report

Nottinghamshire County Council

meeting	PENSIONS INVESTMENT SUB-COMMITTEE		
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REPORT OF THE SERVICE DIRECTOR (FINANCE)

LAPFF CONFERENCE 2009

1. Purpose

1.1 To report on the Local Authority Pension Fund Forum (LAPFF) annual conference 2009 held in Bournemouth on 3rd and 4th December 2009.

2. Information and Advice

2.1 The Fund is a member of LAPFF and receives two delegate places at the annual conference as part of its membership. In accordance with the Pension Fund's training policy and the need to maintain current levels of investment knowledge, the 2009 conference was attended by Mr King, a member of the Sub-Committee, and Mr Cunnington, the Council's Investments Officer.

2.2 LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting corporate social responsibility and high standards of corporate governance amongst the companies in which they invest. The 2009 conference was entitled 'Strengthening shareowner oversight – post crisis' and focused on the role of shareholder engagement in preventing another crisis occurring.

2.3 The conference opened with a session on governance reforms at banks. The first speaker was Martin Turner, Group Risk Integration Director at Lloyds Banking Group. He outlined the current governance regime at banks and then ran through the proposed changes from the Walker review including the proposal that companies establish a Board Risk Committee with a chief risk officer. Mr Turner stated that the Board remained responsible for the risk framework and that the chief risk officer should be suitably qualified and high profile and with direct access to the board. He believed that the role was to be 'constructively obnoxious'.

2.4 The next speaker, Lindsay Thomas (CEO Sustainable Risks Ltd), doubted whether the proposed changes to governance at banks would be sufficient to avoid another failure. He argued that, where there is a systemic failure, shareholders are unable to intervene. Banks can't communicate the reality of the situation to shareholders as this could itself cause the failure. Decisions were made by the banks and regulators, without input from the owners. He believed that Walker's recommendations were better suited to companies other than banks.

2.5 The final speaker in this session was Professor Karel Williams of the University of Manchester Business School. He gave an entertaining presentation on the alternative report on UK banking reform produced by the Centre for Research on Socio-Cultural Change. He believed the traditional approach of adding to the governance regime won't work. He picked out two particular points of the Walker Review, believing that it would be unlikely that effective challenge could be provided by non-executive directors and questioning the "vital role of banking". He argued that we need more radical institutional change, looking not only at banks but pension funds and other institutional investors, in order to connect savings with physical investment in the economy.

2.6 The next session discussed director capabilities. Roger Barker of the Institute of Directors, unsurprisingly called for a professional framework for assessing directors' performance and recommended an increased use of external evaluation of the board. Daniel Summerfield from the Universities Superannuation Scheme argued for better disclosure on the nomination and selection process for directors. He proposed a two part questionnaire that shareholders can use to ask for information from both the company and the nominated directors themselves. The session ended with a presentation of statistics on directors' experience and effectiveness produced by Grant Thornton, in conjunction with the Financial Reporting Council.

2.7 The afternoon of day one began with a consideration of the future of credit rating agencies. Sean Egan, President of Egan-Jones Ratings Co., informed delegates of the problems with the standard rating process used by the big three ratings firms where the agencies are paid by the issuers of the securities they are rating. This leads to conflicts in the ratings which were a major contributor to the financial crisis. His own firm avoids this conflict by charging institutional investors for ratings.

2.8 Stuart Imeson then outlined West Yorkshire Pension Fund's treasury management policy and how they use credit rating agencies. He believes that rating agencies still have an important part to play but only in conjunction with other market data. Particularly important is an ongoing risk assessment of the country in which banks operate.

2.9 The next session gave delegates an update on LAPFF's engagement activity. This began with a look back to the 2009 Marks & Spencer AGM, at which a shareholder resolution was proposed by LAPFF. The resolution received support of nearly 38% which is almost double that received by any other recent shareholder resolution. A number of lessons were learnt from the campaign including the importance of carefully wording the resolution to avoid unnecessary conflict and the benefit of meeting other investors during the process.

