

London Borough of Enfield

ENFIELD PENSION BOARD

Meeting Date: 09 June 2021

Subject: LAPFF Engagement and Voting Update for FY 2020/21

Cabinet Member: Cllr Maguire

Executive Director: Fay Hammond

Key Decision: []

Purpose of Report

1. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and the Committee has previously agreed that the Fund should cast its votes at investor meetings in line with LAPFF voting recommendations. This report provides an update on voting activities on behalf of the Fund.
2. Also presents a summary of various Environmental Social & Governance (ESG) issues that the Local Authority Pension Fund Forum (LAPFF) have been involved in, for the attention of the Pension Board.

Proposal(s)

3. The Pension Board are recommended to:
 - a) Note the contents of this report;
 - b) Note the LAPFF voting recommendations and the Fund's Asset Managers voting outcomes from April 2020 to 31 March 2021, set out in Appendix 1 of this report; and
 - c) The issues discussed by LAPFF, set out in the Quarterly Engagement Report which is available on the LAPFF website:
<https://lapfforum.org/publications/category/quarterly-engagement-reports/>

Reason for Proposal(s)

4. The exercise of voting rights and engagement with investee companies are a key part of the Fund's role as a long term steward of assets. Ensuring good corporate governance and the adoption of sustainable business models at the companies in which the Fund invests should over the longer term ensure that they are able to deliver superior returns to the Fund.

Relevance to the Council's Corporate Plan

5. Good homes in well-connected neighbourhoods.

6. Build our Economy to create a thriving place.
7. Sustain Strong and healthy Communities.

Background

8. The subject of voting and engagement has been considered by the Pensions Committee on a number of occasions. The Fund wishes to ensure that it is able to effectively express its views on ESG issues through the exercise of the Fund's voting rights, as well as enhancing the Fund's approach to engagement with its investee companies more generally. However, the rapid changes currently taking place across the sector have raised a number of questions about how voting rights, and Responsible Investment (RI) approaches more generally, can best be delivered through the new pooled structures.
9. The Fund currently delegates the exercise of its voting rights to its external equity managers, who are asked to comply as far as possible with the Fund's voting policies. The move to a pooled structure over the medium term would significantly impact this arrangement as voting rights would need to be exercised at pool level rather than fund level. The Fund will therefore need to ensure that it works with other London funds as well as the pool itself to ensure that in the future it is able to effectively express its views through the exercise of voting rights.
10. The Fund also currently delegates broader engagement with investee companies around ESG issues to its external managers. The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), which currently comprises 71 local authority pension funds with combined assets of £205 billion. The Forum exists to promote the investment interests of local authority pension funds, and in particular to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.
11. The voting alerts received from LAPFF and the outcome of votes, as well as how the fund's equity managers, MFS, Blackrock and London CIV, is detailed in attached Appendix 1. Managers have been asked to provide voting information in light of LAPFF recommendations.

LAPFF Engagement Outcomes

12. The LAPFF had engaged with 27 companies on issues such as Climate Change, Community Engagement and the Just Transition during the **Quarter Ending 30 June 2020**.
13. ArcelorMittal (Climate Action) – Met with company officials to establish 2030 carbon emission targets, including scope 3 targets
14. HSBC/ Allianz (Climate Change) – LAPFF engaged with both companies to ensure they gain awareness of the impact the insurance side of their

businesses does - and can - have on climate change, in addition to the investment aspects.

