectors and consequent risk to shareholder value.
- Expand engagement on climate change risks to US and EU companies using collaboration where possible.
- Guide trustee action on the relevance of climate change to their funds

This year, the Forum work on climate change has progressed in two main ways. Firstly, the Forum has developed its own position on climate change. Secondly, LAPFF has been helping members respond to major climate-related issues. Developing the Forum's own position was achieved through the publication of the LAPFF statement on climate change and the LAPFF **Trustee Guide on Climate Change**. The latter publication provides guidance for members on how to incorporate climate change considerations into their investment strategies.

In responding to relevant issues, the Forum focussed on tar sands shareholder resolutions at **BP** and **Shell**, the Gulf of Mexico oil spill and collaborative engagement over palm oil. Along with these issues, work has also continued on LAPFF's regular sector-based engagement both locally and internationally. Alerts were issued regarding BP and Shell in the UK and ConocoPhillips, ExxonMobil and Chesapeake Energy in the US. Additionally, engagement profiles of European airline, automotive and freight companies have been drafted. The Forum also continues to support US engagement via its membership of INCR.

At the beginning of the year, shareholder resolutions were filed at Shell and BP regarding their development of tar sands projects in Canada. The LAPFF chair attended meetings with both BP and Shell to discuss each company's investment in tar sands. The Forum also held briefing sessions with representatives from BP, Shell and the resolution proponents to which all LAPFF members were invited. Ultimately in both cases the Forum recommended that its members support management and vote against the resolutions. Engagement with the companies continues.

The oil spill in the Gulf of Mexico has been a major issue this year, having a huge impact on the local environment and leading to a dramatic fall in BP's share price. In responding to the spill the Forum, through INCR, joined a group of investors in writing to 47 global oil & gas and insurance companies.

The letter sought greater disclosure about spill prevention and response plans in relation to offshore drilling. In addition, the Forum met with BP chairman, Carl-Henric Svanberg, to discuss factors that led to the spill as well as the company's approach to frontier oil in the future.

As part of the Forum's work with US and EU companies, progress was made on facilitating investor engagement on deforestation and the production of palm oil. Deforestation threatens the world's ability to tackle climate change and palm oil is a leading cause of such deforestation. Early this year, the Forum met with WWF to discuss their Palm Oil Buyers' Scorecard which assesses company performance. In addition, the Forum joined a group of investors co-ordinated by the UNPRI investor group which intends to meet with international representatives of the Roundtable on Sustainable Palm Oil (RSPO). The Forum also continues to support the Forest Footprint Disclosure project, and has written to **BP, ABF, Morrisons, Greggs** and **Total** to promote the initiative.

LAPFF continued its support of the **CDP** by signing up to the CDP 2010. The Forum collaborated with the UNPRI CDP10 engagement group feeding into follow-up activity as in previous years. The Forum became a signatory to the CDP's new water disclosure initiative and wrote to 304 companies expressing support along with other investors..

On the policy front, LAPFF joined others in writing to SEC chair, Mary Shapiro, thanking the SEC for issuing interpretive guidance on climate change, following previous support for this initiative.

Throughout the year LAPFF also kept up to date with climate-related issues by attending a CERES conference 'Roadmap for a Sustainable Future'; a CERES webinar on climate risks and opportunities and the 'Clean Tech Investor' conference. These events have identified a number of potential collaborative partnerships relating to Forum initiatives.

He said:

"Climate change is most importantly a systemic risk that could, according to the Stern Report, depress whole markets, albeit over 20-30 years rather than 3-4. Conversely, successful global action on climate change would deliver significant investment opportunity as vast energy infrastructure redevelopment is undertaken."

Sean Kidney, Chair, Climate Bonds Initiative

5.2 Employment standards

Our objective

- Further the adoption of best practice in labour standards throughout the world by focusing on harmonising labour standards within global companies
- Maintain momentum in the engagement with the FTSE 100 on overseas employment standards and on employment issues with identified company under-performers

In 2010, LAPFF combined the distinct company workforce practices and overseas employment standards project areas into one due to an overlap of themes. The importance of human capital to business is universal regardless of country borders. Over the year the company workforce practices project became increasingly global as LAPFF continued its focus on inconsistencies in international companies' employment practices. The overseas employment standards element of the project has seen a reduced focus on China specifically and supply chain and global employment practices more generally.

