

Local Authority Pension Fund Forum, 2006. *Delegating Shareholder Engagement: Holding fund managers to account.*

UKSIF summary, 2009.

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I. Key points

- The Local Authority Pension Fund Forum was founded in 1991 and is an association of 39 public sector pension funds.
- The guide was written by PIRC with the aim of helping to conduct reviews regarding engagement activities.
- Trustees should review regularly the effectiveness of their fund managers' engagement activities through regular reports, meetings and appropriate selection of fund managers.
- Results from interviews with 7 leading public pension funds:
 - It is unclear whether engagement is leading to better governance.
 - There is lack of integration between ESG issues and mainstream investment.
 - Institutional investors are dissatisfied with the level of reporting of the fund managers.
- Fund managers' strategies and policies are typically based on the ISC principles rather than the Myners' Principles.
- Policies on engagement should be public and should include how the companies will be monitored, requirement for the companies to comply with the Combined Code, how conflicts of interest are managed, voting policies, meeting with management's policies, etc.
- Companies should be monitored in order to identify problems at an early stage and monitoring can be done through publications and meetings.
- Engagement is about exercising votes and escalation of action should be decided case-by-case.
- Fund managers should state in which circumstances engagement takes place and what the measures of effectiveness are. The ISC is studying particular approaches of engagement and their effectiveness.
- Fund managers usually report on engagement in their quarterly reports.
- Funds should review regularly their progress against their objectives.

II. Key quotes

- Active engagement “should be conducted with more persistence to be effective and result in active intervention” (LAPFF 2006, p. 8).
- “Pension fund trustees have a responsibility to ensure that shareholder activism is conducted in a way that fulfils their responsibility towards their members” (LAPFF 2006, p. 9).
- “Local authority pension fund trustees must implement the Myners’ Principles on a comply or explain basis” (LAPFF 2006, p. 12)
- “The Institutional Shareholders’ Committee (ISC) set out a statement of principles for the responsibilities of institutional shareholders and their agents in an apparent reaction to the Government’s consultation on the possibility of introducing a statutory duty in relation to shareholder activism (2002). The Principles provide best practice guidelines for all aspects of activism, from monitoring and intervention to assessing the effectiveness of intervention and reporting to clients. A review of this approach in September 2005 found that there was sufficient evidence for the positive impact the Principles are having on investor behaviour, and that no major changes to the Principles were therefore required.” (LAPFF 2006, p. 9)