15. Pharmaceutical Companies (COVID-19) – Joined a collaborative engagement and sent letters to 17 pharmaceutical companies, to seek assurances that there won't be unfair distribution and pricing practices in the context of the virus
16. Department of Business, Energy and Industrial Strategy (Policy Engagement) – Supported findings from the Kingman Review in replacing the Financial Reporting Council as well as the Competition and Markets Authority's Review on the audit market
17. The LAPFF had engaged with 79 companies on issues such as Climate Change, Community Engagement and the Just Transition during the **Quarter Ending 30 September 2020**.
18. ArcelorMittal (Climate Action) – LAPFF are currently leading the engagement with Arcelor Mittal through the Climate Action 100+ group.
19. Barclays (Climate Change) – LAPFF engaged with both Barclays and Share Action, in response to both organisations submitting their own climate resolutions. As both resolutions had become very close in their views on how to progress Barclays' Climate Strategy, the LAPFF were happy to support both.
20. Tailings Dams (Sustainability) – Community representatives flagged a list of high risk dams, which pose significant safety concerns for affected communities, which the LAPFF cross referenced with its own collective holdings. They had found that the AngloAmerican, Vale and ArcelorMittal all had dams on the list. The Forum consequently decided to pursue engagement with these companies on how they were mitigating risk for these communities
21. Chipotle (Climate Change) – LAPFF met with Chipotle representatives on numerous occasions during 2019 and into 2020, asking how they plan to enact meaningful policies and targets to de-risk their meat and dairy supply chains from a climate perspective. Chipotle have since confirmed it would set science based emissions reduction targets by 2021. LAPFF's focus is now on ensuring the company continues to develop a methodology capable of accurately collecting emissions data from across its value chain.
22. The LAPFF had engaged with 145 companies on issues such as Climate Change, Human Rights and the Just Transition during the **Quarter Ending 31 December 2020**.
23. Auto Industry (Climate Action) – The LAPFF wrote to 6 vehicle manufacturers on how they are approaching the challenge of electrifying their fleets in line with the UK's ban on petrol/ diesel cars by 2030. BMW has openly set science-based targets for its Scope 1 & 2 emissions but has yet to set such targets for Scope 3 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. LAPFF has meetings organised for early 2020 with two other vehicle manufacturers to discuss these issues. LAPFF hopes to get manufacturers that haven't already, to set science-based targets for their scope 3 emissions and also wants to ensure that these companies are set up sufficiently to deal with the electrification of their fleets.

24. Standard Chartered (Climate Change) – LAPFF met with Standard Chartered to seek evidence of progress in the period to 2030 against the company's net zero targets. On progress to 2030, 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. For scope 3, the company is working with clients to measure, monitor and reduce emissions in order to ensure alignment of the portfolio with Paris goals.
25. Investors for Opioid and Pharmaceutical Accountability (IOPA) – Forum representatives also regularly attend IOPA meetings and have flagged shareholder resolutions stemming from the initiative, both addressing the Opioid epidemic in the US as well as engaging with the companies on their approach to COVID-19.
26. BAE Systems (Human Rights) – The LAPFF met with BAE and found that at the moment the company appears to continue to focus on staff issues as its primary social indicator of performance but doesn't acknowledge the human rights implication of its arms contracts. The LAPFF feels that continuation of this engagement is necessary and would consider engaging with government Post-Covid.
27. The LAPFF had engaged with 145 companies on issues such as Climate Change, Human Rights and the Just Transition during the **Quarter Ending 31 March 2021**.
28. LAPFF continues to engage with Shell. In addition to its own engagement, LAPFF is engaging via the CA100+ group of investors on Shell. The Forum is very keen to continue the collaboration with other investors, and make sure that investors collectively communicate a consistent and robust case to ensure all aspects of the company's financial outcomes and performance are understood fully. Shell has proposed a nonbinding shareholder resolution on its climate change plans.
29. The Israeli-Palestinian Territories have long been fraught with controversy. In February 2020, the Office of the United Nations High Commissioner for Human Rights published a list of 112 business entities that it had identified as having business activities related to settlements in these territories. The Forum has been monitoring the ongoing situation in the territories and reached out to 16 companies in which a number of member funds hold to seek an engagement meeting. The aim of these engagement letters was to ascertain whether these companies had undertaken human rights impact assessments on their operations and if not, ask them to do so. Out of the 16 companies, LAPFF had one engagement meeting in the third

quarter of 2020 with Altice Europe N.V and received a number of responses from other companies.

