

EXECUTIVE SUMMARY:

Policy Guide on Environmental, Social and Corporate Governance Issues

The **Local Authority Pension Fund Forum** was set up in 1991 and is a voluntary association of 55 local authority pension funds based in the UK. It exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest. The Forum's members currently have combined assets of over £100 billion. The Forum has taken the opportunity below to provide our view on those issues which we consider relevant to our activities.

About this Document

This document is an executive summary of the Forum's policy positions on key environmental, social and corporate governance issues. It covers such issues as board structure, director remuneration, audit and accounting, shareholder activism, and non-financial reporting. This resource allows both new and longer-term members to understand the background to LAPFF engagement, thus providing a 'LAPFF policy bank'. It is meant to be used as a resource for members in developing their own policies and processes with regard to promoting high corporate governance and responsibility standards at the companies within their portfolios. The full document, including the Forum's position and rationale is available from the website www.lapfforum.org.

| BOARD OF DIRECTORS | |
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| Board Balance | LAPFF takes a nuanced approach to board balance and considers board size and directors' skills, background and experience when assessing the quality and capacity of the board. |
| Diversity | LAPFF supports the principle of diversity and encourages boards to select new board members from a diverse pool of candidates and to voluntarily achieve a target of 30% women on the board. |
| Independence | LAPFF assesses director independence in accordance with the UK Corporate Governance Code ('the Code') and additionally on a case-by-case basis. |
| Combined Chair/CEO | LAPFF supports the separation of the roles of Chairman and Chief Executive. |
| Chief Executive Appointed to Chair | Former Chief Executives should not be appointed to the position of Chair. |
| Succession Planning | All companies should have a succession plan, particularly those companies with unique circumstances. |
| Time Commitments | It is important that directors have sufficient time to devote to the company's affairs. Shareholders will be assured of this if full disclosure is made of directors' other commitments and attendance records of formal board and committee meetings are provided. |
| Board Evaluation | The board should undertake a formal and rigorous evaluation of its performance with external facilitation of the process every two to three years, and should include a statement on this evaluation in a separate section of the annual report, as set out in the Walker Review. |
| Re-election of Directors | LAPFF supports the annual re-election of directors. |
| Board Strategy | LAPFF will endeavour to maintain its awareness of any corporate governance or corporate social responsibility issues surrounding shareholder approval of relevant corporate actions and strategy. |
| DIRECTOR REMUNERATION | |
| Remuneration Committee | LAPFF supports the UK Corporate Governance Code provisions on the role and composition of remuneration committees. |
| Pay for Performance | LAPFF encourages companies to establish direct links between pay and performance and to use non-financial incentives to encourage high levels of performance from staff and executives. |

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| Pay Equity | Remuneration committees should consider pay elsewhere in the company when setting executive remuneration. |
| Policy Disclosure | Companies should comply with relevant regulations and in addition, should disclose the maximum possible award under each incentive scheme. |
| Pension Entitlements | Companies should disclose whether directors and officers receive preferential treatment under the pension schemes. |
| Disclosure of annual bonus targets | Companies should clearly disclose the performance targets used to set the directors' annual bonus. |
| Valuation of share awards | Companies should disclose the expected value of all share awards. |
| Disclosure of non-executive fees | Companies should disclose policies and practice regarding the payment of non-executive directors' fees. |
| Fixed Remuneration | LAPFF supports setting fixed salaries at or below the median for each company's comparator group in order to avoid ratcheting-up of salaries. |
| LTIP Performance Targets | Performance targets attached to share awards should provide executives with a focus that reflects the company's long-term goals. |
| LTIP Options Re-pricing | LAPFF is opposed to any form of option re-pricing and to the replacement of underwater options with new awards. |
| LTIP Performance Periods | Companies should adopt performance periods of more than three years or at least a performance period followed by a further holding period. |
| LTIP Re-testing of Awards | Re-testing is only acceptable if it does not act merely to offer a second chance. |
| LTIP Financial Commitment | LAPFF believes executive directors should hold shares in the company. |
| LTIP Dilution Limits | Total share awards for employee and director schemes must not exceed 10% of issued share capital over ten years. |
| LTIP Vesting Scales | Companies should apply multiple performance targets for remuneration awards and should clearly disclose the scales on which the awards vest. |
| Annual Bonus Schemes | Companies should fully disclose the performance targets set for the annual bonus schemes. |

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| Transaction-related Bonuses | Bonuses should not be paid for successful completion of transactions such as mergers and acquisitions. |
| Replacement Awards and Golden Hellos | LAPFF does not support 'golden hellos' as a strategy for recruiting new executives and directors. |
| Directors' Service Contracts | Companies should fully disclose directors' service contracts and all contracts should include a notice period of no longer than one year. |
| AUDIT, ACCOUNTS & OTHER REPORTING | |
| Accounts and Reporting | Accounting and reporting should be balanced, clear and transparent, with results represented in a way that captures all material issues, including relevant environmental and social issues and risks. |
| Financial Reporting Standards | LAPFF believes that the current legal framework is sound but that there are problems where the accounting standards do not fit with this. There are particular problems with going concern and prudence (as identified in the Sharman Review). |
| Audit Committee Report | Companies should prepare a risk report as part of their audit committee report to shareholders, which should be subject to an annual shareholder vote. |
| Internal Controls | It is the board's responsibility to set and fully disclose the company's internal control policies. |
| External Auditors and Non-Audit Services | The external auditor should be fully independent and should not undertake non-audit work, as this might compromise their independence |
| SHAREHOLDER ACTIVISM | |
| Developing and Engagement Strategy | In fulfilling its aim of protecting the pensions of members' beneficiaries, the Forum assesses long-term environmental, social and governance risks and opportunities on a case-by-case basis to determine appropriate shareholder engagement strategies. |
| Forms of Engagement | LAPFF uses various forms of shareholder engagement including voting, correspondence, one-on-one company meetings, issuing voting alerts, attending AGMs and submitting shareholder proposals, depending on the response of the company. |
| Collaboration with Other Institutional Investors | The Forum is committed to collaborating with other institutional investors or investor bodies where this will further the fulfilment of the Forum's aims and mission, but reserves the right to take its own initiatives where appropriate. |

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| The Importance of Voting | The Forum believes that voting is a core element of engagement and supports the public disclosure of full shareholder voting records. |
| Shareholder Relations | Companies should disclose the share structure, voting rights and any other rights attached to each class of shares. |
| Engagement with Fund Managers | LAPFF encourages trustees to hold fund managers accountable by regularly reviewing their performance and company engagement activities. |
| NON-FINANCIAL REPORTING | |
| ESG Disclosure | LAPFF encourages companies to describe how their corporate responsibility and sustainability policies align with and support the long-term corporate strategy. |
| Non-Financial Incentives | Companies should endeavour to develop non-financial incentives and reward systems to help attract, motivate and retain staff. |
| Employment, Health and Safety | LAPFF believes that good employment practices are linked to long-term corporate prosperity and hence the creation of investment value. |
| Human Rights | The Forum encourages companies to adopt human rights policies and management practices and believes these policies and practices should be disclosed to shareholders. |
| Political Donations | LAPFF assesses the issue of political donations on a case-by-case basis. |
| Carbon Reporting | The Forum strongly supports mandatory carbon emission reporting in the context of how companies are factoring the relevance of climate change into their business strategy. |