Ongoing engagement paid off in 2010 as LAPFF saw **Morrisons** publish an Ethical Trading Code which has been sought by the Forum since 2003. In addition, improvements in the company's governance of sustainability issues were seen in their annual reporting.

The Forum met with **Associated British Foods** again in 2010. On 17 February, the LAPFF chair met with the ABF chair Charles Sinclair, the company secretary and deputy company secretary. Concerned about the management of ESG issues at the company, LAPFF was disappointed that the company had not published a report on CR in 2009. At the meeting a commitment was given by the company and specific concerns over supply chain management and health issues were discussed.

This year witnessed the Forum continue its engagement over labour standards. Last year LAPFF became involved with a collaborative engagement initiative relating to the Employee Free Choice Act. EFCA is pending legislation in the US which is intended to make it easier for employees to join unions, if they wish to. As 2009 drew to a close the Forum attended a meeting with **G4S**, one of the ten companies targeted for discussion over the management of US employee relations and labour rights. Meetings were arranged with **Teamsters Union** (arranged by LAPFF), and the **Retail Workers Union**,

American Rights at Work and **SEIU**. Collaboration regarding the EFCA reached a natural pause due to the status of pending legislation which is expected next year.

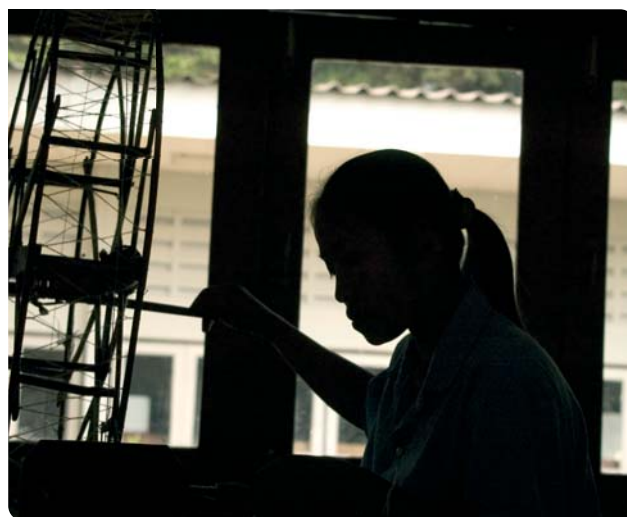
LAPFF continued engagement on dual approaches to labour standards at **National Express** and **Deutsche Telekom** regarding their employee relations in the US. In both cases US unions have alleged that the companies' policies are not in line with the UK and German standards of operation. A meeting with National Express is scheduled before the end of the year.

Additionally, during 2010, LAPFF has written to both **British Airways** and the Unite trade union to express concern over the financial impact of ongoing industrial action. In May, the Forum met with **Tesco's** company secretary, corporate responsibility and government director, head of ethical trade policy and a company remuneration consultant regarding the treatment of workers in the UK meat and poultry supply chain. The meeting primarily concerned Tesco's implementation of workplace policies it already expressly supports, but also addressed human capital management, including employee engagement and remuneration.

