

	<p align="center"><b>Brent Pension Fund Sub-Committee</b> 8 October 2024</p>
	<p align="center"><b>Report from the Corporate Director of Finance and Resources</b></p>

**LAPFF Engagement Report**

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	Non-Key
<b>Open or Part/Fully Exempt:</b>	Open
<b>List of Appendices:</b>	One - LAPFF Engagement Report Q2 2024
<b>Background Papers:</b>	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 Detail**

#### **3.1 Contribution to Borough Plan Priorities & Strategic Context**

3.2 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 to LAPFF**

4.1 LAPFF (the Local Authority Pension Fund Forum) has 87 members, 7 pools and combined assets exceeding £350bn. With investments widespread in many sectors, LAPFF's 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.

4.4 Collaboration with other investors has the potential to strengthening the voice of Pension Funds, influence major companies on key ESG issues and help drive real-world change. Examples of the work carried out by LAPFF are provided below and in previous engagement reports to the committee. Individual funds, like Brent, engaging with companies on their own are unlikely to much of an impact and the Fund would require significant resources to do so effectively. Therefore, membership of collaboration groups such as LAPFF is considered to be more efficient whilst also likely to have greater impact.

### **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 Q2 2024) and highlights the achievements during relevant period.

## **Banking**

- 5.2 As part of its work on banks and climate change, LAPFF identified Canadian banks as worthwhile engagement candidates. Reports indicated that Canadian banks are increasing lending to oil and gas companies, while other banks were stepping away. The scale of this lending (greater than HSBC and Barclays), combined with reasonably material shareholders and a more receptive political backdrop than, for example, the US, prompted this focus.
- 5.3 LAPFF wrote to the five largest Canadian banks requesting meetings. In April, Forum met with three of the largest Canadian banks: Bank of Nova Scotia, Royal Bank of Canada, and Toronto Dominion. The objective of the initial engagement was to outline LAPFF's views to the companies, understand their positions, and assess the prospect for further engagement. This was the first engagement with all three companies, and it was promising from the outset in establishing a dialogue and ongoing relationship.
- 5.4 The companies were open in sharing their climate reporting efforts and the challenges in finding meaningful metrics for disclosure and reporting. There were discussions on developing methodologies to analyse clients' transition plans, embedding digital approvals into transactions, and tracking progress against reduction targets. Scotiabank, in particular, demonstrated the greatest commitment to taking climate change seriously among the three banks, although there is still room for improvement.
- 5.5 Overall, LAPFF's objectives were met in this round of engagement. The Forum had constructive dialogues with the companies, and while there were disagreements on several points, the banks are not in denial about climate change and have plans in place. LAPFF intends to continue engagement with banks in the autumn to develop investor expectations from the Forum's point of view.

## **Water stewardship**

- 5.6 LAPFF has been engaging with water utility firms since 2022, following concerns about pollution of rivers and coastal areas caused by storm overflows. As a highly regulated sector, this additional investment has to go through a review process with Ofwat every five years. Meeting environmental objectives set under the five-year plans not only has reputational impacts but, as a regulated system, these performance outcomes also result in either financial awards or penalties.
- 5.7 As part of its engagements, LAPFF wants to ensure that progress is being made to reduce the number of overflows and that the next five-year business plans will be delivered cost-efficiently while meeting broader environmental and

social commitments. In the quarter the Forum continued its productive dialogue with United Utilities' chair, Sir David Higgins, about the environmental and financial challenges that persist in the water utilities sector. LAPFF discussed with the company its plans to meet its 2025 overflow target and its stretching 60% overflows reduction goal by 2030. Meeting this longer-term ambition will be contingent on the increased capital expenditure which will need to be approved by the regulator alongside increased prices for its customers. To deliver value for money, the company outlined the need for long-term pragmatic engineering in the sector.

- 5.8 LAPFF will continue to engage the companies to ensure that progress is being made against their targets on overflows, in addition to following the final determinations by the regulator and ensuring that plans will be delivered cost efficiently to the benefit of shareholders and their wider stakeholders.

### **BP & Shell**

- 5.9 During continued engagement with Shell and BP, LAPFF's approach has remained to test oil and gas companies beyond claims of decarbonisation based on existing business models to challenge the viability of the current business. This expectation, based on LAPFF policy, is that the demand for hydrocarbons will 1) reduce in aggregate terms; and 2) that demand will be met by lowest cost producers.
- 5.10 LAPFF attended Shell's AGM on 21 May 2024, where the Forum assessed substantial threats to the company's business model. In the absence of investment in products that would fully replace the scale of the fossil fuel business, it is LAPFF's continued assessment that parts of the business need to be put into managed decline with cash returned to shareholders. Shell has said that it cannot make the investment case for renewables. That is not in itself unreasonable but does support the argument for more cash returns to shareholders instead.
- 5.11 Meetings with the both the Shell and BP chief executives are pending. LAPFF continues to challenge whether Carbon Capture and Storage can be made to work as a line of business, given that the costs involved make it a last resort if cheaper substitute energy sources are not possible. Developments in aviation fuels and biofuels need to be examined in more detail, and the Forum needs to explore robustly the extent to which climate strategy is integrated into business planning and financing.

### **London Stock Exchange Group**

- 5.12 LAPFF has been concerned about the weakening of standards relating to new entrants to the London listed companies' market, which has included, Aston Martin Lagonda, NMC Health, Finabl and Quindell, the former of which has lost over 90% of its value since listing, the other three being 100% losses. The LAPFF Executive convened a 'Capital Markets Working Group' in the light of a recent concerted campaign by some interests to further weaken the standards of the listing regime. That campaign has included the Capital Markets Industry

Taskforce, which is just that, it is a coalition of “fee earning” interests rather than shareholder interests, including issues of investor protection.

5.13 An open letter was sent to the chair of London Stock Exchange Group, asking for an evidence-based approach, and to supply the evidence for assertions made to date. That letter was released to Reuters and obtained wide coverage. The response did not sufficiently address the core issues. A letter has also been sent to the chair of the Financial Conduct Authority (FCA) which is the UK Listing Authority.

5.14 LAPFF has written back to the LSEG to request evidence, and also to point out that body was set up under the auspices of the Investment Management Association known as the “Investor Forum” has turned itself into the Investor and Issuers Forum. The Forum is also considering what further steps that will be decided after the General Election. The FCA has responded with a holding letter. The Times on 27 June 2024 covered issues with poor listing standards consistent with the LAPFF approach.

## **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