



Finance in Pensions

Issue No 2 ~ May 2004

Introduction

Welcome to the second edition of "Finance in Pensions" and my last as Chairman of the Panel. As you will no doubt have read in the CIPFA press, I am standing down from the Panel after seven long years as Chairman and almost as many before that as a Panel member.

Some of you may recall those early days of the Panel, ably chaired then by Bernard Harty and held in the Chamberlain's office at the Guildhall. Meetings were followed by lunch with a number of guests from the investment management world which gave an important business dimension to the Panel's work and broadened our knowledge.

The Panel has developed over those years with Malcolm Gray taking over from Bernard before handing the mantle to me. The sequence of guidance booklets started in Malcolm's time, inspired by the need to inform and assist CIPFA members engaged in the murky world pension fund investment.

Robert Maxwell had much to answer for but his actions spurred the pensions industry to become more informed, more transparent and altogether more effective. Of course, I've swept over many changes that have occurred since then and the fact that Paul Myners still found many areas for improvement in his report ~ two years on from that we are still working at it.

And shall I be though no longer in charge of the Panel. But I can now pass the mantle on to the broad and capable shoulders of Helen. Help her and the Panel to help you.

A handwritten signature in black ink, appearing to read 'Peter Harty', with a horizontal line underneath.

Pensions Panel Chairman (as was)

Current Panel membership

Helen Kilpatrick (Chair)
West Sussex County Council
Sue Timbrell (Deputy Chair)
Transport for London
Bob Carter
City & County of Swansea
Peter Derrick
Corporation of the City of London
Terry Edwards
LGPC
Richard Harbord
Independent Consultant
John Hattersley
South Yorkshire Pension Fund
Bob Holloway
ODPM/LGP
Stuart Imeson
Bradford City Council
Richard McIndoe
City of Glasgow
Keith Neale
Independent Consultant
Kash Pandya
Audit Commission
Tony Pryce
NAPF
Geoff Singleton
Hymans Robertson
Bob Summers
Norfolk County Council
Patrick Clackett (Secretary)
CIPFA

Meeting on 29th March 2004

Twelve members were in attendance at the meeting held at Tower 42 in London. The venue on this occasion was provided by LPFA but there was no presentation.

Patrick Clackett was welcomed by the Panel to his first of many meetings as secretary.

Matters arising from the previous meeting covered:

€#The article on prudential benchmarks by John Hattersley issued with the first newsletter

€#Guidance to be issued by the Audit Commission on accounting for AVCs and other accounting issues relating to FRS17

€#The question of whether the Prudential Code permit as investment through the issue of bonds

€#CPAs and the context of pensions functions.

The results of the **Survey on Shareholder Activism** were discussed. While there were only 29 returns it was considered that this provided a good source of information for discussions with the Treasury and ODPM may the use the data also. Levels of activism are indicated as high and it was agreed to encourage further responses when circulating the results.

Guidance of Accounting Standards is needed on two issues raised at the Panel; liabilities passed to the Funding Council for unfurled pension benefits and reimbursed

by HEFC; and the application of FRS12 or FRS17 in relation to payments for the capitalised costs of early retirement.

A paper produced by ODPM on **Stocklending** was discussed. The Panel welcomed the initiative to review the current limit under the regulations.

The **Review of Impediments to Voting UK Shares** produced by a group chaired by Paul Myners in the light of concerns about the effectiveness and efficiency of the voting system was considered a valuable contribution to reviewing best practice. The summary action points may form the basis of future CIPFA guidance.

A number of investment related points were raised in a paper on **Local Government Investments ~ Non Pension Fund** addressing the implications of the prudential code. Sue Timbrell and Richard Harbord will join up in a report on the issues.

In the context of the **Stocktake Review**, the Panel identified a number of issues in response to the ODPM's discussion paper on communication and representation. The Panel's response is summarised on the next page.

A brief discussion on **Manager Concentration and Peer Group Benchmarking** identified no real concerns that counter mandates were needed to measure performance on a comparable basis between small and large investment management houses as a form of peer group review.