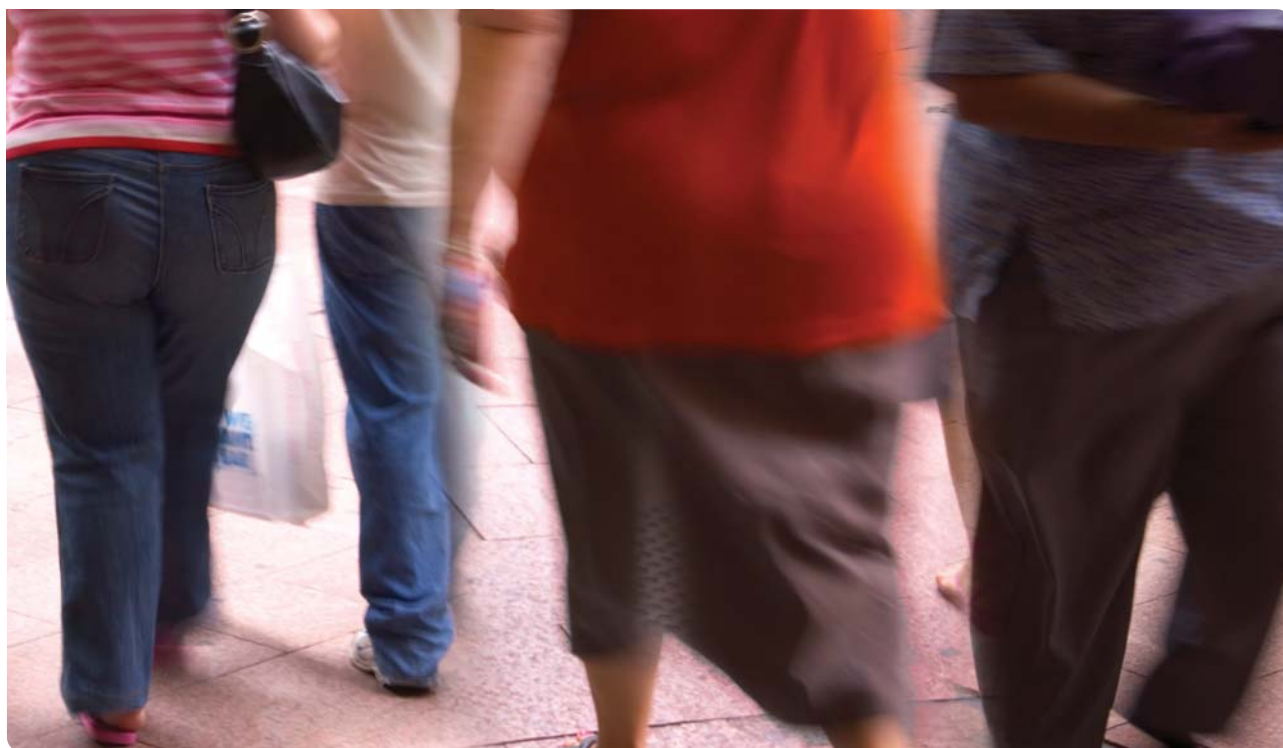
We said:

"The Local Authority Pension Fund Forum (LAPFF) believes that good employment practices are linked to long-term corporate prosperity and hence the creation of investment value."

LAPFF Trustee Guide: Unlocking Human Capital: Engagement on Employment Best Practice²



² http://www.lapfforum.org/pubs/trustee_guides/LAPFF%20Trustee%20Guide%20Unlocking%20Human%20Capital%202007.pdf



5.3 Obesity

Our objective

- Continue the targeted engagement campaign on the risks and opportunities created by obesity with companies in the food and drinks sector.
- Continue to promote best practice and push for improvement at all companies.

As 2009 came to a close LAPFF's engagement around issues of health and obesity was headlined at its annual conference with speakers from **Unilever** and **Sainsbury's** as well as the leading academic expert, Professor Tim Lang from **City University**.

The year past has seen improvements in the obesity rate but the issue remains important for investors as companies seek to capitalise on increased public demand for improved nutrition and healthier options.

In February, when the LAPFF Chair met with the **ABF** chair, Charles Sinclair, to discuss concerns over the management of ESG issues at the company. At the meeting a commitment was given by the company to publish a CR report and specific concerns over health

issues were also discussed. In letters sent to **ABF** and **Morrisons** in October the Forum sought an update from the company on its ongoing concerns over overseas employment standards and obesity.

In July, LAPFF continued in its dialogue with Professor Tim Lang who expressed his support for the Forum's engagement work and the possibility of collaborating in the future was discussed.

UK Government says:

“Obesity is one of the biggest health challenges we face. The Government is committed to taking action to reverse the rising tide of obesity...The cost to the wider economy is £16 billion, and this is predicted to rise to £50 billion per year by 2050 if left unchecked.”

Department of Health, 2009

6. Positioning the Forum

Continuing on from 2009, the Forum has kept up its efforts to ensure that the voice of its members is heard. LAPFF has liaised with policymakers over a range of issues, providing commentary and consultation responses, participating in a wider range of networks, and by initiating collaborative investor action. Most of the Forum's work in these areas relates to specific projects but this section highlights work not noted elsewhere.

Our objective

- Liaise with government, opposition parties and the investment industry to promote LAPFF views and influence policy in response of corporate governance and responsible investment
- Provide LAPFF analysis and draft responses on relevant consultation papers, documents and related issues arising in the year.
- Continue to respond to concerns arising from the global financial crisis, focusing on the roles played by the banks and financial institutions, investors and regulators
- Continue to foster engagement and links with other investors establishing LAPFF as a global activist organisation.

