

| | |
|---|--|
|  | Pensions Fund Sub-Committee 24 February 2021 |
| | Report from the Director of Finance |
| LAPFF Engagement Report | |

| | |
|---|---|
| Wards Affected: | ALL |
| Key or Non-Key Decision: | Non-Key |
| Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small> | OPEN |
| No. of Appendices: | 1. LAPFF Engagement Report Q4 2020 |
| Background Papers: | <ul style="list-style-type: none"> ▪ N/A |
| Contact Officer(s): <small>(Name, Title, Contact Details)</small> | Minesh Patel, Director of Finance Ravinder Jassar, Deputy Director of Finance Sawan Shah, Senior Finance Analyst Saagar Raithatha, Finance Analyst |

1.0 Purpose of the Report

- 1.1 This report is for noting and presents members with an update on the engagement activity undertaken by LAPFF (the Local Authority Pension Fund Forum) on behalf of the Fund. The Fund's commitment with LAPFF and its work demonstrates its commitment to Responsible Investment and engagement as a way to achieve its objectives.

2.0 Recommendation

- 2.1 The Committee is recommended to note this report.

3.0 Background of LAPFF

- 3.1 LAPFF (the Local Authority Pension Fund Forum) has 81 members, 6 pools and combined assets of £300bn. With investments widespread in many of the sectors, LAPFFs aim is to act together with the majority of the UK's local authority pension funds and pool companies to promote the highest standards of corporate governance in order to protect the long-term value of local authority pension funds.
- 3.2 Leading the way on issues such as executive pay, reliable accounting and a just transition to a net zero economy, the Forum engages directly with company chairs and boards to affect change at investee companies. LAPFF engages with companies and its stakeholders, such as employees and local communities, to understand their views on a company's behaviour and risks. Some issues extend beyond the behaviour of individual companies to the way markets function. The engagement is member led and on behalf of the Brent Pension Fund and other local authorities, LAPFF are able to challenge regulators and deliver reforms that advance corporate responsibility and responsible investment.
- 3.3 In October 2019, the Pension Sub-committee approved Brent Pension Fund's membership into LAPFF. Members of the Pension Sub-committee are welcome to attend meetings of the Forum. As a member of LAPFF, Brent Pension Fund are entitled to contribute to and participate in the work plan organised by the Forum around issues of common concern.

4.0 Engagement Report

- 4.1 The LAPFF policy on confidentiality requires that all company correspondence (letters and meeting notes) remain confidential; however LAPFF produce a Quarterly Engagement report to give an overview of the work undertaken. A summary of key engagement work has been provided in this report. However the full report is attached in Appendix 1 and highlights the achievements during the most recent quarter.

Engagement Conducted by LAPFF

- 4.2 LAPFF have approached HSBC to discuss a climate resolution. The resolution calls on HSBC to 'reduce financed emissions from its portfolio of customers to net zero by 2050 or sooner. The Company should report on progress against its targets and strategy in its annual report on an annual basis, starting from 2021 onwards, including a summary of the framework, methodology, timescales and core assumptions used. A meeting with HSBC has been requested to discuss the issue.
- 4.3 LAPFF met with Standard Chartered to seek evidence of progress in the period to 2030 against the company's net zero targets and request the 2021 AGM to be opened up to virtual attendance. Standard Chartered has committed to net-zero emissions across its global properties by 2030 by sourcing energy from renewable sources and pursuing energy efficiency measures. The company is

working with its clients to measure, monitor and reduce emissions in order to ensure alignment of the portfolio with Paris goals. There are clear standards for non-compliance set but the bank has also committed to providing funding, with significant amounts for renewables and clean-tech projects over the next five years.

- 4.4 During 2020, LAPFF called on the UK government to ban sales of all new petrol, diesel and hybrid cars by 2025. Since then, the Government has confirmed that it will ban the sale of all new petrol and diesel cars by 2030, representing a significant outcome in terms of carbon reduction impact. LAPFF has sought to engage with the auto industry to ascertain how car makers will be approaching the challenges of electrifying their fleets and what their plans are to reduce carbon emissions. So far, LAPFF has written to six vehicle manufacturers regarding these issues, and the Forum recently met with BMW to understand targets set for its emissions. The company assured LAPFF that it is ready to meet a rise in demand for electric vehicles and that its own operations will be carbon neutral by next year by offsetting its carbon emissions in a number of ways. They have also ensured that all of their battery cell suppliers use green energy and are looking at all aspects of supply to reduce CO2 emissions.
- 4.5 Over the last quarter, LAPFF vice Chair met with ArcelorMittal to seek evidence of progress in the period to 2030 against the companies' net zero targets and to encourage board consideration of putting climate transition plans to shareholders for approval. It was a productive discussion with ArcelorMittal committing to look at providing appropriate hybrid arrangements for investors to participate in annual meetings and for their presentation in these meetings to include detail on the zero-carbon transition, with time being allowed for discussion on this. There have also been efforts made to explore partnerships with other companies in working towards using renewable power in manufacturing green steel.
- 4.6 Other engagement efforts conducted from LAPFF has been to push National Grid for a group-wide net zero target to be set. Although the company has been signed up to the science-based target initiative for some time, no scope 3 targets for the group had been set. However, at an ESG investor event, the company announced that it has set an interim target of 20% reduction in scope 3 emissions by 2030.
- 4.7 Part of LAPFF's strategy has been to make progress on tailings dam safety. To meet this, LAPFF has set out to meet company chairs to explain the Forum's perspective on the importance of speaking meaningfully with affected communities. The Forum had managed to speak to the chairs of Vale and BHP and over the last quarter, the LAPFF Chair spoke with both the AngloAmerican Chair and Glencore Chair on this issue. Both chairs recognised the importance of engaging effectively with affected communities but did not provide much detail on how their respective companies were going about this engagement. As an added dimension to this work, LAPFF have also met with a number of Brazilian investors, including Previ, the largest public pension fund in Brazil, to test their appetite for engaging with the affected communities in order to build a coalition amongst Brazilian communities and investors.

5.0 Financial Implications

5.1 Not applicable.

6.0 Legal Implications

6.1 Not applicable.

7.0 Equality Implications

7.1 Not applicable.

8.0 Consultation with Ward Members and Stakeholders

8.1 Not applicable.

9.0 Human Resources

9.1 Not applicable.

Report sign off:

Minesh Patel
Director of Finance