



The London Pensions Fund Authority

Statement of commitment to
the UK Stewardship Code

2011

Statement of Commitment to the UK Stewardship Code

“Better governance will not guarantee that there will be no repetition of the recent highly negative experience for the economy and for society but will make a rerun of these events materially less likely”.

Sir David Walker, *A review of corporate governance in UK banks and other financial institutions, July 2009.*

Introduction

The London Pensions Fund Authority (LPFA) is a final salary (defined benefit) pension scheme within the UK’s Local Government Pension Scheme. As at 31st March 2011 it has approximately 77,000 members and assets of £4.1bn.

Responsible investment at the LPFA

The LPFA has been actively developing its responsible investment (RI) activities for a number of years. Stewardship falls within the LPFA’s approach to RI, which is explained in detail on our website at: <http://www.lpfa.org.uk>

The LPFA’s **RI Objective** is as follows:

To use our influence as a large institutional investor to encourage responsible long-term investment behaviour. In particular we aim to support and develop best practice on ESG issues in the companies in which we invest, through the mandates we give to our fund managers and by collaborating with other like-minded investors. The LPFA Board believes that this approach will deliver the best long term returns and is consistent with its fiduciary duty.

The LPFA welcomes any attempt to encourage similar behaviour amongst market participants and therefore supports the UK Stewardship Code.

Taking the long view

Implementing a comprehensive RI strategy is a major, long-term project. The LPFA has a firm commitment to RI but acknowledges that it will take many years to comprehensively apply its approach across its asset allocation. Our focus to date has been on our listed equity assets but over time this will expand to include other asset classes.

Our objective is to meet the spirit rather than the letter of the Stewardship Code. This is also consistent with our commitments under the UN PRI.

To ensure that the LPFA’s evolving activities are adequately captured we will review and, if necessary, amend this Statement annually.

The remainder of this Statement sets out how the LPFA meets the seven principles of the Stewardship Code.



Principle	Investors should:	Comments
1	... publicly disclose their policy on how they will discharge their stewardship responsibilities.	<p>Stewardship falls within the LPFA's existing RI activities. Details of our approach to RI can be found in the following:</p> <p>The RI section the Fund's website: http://www.lpfa.org.uk/investment/responsibleinvest.aspx</p> <p>The LPFA's Statement of Investment Principles (SIP): http://www.lpfa.org.uk/docs/pdf/SIPREVIEW2010.pdf</p> <p>The LPFA's Annual investment reports to members: http://www.lpfa.org.uk/about/publications/annualreport/index.aspx</p> <p>In 2011 the Fund appointed a voting and engagement specialist (Robeco) for its global segregated equity assets. This service will deliver a more consistent and comprehensive approach to exercising our ownership rights and responsibilities. Details of Robeco's service can be found here: http://www.robeco.com/eng/about_robeco/responsible_investing/index.jsp</p> <p>All third party agents are monitored through the LPFA's manager monitoring process to ensure that its objectives are being met. This will include Robeco from 2011. Since 2009, in addition to its quarterly meetings with managers, the LPFA has held separate meetings with its fund managers to specifically address ESG issues related to each portfolio and fund manager. These meetings ensure that relevant ESG issues are addressed in depth on a regular basis. From 2011 these discussions will include progress against the Stewardship Code.</p> <p>The LPFA retains the responsibility for high-level engagement, for example on principles and public policy. The most effective means of achieving this is through collaboration with other like-minded investors. The LPFA is an active member of initiatives such as the Local Authority Pension Fund Forum (LAPFF), the NAPF's Shareholder Affairs Committee and other groups. Principle 5 provides more detail on this area of our RI activities.</p>
2	... have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.	<p>The Board operates a conflicts of interest policy. All interests are declared before each meeting, including those of the Investment Committee. The LPFA's policy is set out in the Constitutional Document available here: http://www.lpfa.org.uk/about/board/</p> <p>The LPFA expects its fund managers and other agents (including Robeco) to have appropriate conflicts policies in place. This is reflected in all Investment Management Agreements (IMAs). These policies are reviewed periodically.</p>