6.1 Specific ESG campaigns

6.1.1 Marks & Spencer follow up

As 2009 came to a close, LAPFF followed up on its shareholder resolution at M&S which sought the appointment of an independent chair by July 2010. In November, **Marks & Spencer** announced the appointment of Marc Bolland as its new chief executive. The Forum participated in a conference call arranged by the company on the appointment and circulated a briefing to members on the situation. Subsequently a meeting was held with the deputy chair and company secretary on 22 December. The Forum chair expressed the view that, in Marc Bolland, M&S had recruited a very talented chief executive and reiterated LAPFF's opinion that the combined roles did not bring any benefit to the company. The meeting was very positive in tone, and the deputy chair remains very open in his engagement with the Forum. The company announced the appointment of a new chairman, Mr Robert Swannell, in August this year.

6.1.2 BP

Governance and health and safety risks at BP

April saw the beginning of the largest accidental oil spill in industry history resulting from an explosion on the Deepwater Horizon rig that was drilling in BP's Mocando Prospect. The highly complicated and risky off-shore drilling rig created an extremely difficult situation as oil gushed into the gulf for three months. BP represents a significant holding for the majority of LAPFF members and the destruction of value caused concern for the Forum. Engagement with BP regarding health and safety management dates back to 2006 in the wake of the company Texas City blast. The Forum was therefore well placed to talk to the company about these issues.

LAPFF met with BP chairman, Carl-Henric Svanberg, in September. The discussion ranged from the company's business strategy, future plans and approach to developing new frontiers; to health and safety governance and reputation management. On the company's preparedness for the transition to a low carbon economy, BP's chair continues to see value in further investment in bio-fuels in particular but also in wind, solar and carbon capture. Engagement with BP will continue.

6.1.3 Vedanta

Due to issues of governance, **Vedanta** appeared on the Forum's global focus list in 2009. Engagement with the company continued in 2010 concerning how it handles relations with local communities and, more specifically, its plans for mining operations in Orissa, India. In collaboration with other investors LAPFF is pushing the company to improve its practices. A meeting with the executive chairman was held in advance of the AGM. A Forum representative also attended the AGM. Since then, the Indian government has ruled that Vedanta may not mine on the planned site. However, the company has already established refining operations in the area and community and investor concerns remain.

6.1.4 South Korean engagement

In January, LAPFF approved action in the Asia Pacific region. The Forum has joined the UNPRI co-ordinated Emerging Market Disclosure Project, an international initiative aiming to improve ESG reporting in emerging markets.

As part of this initiative LAPFF co-signed an investor statement and collaborated in writing to ten South Korean companies in March. In response to the tailored letters, members of the group met with five companies this year: **Hyundai Motors, LG Chem, POSCO, Samsung Electronics, and Shinhan Bank**. In the meetings a range of issues related to the mapping of risks in company supply chains were discussed, such as labour and human rights, as well as risks to water and carbon footprints. To date, the

group has also received responses from **Hynix, LG Electronics and SK Telecom** who indicated their willingness to discuss the issues. Engagement will continue into 2011.

6.1.5 Countries with humanitarian concerns

2010 saw this project area become a part of the LAPFF global work stream. This reflects the Forum's focus on collaboration to achieve the most effective use of its resources.

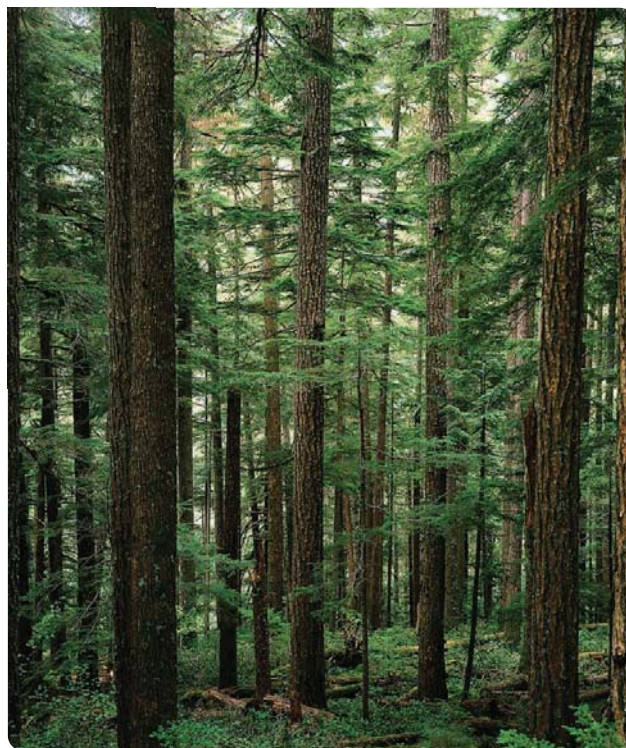
At the end of 2009, a Forum representative attended an analyst briefing for investors in **Total**. The briefing addressed CSR issues facing the company including its operations in Burma and climate change-related issues like the development of tar sands. During the year, the Forum also wrote to Total regarding the Forest Footprint Disclosure and seeking a general update.