Shareholder activism

A summary of responses from 29 funds to the questionnaire circulated with the first issue of Finance in Pensions is attached. The Panel asks you to circulate the results as information to your investment panels and would encourage any funds who did not respond first time round to send in their comments to improve the data we now have.

CIPFA's RESPONSE TO THE ODPM DISCUSSION PAPER ON REPRESENTATION AND COMMUNICATION

On the issue of representation, it is recognised that ODPM are committed to ensuring a good minimum standard of representation, but the main issue is about whether those representatives have voting rights – without joint and several responsibilities. It is not clear whether this is an issue about communicating decisions to interested stakeholders, or giving a degree of representation as distinct from transparent and accountable decision making by those actually responsible for the fund.

Some scheme members will have an interest but not voting power. There is general agreement that trade unions and members of pension funds should feel part of the process, and should have decisions clearly communicated to them, but there is some concern that those people nominated, but not elected and not part of a funded body, are able to vote.

Communication and transparency are paramount, but the Panel felt it was hard to see how voting representation would actually improve decision-making. The Panel wished the following issues to be taken into account:

- €# joint and several responsibilities – those with a representational interest have to take joint responsibility for decision making

- €# Chief Finance Officers, in exercising their Section 151 responsibilities, will have to consider how to involve those outside the organisation

- €# the challenge for pension fund panels is to find ways of engaging those people with an interest in decisions made without undermining the operation of the panel

- €# a feeling of involvement can be created in several ways – perhaps for example by observation – without having to invent a particular model of representation

- €# there is merit in funds deciding on a policy for representation but without being prescriptive about it.

CIPFA would wish to be involved in preparing guidance as suggested in paragraph 8 of the cover letter and has prepared draft papers on similar lines in the past. However, it is recognised that LGPC has a direct role in providing guidance on scheme administration and some form of joint working may be appropriate.

30th April 2004

CONFERENCE CALL

16th /17th June ~ Brighton
CIPFA Annual Conference

1st/2nd July ~ Norwich
LGC Pension Funds & Public
Responsibility Symposium

2nd/3rd September
LGC Public Sector Pension
Fund Investment Seminar,
Southampton

CONTACTS

Panel secretary:
Patrick Clackett
Tel: 020 7543 5874
e-mail:
patrick.clackett@cipfa.org

Panel chair:
Helen Kilpatrick
Tel: 01243 777850
e-mail:
helen.kilpatrick@westsussex.gov.uk

Technical Group:

(To be decided)

Website: www.cipfa.org.uk/panels/pensions/

Survey

Pension fund implementation of shareholder activism.

The following questions are designed to allow the CIPFA Pensions Panel to build a view of how LGPS pension funds are implementing activism.

This survey is timely because there is growing Government interest in the extent to which pension funds are implementing activism, including talk of regulation. A recent Department for Work and Pensions case-study survey indicated that public sector pension funds may be in the lead on this issue. If so, the data gathered from this survey may help to establish a best practice model for the industry.

The results for the survey will be used only in aggregate form. Individual responses will be anonymous.

1. Commitment to activism in statement of investment principles

	Yes	No	Number of comments	No comment
Has the pension fund established a commitment to conduct shareholder activism in its Statement of Investment Principles?	28	1		
If YES, does SIP include:				
i. A statement on how the pension fund will exercise its voting rights?	29			
ii. A statement on how the pension fund will undertake <u>activism</u> with regard to social, ethical and environmental issues?	23	6		
Does the pension fund have a more detailed policy (supplementing and expanding on the SIP) identifying the specific issues it will address, and the means by which it will do so?	7	22		

