

PENSION FUND COMMITTEE – 2 DECEMBER 2011

MEMBERSHIP OF THE LOCAL AUTHORITY PENSION FUND FORUM

Report by Assistant Chief Executive and Chief Financial Officer

Introduction

1. As the nominated persons responsible for the Management of the Oxfordshire Pension Fund, this Committee has a number of responsibilities with regard to the investment of pension funds. These responsibilities are set out in Regulations, further guidance and advice supplied by the Department for Communities and Local Government and CIPFA, and in the Financial Reporting Council's Stewardship Code.
2. The Pension Fund's approach to these responsibilities are set out in the Statement of Investment Principles. The relevant sections of the statement are set out in annex 1 to this report.
3. In June 2010, this Committee assessed its compliance with the six principles for Pension Fund Investment, in line with the guidance provided by CIPFA. Principle 5 covers the issue of Responsible Ownership, and covers how the Committee exercise its responsibilities in terms of exercising the rights attached to their investments, to what extent social, environmental or ethical considerations are taken into account in investment decisions, and the Committee's approach to engagement with its investment managers, and the companies in which it invests.
4. The June report indicated that this Committee was not compliant in terms of the consideration of environmental, social and governance issues when selecting and appointing investment managers, nor in ensuring each investment manager has an explicit strategy setting out when they would intervene in a company, which itself is acceptable to the Committee.
5. This report sets out some of the benefits and costs of membership of the Local Authority Pension Fund Forum. The Committee is asked to consider becoming a member of the Forum in the context of its Responsible Ownership duty, and the areas of non-compliance addressed last June.

Areas of Non-Compliance

6. The main concern which led to the non-compliance finding was around the extent to which this Committee is directly involved in environmental, social and governance issues. In particular, the Committee has not set out the key issues where it would expect its Fund Managers to be engaging with companies, and as a consequence, is not in a position to monitor how well the Fund Managers are engaging on behalf of the Fund on these issues.

7. Since the publication of the Financial Reporting Council's Stewardship Code in September 2010, the Council has required its Fund Managers to report each quarter on Corporate Governance and Responsible Investment. These reports should set out the key issues on which the Fund Manager is seeking engagement with companies, as well as the specific engagements undertaken within the quarter, and the Fund Managers voting record.
8. This Committee has not explicitly reviewed whether or not the key issues identified by the Managers are consistent with their own priorities. For example, in their report for the Quarter Ended 30 September 2011, Baillie Gifford have identified their engagement around increasing Board Diversity and number of Women on company boards, in line with recent Governance papers, as well as developing corporate governance arrangements in Japan as main themes. The Committee have not taken a view on the importance of these issues, nor how they will monitor the success of Baillie Gifford's engagement.

The Local Authority Pension Fund Forum

9. The Local Authority Pension Fund Forum is a voluntary association of (currently) 54 local authority pension funds. The Forum exists to protect the investments of its members, and to maximise their influence as shareholders by promoting the highest standard of corporate governance and corporate social responsibility within the companies in which members invest.
10. The Forum facilitates commissioning of research and policy analysis of issues more effectively than could be achieved by the separate pension funds acting individually. The Forum also facilitates consultation of shareholder initiatives, and an information exchange and discussion about investment issues, and other matters of common interest across the local government pension area.
11. By acting in a collaborative way across 54 LGPS funds, the Forum is able to provide a stronger voice and influence than funds acted individually, and is better placed to collaborate more effectively with other major institutional investors. Overall costs associated with corporate governance should also be reduced.
12. The Forum holds 4 to 5 business meetings a year plus an AGM and annual conference. Each member fund has one vote at meetings. The Forum contracts with PIRC (Pensions Investment Research Consultants) to supply technical research, advice and assistance on all matters relating to best practice in corporate governance and corporate social responsibility.
13. The costs of Forum membership are currently £8,460 a year, or £8,250 per year for a three year membership.

Issues for Committee Consideration

14. The Pension Fund Committee previously considered membership of the Local Authority Pension Fund Forum in May 2004. At that time, the Committee determined that there was no clear benefit to Membership, and resolved not to join.
15. Since 2004, there has been an increase in emphasis in corporate governance and responsible investment, and a switch around strategies which simply focused on identifying companies/sectors to exclude from investment, to strategies more focused on positive engagement with companies to contribute to longer term investor return.
16. CIPFA guidance does state that “Authorities may wish to consider seeking alliances with other pension funds in general, or a group of local authority pension funds to benefit from collective size where there is a common interest to influence companies to take action on environmental, social and governance issues.”
17. Membership of the Forum would provide the Committee with a clear focus for engagement issues, enabling the Committee to better consider the areas of concern that they would wish the Fund Managers to focus on. The Committee could benefit from the Forum’s own engagement with investment managers regarding their environmental, social and governance performance, as well as working with the Forum on specific campaigns (both single issue e.g. climate change, or company specific e.g. News International).

Recommendation

18. **The Pension Fund Committee is RECOMMENDED to consider whether or not to join the Local Authority Pension Fund Forum at this time.**

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Background papers: Nil

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Annex 1 Extract from Statement of Investment Principles

5 Social, Environmental & Ethically Responsible Investment

The Council's principal concern is to invest in the best financial interests of the Fund's employing bodies and beneficiaries. Its Investment Managers are given performance objectives accordingly. However the Council requires its Investment Managers to monitor and assess the social, environmental and ethical considerations, which may impact on the reputation of a particular company when selecting and retaining investments, and to engage with companies on these issues where appropriate. The Council believes that the operation of such a policy will ensure the sustainability of a company's earnings and hence its merits as an investment; it will also assess the company's sensitivity to its various stakeholders.

The Investment Managers report at quarterly intervals on the selection, retention and realisation of investments on the Council's behalf. These Report/Review Meetings provide an opportunity for the Council to influence the Investment Manager's choice of investments but the Council is careful to preserve the Investment Manager's autonomy in pursuit of their given performance. The Council will use meetings to identify Investment Managers' adherence to the policy and to ask Investment Managers to report regularly on any engagement undertaken.

6 Exercise of Rights attached to Investments

The Council takes an interest in the way the companies in which it has made investments manage their affairs. It will always exercise its voting rights to promote and support good corporate governance and socially responsible corporate behaviour.

In practice its Investment Managers are delegated authority to exercise voting rights in respect of the Council's holdings. They have been instructed to vote in accordance with the guidance set by the RiskMetric Group. However, in exceptional circumstances managers may vote differently from the RiskMetric Group guidance, if in their judgement this would be in the best interests of the fund. Where managers take a contrary view to the RiskMetric Group they must obtain permission from officers to vote differently and officers must report this to the Pension Fund Committee.

Investment Managers are required to report quarterly on action taken. The Council, through its Investment Managers, may act with other pension funds to influence corporate behaviour and, apart from the exercise of voting rights in concert with others, may make direct representation to the boards of companies through its Investment