Forum collaborative engagement with companies over operations in Sudan continues via a UNPRI group, with regular conference calls being held. In February, members of the group visited Sudan to meet global companies operating there, government officials, foreign diplomats and NGOs. The group continues its one-to-one dialogues with companies operating in the region. LAPFF benefits from access to group resources, while supporting its engagement objectives.

6.2 Collaborative action: networking

Acting in concert (AIC)

There have been a number of concerns from investors that AIC legislation in various markets has the potential to inhibit investor collaboration. LAPFF has joined other investors who aim to clarify the situation regarding AIC legislation in EU member states. LAPFF has co-signed letters to the **FSA** as well as the **Spanish (CNMV)** and **Italian (CONSOB) authorities**. In addition, the European Commission asked the group to submit its comments and questions to their consultant, Mazars, who is in the process of drafting a study on AIC for the Commission. The group participated in an informal hearing with 40 institutional investors and the Director General, Internal Market (EC). The Director General, Internal Market, published a report in July 2010 on the financial crisis and the role of institutional investors, a section of which was devoted to responsible ownership. Discussions have also taken place with the French financial authority where it expressed interest in taking on board comments on its AIC rules. Engagement is underway with the Spanish authorities, led by BBVA. In its response to the EC green paper, LAPFF noted the lack of clarity that AIC legislation can create.



UN PRI and other initiatives

The United Nations Principles for Responsible Investment continued to play a significant role in the Forum's collaborative engagement. LAPFF is a signatory to the PRI as a professional service provider and some member funds are individual signatories. LAPFF is not required to complete the PRI's annual assessment that became mandatory in 2010. Despite this LAPFF drafted a reporting template that was circulated to member funds in March on the Forum's work in meeting the six specific principles. Answers to relevant questions were given for signatory members, and the document is intended to be accessible to non-signatories as well.

In addition to being involved in specific collaborative initiatives such as the Sudan engagement group, the palm oil working group, the AIC consortium and the Vedanta collaborative engagement, LAPFF used the PRI intranet to stay abreast of emerging issues. For example, LAPFF attended webinars regarding child labour in the Uzbek cotton industry, private equity, oil sands, and Copenhagen outcomes.

7. Communicating With Our Members

Our mission

- LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.

Our members make a fundamental contribution to fulfilling this mission. It is the direction they give the Executive Committee that drives the engagement programme, and members have the final say over the issues that LAPFF pursues.

The Executive Committee invites members' suggestions for future workstreams, and some members actively contribute to the direction the Forum's research and engagement. In 2010, LAPFF benefited from consultation with members in the drafting of the Climate Change Trustee guide. The Forum's work on obesity and palm oil are examples of projects that resulted from member suggestions.

Quarterly Forum meetings are open to all members and provide the opportunity for information exchange and discussion over a wide range of

investment issues. As part of the LAPFF networking initiative, members are invited to give presentations on relevant subjects of their choice.

The Forum issues a quarterly hard-copy newsletter to its members, and a monthly bulletin distributed by email. These inform members not only about current Forum activities, but also provide them with news and analysis from the wider corporate governance and social responsibility community. Bulletins are available in the members' section of the LAPFF website.

Between meetings, the Forum updates its members on relevant developments, issues alerts where appropriate in advance of company AGMs, and actively seeks member views on key policy questions. For example, this year members' input was sought for the Forum's response to the EC Green Paper on governance reform and remuneration policy at financial institutions, and its submission to Lord Hutton's review of public sector pensions. Additionally a member briefing on the new Stewardship Code was issued in September of this year.

