



Brent Pension Fund Sub-Committee

21 February 2024

Report from the Corporate Director of Finance and Resources

LAPFF Engagement Report

Wards Affected:	All
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
List of Appendices:	Two: Appendix 1 - LAPFF Engagement Report Q3 2023 Appendix 2 - LAPFF Engagement Report Q4 2023
Background Papers:	N/A
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1.0 Executive Summary

1.1 This report is for noting and presents members with an update on 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 to achieve its objectives.

2.0 Recommendation(s)

2.1 The Committee is recommended to note this report.

3.0 Contribution to Borough Plan Priorities & Strategic Context

3.1 The work of the Pension Fund is critical in ensuring that it undertakes statutory functions on behalf of the Local Government Pension Scheme and complying with legislation and best practice. Efficient and effective performance and service delivery of the Pension Fund underpins all Borough Plan priorities.

4.0 Background of LAPFF

4.1 LAPFF (the Local Authority Pension Fund Forum) has 87 members, 6 pools and combined assets exceeding £350bn. With investments widespread in many 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.

4.2 Leading the way on issues such as campaigns against excessive executive pay, environmental and human rights campaign, 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.

4.3 In October 2019, the Pension Fund 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.

5.0 Engagements Conducted by LAPFF

5.1 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. The full report is attached in Appendix 1 (for Q3 2023) and Appendix 2 (for Q4 2023) and highlights the achievements during relevant periods.

Mining Communities and Workers

- 5.2 LAPFF have engaged with several mining conglomerates such as Anglo American, BHP, Glencore and Rio Tinto and have impressed the importance of managing human rights risks and the environmental impacts of their operations. LAPFF have since expanded their engagements to meet with representatives from Grupo Mexico, after being approached by community members affected by the 2014 leak at one of the mining company's tailings ponds in Sonora, Mexico.
- 5.3 Following a direct engagement with the chair of Grupo Mexico, LAPFF have met with Sonora community groups affected by local mining operations, where a platform will be created to improve human rights practices of Grupo Mexico. The overall aim will be to avoid further environmental damage caused by its industrial activity and mitigate the potential reputational risks which may affect its investors.

Minimum Wage

- 5.4 In June 2023, the Department of Business and Trade had investigated a number of companies in breach of wage floor requirements, which included listed firms such as WH Smith, Marks & Spencer, Argos and Whitbread. In a letter to these four companies, LAPFF had requested details outlining how such incidents occurred, the actions taken to address these breaches and how they will be prevented in the future.
- 5.5 LAPFF place emphasis on the intrinsic need for good employment practices, which engender corporate prosperity and long-term investment value. In recognition of these values, all four firms submitted prompt responses to LAPFF, which will continue to monitor and approach companies found to be in transgression of labour laws.

Taylor Wimpey

- 5.6 Housing is a major contributor to greenhouse gas emissions and is therefore a point of focus for environmental regulation. LAPFF seeks to engage housebuilders on having credible transition plans to manage the climate risks associated with overall emissions and the specific consumer and regulatory risks faced by housing companies.
- 5.7 LAPFF met directly with the Chair of Taylor Wimpey to discuss the company's approach to climate change. Following LAPFF's last engagement with the housebuilding firm, Taylor Wimpey has since produced a transition plan which outlines its emissions targets and a commitment to achieving net zero by 2045. By extension, this plan covered their approach to mitigating operational and residual emissions, as well as emissions from when homes are sold and peripheral supply chain emissions from the use of concrete and diesel.

Shell

- 5.8 Shell has suffered from historically poor investment performance over the last 20 years, which has been indicative of substandard long-term decision making,

prompting the company to become the subject of special focus from LAPFF. This is particularly due to Shell's size, both in terms of the scale of its emissions and its systemic importance as a producer of oil and gas. LAPFF has provided critique in its voting alerts since 2020, highlighting the waning investment prospects facing Shell if it does not respond accordingly to the demands of net zero transition. This coincides with recent commentary from Shell executives at the Shell AGM in May 2023, where scrutiny was placed on refining the firm's business model and revising expectations for future revenue growth.

Water Companies and Sewage Pollution

- 5.9 Water companies are facing considerable reputational risks and regulatory scrutiny surrounding their environmental performance, in particular their use of storm overflow drains. These drains are designed to stop water backing up domestic residences during periods of heavy rainfall, however there is the potential of causing sewage being released into waterways. As water companies are effectively regional monopoly suppliers subject to environmental and economic regulation, there are considerable regulatory risks, not least those driven by current reputational perceptions and public concern.
- 5.10 LAPFF Chair, Cllr Doug McMurdo, met with the Chair of Severn Trent to discuss the issues currently facing the industry. Cllr McMurdo welcomed news that the water supplier was ahead of its targets on reducing overflows, as well as refining its long-term plans to address climate change, such as capturing emissions from the sewage treatment process. While there is significant negative publicity surrounding sewage leaks, LAPFF continues to press water suppliers to carry their plans forward to address the environmental implications of their operations.

National Grid

- 5.11 LAPFF has been working alongside two major investors of the CA100+ Working Group, the Church of England and Northern Trust, in order to improve transparency of the National Grid's disclosures on direct and indirect lobbying. The CA100+ benchmark places the National Grid below its peer companies on lobbying. In June 2023, the National Grid pledged to publish its trade association memberships and updated climate policy ahead of its next AGM.
- 5.12 LAPFF has also engaged with the National Grid's Chief Sustainability Officer, who outlined the positive developments of new regulatory changes which permitted an outstanding backlog of grid connections to be cleared. In addition, regulatory easing will allow non-performing projects to be terminated and to fast-track projects which are viable. Overall, these changes are expected to contribute towards the goal of decarbonising power systems by 2030.

SAP

- 5.13 The governance of new technology is a well-recognised investment risk, an issue which has gathered significant attention following advances in AI technologies. Alongside the potential benefits of AI, it also has the potential to

adversely impact employment and create human rights risks, such as those surrounding recruitment discrimination. As with other human rights risks, LAPFF expects technology companies to have due diligence policies in place to prevent negative impacts.

5.14 LAPFF executive Heather Johnson met with German technology firm SAP to discuss contingency planning for adverse impacts of AI, including the avoidance of discrimination of legally protected characteristics during hiring processes. LAPFF will continue to hold technology firms accountable to ensure appropriate frameworks and safeguards are in place to mitigate the risks posed by new innovations.

6.0 Stakeholder and ward member consultation and engagement

6.1 There are no direct considerations arising out of this report.

7.0 Financial Considerations

7.1 There are no direct financial considerations arising out of this report.

8.0 Legal Considerations

8.1 There are no legal considerations arising out of this report.

9.0 Equality, Diversity & Inclusion (EDI) Considerations

9.1 There are no equality considerations arising out of this report.

10.0 Climate Change and Environmental Considerations

10.1 The Brent Pension Fund is committed to being a responsible investor, which involves engaging with and encouraging companies to take positive action on environmental, social and governance (ESG) issues.

11.0 Human Resources/Property Considerations (if appropriate)

11.1 There are no HR or property considerations arising out this report.

12.0 Communication Considerations

12.1 There are no communication considerations arising out of this report.

Report sign off:

Minesh Patel

Corporate Director of Finance and Resources