2.10 This was followed by consideration of LAPFF's global focus list, a list of 15 companies with environmental, social and governance issues selected for engagement during 2009. Voting alerts were issued for 9 of the companies and the engagement produced a positive outcome in 8 cases. Four will be subject to ongoing engagement as part of the 2010 programme.

2.11 Day one was rounded off by Bob Holloway from Communities and Local Government who echoed Terry Crossley's presentation to the Nottinghamshire Funds' annual meeting by outlining the current position of the LGPS. He emphasised the government's commitment to fair, affordable and sustainable public sector pensions and highlighted measures such as cost sharing and tiered employee contributions that are already in place to protect against excessive future costs.

2.12 The second day began with a review by CIPFA, the UK Social Investment Forum and LAPFF into responsible investment in the LGPS. The review considered the extent to which LGPS funds have adopted the self-assessment template developed by Mike Taylor (London Pension Fund Authority) two years earlier. Of the 32 funds that responded, 24 were aware of the template but only 12 were using it. Time, resources and competing priorities were cited as the main barriers to implementation.

2.13 A panel session followed in which Deborah Gilshan (Railpen), Ann Byrne (Australian Council of Superannuation Investors (ACSI)) and Runa Urheim (Norges Bank Investment Management) discussed investor collaboration and engagement. Railpen believe collaboration is the key to be able to wield influence but it is important to consider this strategically and focus on key markets. The ACSI is a similar body to LAPFF. It has until recently focused on the Australian market but is now starting to look internationally and is seeking to collaborate with other bodies. Norges Bank IM invests Norway's North Sea oil revenues and is often one of the top ten shareholders in major companies. In 2008 they engaged with 80 individual companies and voted at over 9,000 meetings. There are some difficulties with collaboration (for instance regulations on acting in concert and different attitudes of shareholders) but shareholder resolutions can help build a network for future collaboration.

2.14 The next session considered the responsible investment challenges particular to the food industry. Dr George Gordon from Unilever plc and Jat Sahota from Sainsbury plc both claimed good health to be important to business. Each outlined their respective companies' approaches to changing diets and consumer attitudes (such as healthy brands and traffic light labelling). They were followed, however, by Tim Lang of City University who claimed these approaches are not good enough. Pension funds need to look beyond individual companies to the total food system and ensure this aligns health, social and ecological issues.

2.15 The penultimate session looked at the UN Principles of Responsible Investment (PRI). Emma Howard Boyd of Jupiter Asset Management and Aled Jones from the LPFA considered how they have implemented the PRI. The PRI were considered a useful tool for monitoring managers and for assessing new managers and to this end it was useful to include in investment management agreements. However, discussions of these issues at companies is still very slight and individual fund managers need to take the lead in addressing this.

2.16 The final conference session asked 'where next for shareowner activism'. Bob Monks, well known in activist investment, stated that we have seen the end of a 30 year period in which private groups were allowed to self regulate to produce wealth for the good of society. However, he believes government regulation is not a realistic replacement preferring to see shareholder activism as part of trustees' fiduciary duties. Brian Bailey of the West Midlands Pension Fund listed issues that can make engagement with companies difficult including the investment methods used, conflicting messages from different investors and big managers not voting in line with funds' wishes. Janet Williamson from the TUC claimed that a decreasing number of shares were held by long term shareholders and that activism tends to focus on very few stocks. She believes that the links between beneficiaries and the companies invested in on their behalf need to be strengthened.

2.17 Overall, the conference was interesting and topical, giving delegates plenty to consider in terms of their own funds' responsible investment. It was the biggest LAPFF conference to date, reflecting the increasing membership, and this enabled delegates to make or renew contacts at investment management firms and other local authority funds.

3. Statutory and Policy Implications

3.1 This report has been compiled after consideration of implications in respect of finance, equal opportunities, personnel, crime and disorder and those using the service and where such implications are material they have been described in the text of the report.

4. Recommendations

4.1 That it be noted that attendance at relevant conferences is part of the Funds' trustee training programme and in line with best practice.

4.2 That the report be noted.

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Background Papers Available for Inspection
None