The Forum is holding its 15th Annual LAPFF Conference on 1, 2 and 3 December, as customary, in Bournemouth. This year's theme, "*Stewardship: new strategies for corporate governance*", was chosen to reflect the UK's the pioneering role in setting out best practice for engagement in the form of the Stewardship Code.



8. Outlook for 2011



2010 was a year in which global markets stabilised even as some uncertainty remained about the future. As such we may expect 2011 to be another year in which adjustment to the new normal continues. We have seen significant efforts to reform governance and financial regulation in 2010, but this is by no means a completed process. In particular, the European Commission is to push further on governance reform in 2011, something the Forum will need to monitor.

New standards for investor behaviour are also likely to become increasingly important. The publication of the Stewardship Code in the UK is a pioneering initiative that is already being mirrored in other markets, and many Forum members will want to explain how they apply the new standard. LAPFF will continue to assist members in their efforts at putting responsible ownership into practice.

But we shouldn't forget that the Forum is already a leading organisation in this field, and we already exhibit the type of approach that initiatives like the Stewardship Code are seeking to encourage. Therefore, for the Forum, it is important that we build

on our existing strengths. As such LAPFF's efforts to constructively engage on environmental, social and governance concerns will continue in existing areas and, when appropriate, will respond to pressing issues.

The Forum's global reach will also continue in 2011, as we press ahead with engagement with a new focus list of companies from around the world where we have identified governance concerns. And, as LAPFF extends its global reach, we also expect to see further development of our collaboration with other investors.

Work will continue on our existing engagement project areas, be it promoting companies' recognition of and reaction to the business risks and opportunities posed by climate disruption, the impact of health concerns on food companies or employment standards. With 20 years' experience of promoting best practice in corporate governance and corporate responsibility behind us, the Forum is committed to playing an important role in all these areas. We are looking forward to another active and productive year ahead.

Appendix: Record of companies engaged with collaboratively (439 companies listed).

- 3M Company

A

- ABB
- Abbott Laboratories
- Abertis Infraestructuras
- ACE
- ACS Actividades Cons y Serv
- Agnico-Eagle Mines
- Ahold
- AIG
- Air Liquide
- Air Products And Chemcom
- Akzo Nobel
- Alimentation Couche-Tard
- All America Latina Logistica SA
- Allegheny Energy, Inc.
- Allergan
- Alstom
- Altria Group
- Ambev ON
- Ambuja Cements
- American Electric Power Co. Inc
- Amgen Corporation
- Amlin
- Anadarko Petroleum
- Anglo American
- Anglo Platinum
- Anglogold Ashanti
- Anheuser-Busch InBev
- Apache Corporation
- Apple Inc.
- Applied Materials
- Arcelor Mittal
- Arch Capital
- Archer Daniels Midland
- Arrow Energy NL
- Aspen
- Astellas Pharmaceutical
- AstraZeneca
- ATCO Ltd
- Atlantia
- ATP Oil and Gas
- Automatic Data Process
- Avery Dennison Corporation
- AXIS

B

- BAE Systems
- Barloworld
- Barrick Gold
- BASF
- Bayer AG
- Beazley plc
- Beiersdorf
- Bellway
- Best Buy Company
- BG Group

- Bharat Heavy Elect LS
- BHP Billiton
- BHP Billiton Ltd
- BMW
- Boeing
- Bouygues
- BP
- Bristol Myers Squibb
- British American Tobacco
- BYD (H)

C

- Cadbury
- Cameco Corporation
- Canadian Natural Resources
- Canadian Utilities
- Canon
- Carnival Corp A
- Carrefour
- Caterpillar
- Catlin
- Celgene Corporation
- CenterPoint Energy, Inc.
- Centrais Eletricas Brasileiras SA Eletrobrás
- Centrica
- CEZ
- CH Energy Group Inc
- Chaucer
- Chesapeake Energy
- Cheung Kong (Hldgs)
- Chevron
- China Overseas Land & Inv (Red Chip)
- China Shenhua Energy (H)
- Christian Dior
- Chubu Elec Power
- Companhia Energética de Minas Gerais – Cemig
- Companhia Siderurgica Nacional (CSN)
- Cisco Systems
- Henderson Land Dev
- Cleco Corporation
- CLP Holdings
- CNOOC (Red Chip)
- Coca-Cola
- Colgate-Palmolive
- ConocoPhillips
- Constellation Energy Group, Inc.
- Corning
- Costco Wholesale Corp
- CRH
- Crucell
- Chevron
- CSL
- CVS Caremark