Principle	Investors should:	Comments
3	... monitor their investee companies	<p>The LPFA's investments are monitored on different levels:</p> <ul style="list-style-type: none"> • Our third party fund managers have day to day responsibility for general monitoring of the portfolios they manage on our behalf. For direct investments (e.g. equities and fixed income) monitoring is at the company/security level. Where the LPFA invests via fund of funds, the underlying fund managers are subject to monitoring. • Robeco has responsibility for monitoring the LPFA's global equity portfolios from an ESG perspective • Through its collaborative activities the LPFA receives additional information on ESG issues that is relevant to our equity portfolio, for example via the LAPFF • The LPFA's Investment Team regularly monitors all of its fund managers, advisers, LAPFF, Robeco etc. In general, the LPFA retains a high-level perspective and does not take part in company-level monitoring and engagement. However, where appropriate and on rare occasions, the Investment Team will take part in individual company engagement e.g. if the presence of the beneficial owner adds weight to the issue under discussion.
4	... establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.	<p>As already indicated, the day to day monitoring of individual securities in the LPFA's portfolio is the responsibility of our fund managers and other agents. The monitoring and escalation processes of each agent are reviewed at the appointment stage and regularly thereafter as part of ongoing manager monitoring.</p> <p>Where relevant or necessary the LPFA escalates ESG issues directly to its fund managers as they arise or, at a minimum, via the regular manager monitoring meetings. ESG issues can be flagged to the LPFA by Robeco, the LAPFF and other collaborative groups.</p>
5	... be willing to act collectively with other investors where appropriate	<p>Collaboration is absolutely essential to the LPFA's ability to meet its RI objectives. The LPFA uses its membership of various investor groups to pool its influence and encourage ESG best practice in a way that would be difficult if we acted alone.</p> <p>All of the groups that we participate in are listed on the RI section of our website at: http://www.lpfa.org.uk/investment/responsibleinvest.aspx. These include LAPFF, the UN Principles for Responsible Investment, the Carbon Disclosure Project, the Institutional Investors Group on Climate Change, UKSIF and the NAPF.</p> <p>Informally the LPFA shares its experiences of implementing stewardship and related activities with other like-minded Funds, many of whom are based in the UK. Further, through Robeco, we are able to access its other clients, enabling the sharing of best practice and ideas on RI implementation on a global basis. The LPFA also benefits from Robeco's membership of a wider global network of governance other groups related to ESG issues.</p>



Principle	Investors should:	Comments
6	... have a clear policy on voting and disclosure of voting activity.	<p>The LPFA aims to exercise all voting rights consistently and intelligently. The LPFA outsources its voting to Robeco to ensure greater consistency in voting outcomes across its segregated global equity assets. The LPFA has agreed a policy with Robeco to direct voting activity carried out on its behalf. This policy can be viewed at: http://www.robeco.com/eng/about_robeco/responsible_investing/voting/index.jsp</p> <p>From the second-half of 2011 the LPFA will provide detailed reporting of Robeco's voting activity for the Fund. Historic voting data is provided in summary form in the LPFA's annual investment reports.</p> <p>The LPFA has limited control over the voting of its pooled equity assets and therefore relies on the relevant fund managers (Legal & General, Impax and Sarasin) to execute their stewardship duties appropriately. The voting activities of these managers will continue to be reviewed within our manager monitoring process. The status of voting disclosure by our pooled managers is as follows:</p> <ul style="list-style-type: none"> • Legal & General – full disclosure of votes cast: http://www.lgim.co.uk/Voting.shtml • Sarasin – full disclosure of votes cast: http://www.sarasin.co.uk/internet/ieuk/index_ieuk/about_us_ieuk/about_us_governance_voting_ieuk.htm • Impax – publishes summary voting records: http://www.impax.co.uk/investor-relations/governance-csr
7	... report periodically on their stewardship and voting activities	<p>Details of the LPFA's RI and stewardship activities can be found in the following:</p> <ul style="list-style-type: none"> • The RI section of the LPFA's website: http://www.lpfa.org.uk/investment/responsibleinvest.aspx • The LPFA's SIP: http://www.lpfa.org.uk/docs/pdf/SIPREVIEW2010.pdf • The LPFA's annual investment report provides a summary of the Fund's RI activities, including summary voting details: http://www.lpfa.org.uk/about/publications/annualreport/index.aspx • The LPFA's annual UN PRI assessment is disclosed on the RI section of our website. From 2011 the LPFA will provide its annual submission in full. This report sets out in detail how we carry out our RI activities many of which help us to meet our stewardship responsibilities. • From the second-half of 2011 the LPFA will publish detailed voting and engagement reports based on the activities that Robeco is carrying out on our behalf. These will be available on the RI section of the LPFA's website. <p>The LAPFF annual reports – detailing its activities for the year on behalf of member funds – are also available on the RI section of the LPFA's website.</p> <p>The LPFA does not currently verify its managers' engagement activities but is considering whether to implement verification in light of the release of the AAF 01/06 Standard.</p>

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