30. Suzano, the Brazilian-based pulp and paper company, has been identified by CA100+ as critical to the net-zero energy transition. As one of two lead investors, LAPFF has been engaging with the company over the last 18 months, pushing it to take action to reduce greenhouse gas emissions, improve disclosures, and implement a strong governance framework from which company decision making can be made accountable. In January, LAPFF met with the company to encourage a response to the CA100+ net zero company benchmark. The benchmark will enable comparative assessment of the world's key emitters and the extent to which businesses have aligned with a 1.5 degree global temperature rise. Since LAPFF began engaging with Suzano 18 months ago the company has set a target to reduce emissions intensity of scope 1 & 2 emissions by 15% by 2030. LAPFF will continue to focus on the company's carbon reduction strategy with a focus on setting more ambitious scope 1 & 2 emission reduction targets.
31. During January 2021, LAPFF met with Tesco to discuss the company's long-term strategy relating to health and nutrition. Part of the objective of this engagement was to encourage the company to disclose metrics relating to the proportion of healthy versus unhealthy produce available to customers and to set relevant targets to improve the availability of healthy items. This engagement aligns with the Healthy Markets initiative being coordinated by ShareAction. ShareAction has announced the filing of a resolution at the upcoming Tesco AGM requesting that the company disclose the share of total food and non-alcoholic drink annual sales by volume made up of healthier products and publish a target to significantly increase that share by 2030.
32. The Forum met with General Motors (GM) and Volkswagen (VW). Both companies outlined their commitments to investing in and scaling up electric vehicle production. VW stated that it was committed to achieving net zero by 2050 and highlighted the reputational damage to the company caused by the emissions scandal. GM stated that it was aiming for an all-electric future, was aiming for carbon neutrality, and was working with the Science-Based Taskforce Initiative on this aim. Two weeks after the engagement GM formally announced its plans for carbon neutrality by 2040 in products and operations and its aspiration to eliminate tailpipe emission for light-duty vehicles by 2035. LAPFF hopes that manufacturers that haven't already set science-based targets for their scope 3 emissions will do so imminently and also expects investee companies to ensure that they are sufficiently capable of electrifying their fleets. The Forum intends to continue engagements with carmakers to ensure that they are meeting their targets and that short-term emission reductions are being achieved

Safeguarding Implications

33. Poor corporate governance and unsustainable business practices can impact on share prices and increases the risk that the Fund may experience a loss of value in its investments in the future

34. **Public Health Implications**

35. The Enfield Pension Fund indirectly contributes to the delivery of Public Health priorities in the Borough.

Equalities Impact of the Proposal

36. The Council is committed to Fairness for All to apply throughout all work and decisions made. The Council serves the whole borough fairly, tackling inequality through the provision of excellent services for all, targeted to meet the needs of each area. The Council will listen to and understand the needs of all its communities.

Environmental and Climate Change Considerations

37. Environmental and climate change considerations are all over this report.

Risks that may arise if the proposed decision and related work is not taken

38. The rigorous robust management of LBE Pension Fund results in better quicker and more effective decision making which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund.
39. Ensuring good corporate governance and the adoption of sustainable business models at the companies in which the Fund invests should over the longer term ensure that they are able to deliver superior returns to the Fund.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

40. This is a noting report.

Financial Implications

41. This is a noting report and there are no direct financial implications as a result of the contents of this report.
42. The exercise of voting rights and engagement with investee companies are a key part of the Fund's role as a long term steward of assets. Ensuring good corporate governance and the adoption of sustainable business models at the companies in which the Fund invests should over the longer term ensure that they are able to deliver superior returns to the Fund. Poor corporate governance and unsustainable business practices can impact on share prices and increases the risk that the Fund may experience a loss of value in its investments in the future.

Legal Implications

43. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 Regulation 7 requires Administering Authorities to

publish and maintain an Investment Strategy Statement which includes, amongst other items, details of:

- The authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.
- The authority's policy on the exercise of the rights (including voting rights) attaching to investments.

5.2 In addition, Government guidance on the preparation and maintenance of the Investment Strategy Statement states that Administering Authorities should explain their policy on stewardship with reference to the Stewardship Code, the seven principles of which apply on a 'comply or explain' basis.

5.3 There are no immediate legal implications arising from this report.

Workforce Implications

44. The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will allow the Council to meet this obligation easily and could also make resources available for other corporate priorities.

Property Implications

45. None

Other Implications

46. None

Options Considered

47. The Fund would remain a member of LAPFF but to ensure the Fund's Responsible Investment (RI) approach is enhanced the engagement approach can be improved by procuring an overlay service rather than relying on delegation to fund managers.

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Appendices

Appendix 1 – LAPFF Voting Alerts and Votes Outcomes

Background Papers

https://lapfforum.org/wp-content/uploads/2020/07/LAPFF_QER2_2020_01.pdf

https://lapfforum.org/wp-content/uploads/2020/10/LAPFF_QER3_2020.pdf

https://lapfforum.org/wp-content/uploads/2021/01/LAPFF_QER4_2020_final.pdf

https://lapfforum.org/wp-content/uploads/2021/04/LAPFF_QER1_2021.pdf