D

- Daimler AG
- Daiwa Securities Group Inc.
- Dana Petroleum
- Danaher Corp
- Danone
- Deere & Co
- Dell
- Denso Corporation
- Devon Energy
- Diageo
- Dominion Resources
- Doosan Heavy Industries & Construction
- Dow Chemical
- DSV A/S
- Du Pont De Nemours
- Duet Group
- Duke Energy Corp

E

- E.ON
- Eastman Chemical Company
- Ecopetrol SA
- EDP
- Eiffage
- Electricite de France (EDF)
- Eletrobras ON
- EMC Corporation
- Emeco Holdings Ltd
- Emerson Electric
- Empresas COPEC SA
- Enbridge
- EnCana Corporation
- Endesa
- ENEL
- Enerplus Resources Fund
- ENI
- Entergy Corporation
- EOG Resources, Inc.
- ENI
- Ericsson B
- ESB
- Eurasian Natural Resources Corporation
- Everest Re
- EVN AG
- Exelon Corporation
- Exxon Mobil Corporation

F

- Fanuc
- Fast Retailing
- Fiat
- Finmeccanica
- Finning International
- Flagstone Reinsurance

- Ford Motor
- Formosa Petrochemical
- Fortum
- FPL Group
- Freeport-McMoRan Copper & Gold
- Fuchs Petrolub AG

G

- Galp Energia SGPS SA
- Gap
- Gas Natural
- Gazprom Neft OAO
- GDF SUEZ
- General Dynamics Corp
- General Electric
- General Mills
- Gilead Sciences
- GlaxoSmithKline
- GMK Norilsk Nickel
- Goldcorp
- Goldcorp Inc
- Grupo Mexico

H

- Halliburton
- Hang Lung Properties
- Hanover Re
- Hastings Diversified Utilities Fund
- Heineken NV
- Hennes & Mauritz B
- Hermes International SCA
- Hess
- Hess Corporation
- Hewlett-Packard
- Hindustan Petroleum Corporation
- Hiscox
- Holcim
- Hon Hai Precision Industry
- Honda Motor Co
- Honeywell International Incorporation
- Hong Kong & China Gas
- Hong Kong Electric Holdings Ltd
- Husky Energy
- Hutchison Whampoa
- Hyundai Motor

I

- Iamgold Corporation
- Iberdrola
- Iberdrola Renovables
- Illinois Tool Wks
- Imperial Holdings
- Imperial Oil
- Imperial Tobacco Group
- Imtech

- Independence Group NL
- Indian Oil
- Inditex
- Infigen Energy
- INPEX Corporation
- Intel Corporation
- International Bus Machns.
- Interseroh
- Israel Chemicals
- ITC

J

- Japan Tobacco
- Jardine Matheson
- Jardine Strategic
- JFE Holdings
- Johnson & Johnson
- Johnson Controls

K

- K + S AG
- Kansai Elec Power
- Kellogg
- Kepco
- Kimberly-Clark
- Kirin Holdings Co. Ltd.
- Kohl's Corporation
- Komatsu
- Koninklijke Philips Electronic
- Korea Electric Power (Kepco)
- Kraft Foods A
- Kroger
- Kyocera Corporation

L

- Lafarge
- Lancashire
- Larsen & Toubro
- Leoni AG
- Lilly (Eli) & Co
- Linde
- Lloyd's
- Lockheed Martin Corp
- L'Oreal
- Lukoil-Holding
- LVMH

M

- Macquarie Airports
- Macquarie Infrastructure Group
- Maersk
- Mainfreight Limited
- Marathon
- Marathon Oil Corp
- MasterCard Cl A
- McDonald's Corp
- MediaTek

- Merck & Co.
- Mergence Africa Investments (Pty)
- Methanex Corporation
- Metro AG
- Mitsubishi Corporation
- Mitsubishi Electric
- Mitsubishi Estate
- Mitsui & Co.
- Mitsui Fudosan Co.
- Monsanto Company
- Montpelier Re
- Mosaic Company
- Motorola
- Munich Re
- Murphy
- Murray And Roberts