2. Voting rights

How does the pension fund exercise its voting rights?	Yes	No	Number of comments	No comment
Choose one option from the following list.				
€# Votes shares on its own behalf	9	11		9
€# Delegates responsibility for voting to its existing fund manager(s)	16	3		9
€# Delegates responsibility for voting to a specialist activist fund manager	1	12		15
€# The pension fund has other arrangements (please indicate).			6	22
<i>7) reports are received from the Fund Managers on engagement & topical issues on corp gov which they have carried out in general - not specifically on our behalf</i>				
<i>11) Fund managers vote but are instructed to vote in line with recommendations of voting agency</i>				
<i>12) appointed voting agent to vote its guidelines</i>				
<i>15) use the PIRC voting service, fund managers vote in accordance with instructions from PIRC</i>				
<i>21) instructed PIRC (pension investment research consultants ltd)</i>				
<i>24) requires fund managers to follow voting issues service guidelines unless otherwise agreed with the ise</i>				

3. Company engagement on governance and SRI

Leading advocates of shareholder activism argue that effective activism is about regular engagement with companies to encourage good governance, rather than just the voting of shares.

	Yes	No	Number of comments	No comment
i. Does the pension fund conduct company engagement on its own behalf? If YES, how much resource (personnel time or financial) is allocated? <i>12) very limited</i> <i>13) Scottish companies only</i>		26	2	1
ii. Does the pension fund delegate responsibility for company engagement to its existing fund manager(s)? <i>27) part to one of the funds</i>	21	7	1	
iii. Does the pension fund delegate responsibility for company engagement to a specialist activist fund manager?	5	21		3
iv. Does the pension fund have other arrangements (please indicate). <i>10) NAPF voting service</i> <i>17) member of LAPFF</i>	5	14	2	8

4. Delegation of activism

	Yes	No	Number of comments	No comment
i. Is compliance with the pension fund's policy on activism written into contracts with fund managers or other parties delegated to conduct activism on the fund's behalf? <i>6) for future IMAs</i> <i>8) in a side letter</i>	9	18	2	
ii. Does the pension fund agree specific objectives and performance measures for activism each year with those delegated to conduct activism on behalf of the fund?	3	25		1
iii. Does the pension fund receive a full record of votes made on its behalf?	26	3		
iv. Does the pension fund receive a regular detailed reporting on the engagement conducted on its behalf? <i>6) in some cases</i> <i>7) reports are received from the Fund Managers on engagement & topical issues on corp gov which they have carried out in general - not specifically on our behalf</i>	19	7	2	1
v. If YES, does this reporting include details of: \neq The number of companies engaged with? <i>6) just initiated & only in certain mandates</i> <i>7) see comment in 4iv</i>	16	3	2	8
\neq The process of engagement? <i>5) in part?</i> <i>6) only in certain mandates</i> <i>7) see comment in 4iv</i>	16	2	3	8

<p>€# The outcomes achieved from engagement and/or the current status of engagement?</p> <p>7) see comment in 4iv</p>	17	1	1	10
<p>€# Performance against the pension fund's SIP and other policies</p> <p>7) see comment in 4iv</p>	4	14	1	10

5. Fund Manager Selection

	Yes	No	Number of comments	No comment
<p>i. Does the pension fund evaluate quality of activism when considering the appointment of new fund managers/retention of fund managers?</p> <p>6) * questionnaire includes questions but not crucial in making appointments 7) not in the past maybe in the future</p>	8	17	2	2
<p>ii. Does your investment consultant assess fund managers' activism capabilities when selecting them and monitoring them thereafter?</p> <p>6) see 5i. 8) see 5i. 16) do not have one</p>	4	21	3	1
<p>iii. Has the pension fund assessed its investment consultant's ability to evaluate investment managers' activist capabilities?</p> <p>7) see 5ii. 16) see 5ii.</p>	1	23	2	3

6. Pension fund size

What was the valuation of your total pension fund as at 31st December 2003? **£ 26235.3m**

Thank you for completing this survey

Please be assured that the identity of the individual pension fund or administering authority is not required.

The results of the survey will be published in summary form with a future issue of Finance in Pensions.

Please return your completed survey in the enclosed pre-addressed envelope to:

*Peter Scales, Chief Executive
London Pensions Fund Authority
Dexter House, 2 Royal Mint Court
London EC3N 4LP*

[Survey issued on 16th January 2004]