N

- National Grid
- National Oilwell Varco
- Nestle
- Newcrest Mining Ltd
- Newfield
- Newmont Mining
- Nexen
- Nexen Inc.
- Nike Inc Cl B
- Nippon Steel
- Nissan Motor
- Noble Energy, Inc.
- Nokia
- Norbord Inc.
- Norfolk Southern Corp.
- Northrop Grumman Corporation
- Novartis (REGD)
- Novolipetskiy Metallurgicheskoy Kombinat
- Novo-Nordisk B
- NTPC

O

- OAO Gazprom
- Occidental Petroleum
- OGE Energy Corporation
- OGX Petroleo e Gas Participacoes SA
- Oil & Natural Gas
- Ormat Technologies Inc

P

- Panalpina
- Panasonic Corporation
- PaperlinX Ltd
- PartnerRe
- Pepsico
- Pernod Ricard
- Petrobras
- Petrobras ON
- Petrochina (H)

- Pfeiffer Vacuum Technology AG
- Pfizer
- PG & E Corporation
- Philip Morris International
- Plains Exploration and Production
- Polska Grupa Energetyczna SA
- Posco
- Potash Corporation of Saskatchewan
- PPR
- Praxair
- Premier Oil
- Procter & Gamble
- PTT
- Public Svc Enterprise Group

Q

- Qualcomm

R

- Rational AG
- Raytheon
- Raytheon Company
- Reckitt Benckiser Group
- Reliance Industries
- Reliant Energy Inc.
- Repsol-Ypf
- Research In Motion
- Reunert
- Richemont A (Br)
- Rio Tinto Ltd.
- RJ Kiln & Co.
- Roche Hldgs (GENUS)
- Rockwell Collins, Inc.
- Rosneft Oil
- Royal Dutch Shell A
- Russel Metals
- RWE

S

- SABMiller
- Samsung Electronics
- Sanofi-Aventis
- Sasol
- SBM Offshore
- SCANA Corporation
- Schlumberger Limited
- Schneider Electric
- Scottish & Southern Energy
- Sesa Goa
- Seven & I Holdings
- Shell
- Shin-Etsu Chemical
- SID Nacional ON
- Siemens AG
- Sigma Pharmaceuticals Ltd

- Sika AG
- Sime Darby Bhd
- Snam Rete Gas
- SOLON SE
- China Shenhua Energy (H)
- Sony Corporation
- Southern Co
- Southern Copper Corp.
- Southwestern Energy
- Sperian Protection
- St Gobain (Cie De)
- Stantec Inc.
- Staples
- Starbucks
- Statoil
- Statoil ASA
- StatoilHydro
- Steel Authority of India
- Sun Hung Kai Props
- Suncor
- Suncor Energy
- Surgutneftegaz
- Swire Pacific Ltd
- Swiss Re
- Syngenta
- Sysco Corporation

T

- Taiwan Semiconductor Manufacturing
- Takeda Pharmaceutical
- Talisman
- Talisman Energy
- Target Corporation
- Tata Chemicals
- Teck Cominco
- Teck Resources Ltd
- Tenaris SA
- Tesco
- Teva Pharmaceutical
- Texas Instruments
- The Bidvest Group
- Thyssen Krupp
- TJX Companies
- Tokyo Elec Power
- Tokyo Marine Holdings
- Torrent Power
- Toshiba Corporation
- Total
- Toyota Motor
- Tractebel Energia SA
- Transatlantic Re
- TransCanada
- Transocean (New)
- Travelers
- Tullow Oil
- Tyco International

U

- Unilever NV CVA
- Union Pacific Corporation

- United Group Ltd
- United Technologies
- UTS Energy

V

- Vale Do Rio Doce
- ValidusRe
- Veolia Environnement
- Vinci
- Visa
- Volkswagen
- Votorantim Celulose e Papel SA - VCP

W

- WR Berkley
- Walgreen
- Wal-Mart Stores
- Walmex Stk V

- Waste Mgmt Inc
- Wesfarmers
- Wharf Holdings
- Williams Companies, Inc.
- Wilmar International Limited
- Wisconsin Energy Corporation
- Woodside Petroleum
- Woolworths

X

- XL Capital
- Xstrata
- XTO Energy Inc

Y

- Yum Brands

LAPFF membership as at 1 November 2010

- Aberdeen City Council
- Avon 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

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