

**London Borough of Enfield**

**PENSION POLICY AND INVESTMENT COMMITTEE**

**Meeting Date: 30 September 2021**

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**Subject: LAPFF Quarterly Engagement Update for June 2021**

**Cabinet Member: Cllr Maguire**

**Executive Director: Fay Hammond**

**Key Decision: [ ]**

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**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.
2. This report provides an update on 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 Policy and Investments Committee are recommended to:
  - a) Note the contents of this report;
  - b) 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.

## LAPFF Engagement Outcomes

11. The LAPFF had engaged with 145 companies on issues such as Climate Change, Community Engagement and the Just Transition during the **Quarter Ending 30 June 2021**.
12. Hanwha drops Cluster Munitions Business – In 2014, the LAPFF engaged with defence companies to stop production and selling of cluster munitions. Although this engagement was difficult, about a year later, Singapore Technologies wrote to LAPFF stating that the company had ceased the production and sale of cluster munitions. Then, in December 2020, LAPFF received confirmation from another one of the companies it engaged with, Hanwha Corporation, stating that company had sold off its cluster munitions business.
13. Diversity Engagement and socio-Economic Task force - The Hampton Alexander Review set a target of 33% representation of women on FTSE350 boards and in Executive Committees by the end of 2020. LAPFF has sought to engage on ethnic diversity and approached the City of London Taskforce on Socio Economic Diversity.

14. LAPFF approached six companies in the financial services sector in the FTSE100 including Standard Life Aberdeen and Lloyds Banking Group. Lloyds Banking Group is one of the first companies in the FTSE100 to post an ethnicity pay gap report and it recognises that there is further work to be done in this area.
15. The LAPFF has also continued its participation in the 30% Club Investor Group Meetings which provides a space to discuss best practice among investors in relation to female representation on company boards.
16. The LAPFF will extend its engagement on diversity and pay gaps to the FTSE350, with the view to understand where companies have not yet met targets of the Hampton Alexander review, and where wider pay gaps exist.
17. Workers Safety during the pandemic – The coronavirus pandemic has highlighted the importance that companies must place on the S in ESG to safeguard workers and protect and enhance shareholder value. It is one of the LAPFF's core objectives of promoting responsible investment and the highest standards of corporate governance.
18. Engagements sought to ensure that proper processes have been in place during the crisis and that boards were providing proper oversight as the crisis has unfolded. These engagements have focused on sectors most at risk including the outsourcing and social care sectors.
19. LAPFF met with Capita and Serco, which covered the safeguarding of staff and the balance of working from home, call centres and PPE. LAPFF, alongside a range of other investors, also signed on to an expectation for the nursing home sector statement.
20. The statement, coordinated by UNI Global, calls on providers to improve standards for residents and staff in the wake of the pandemic. LAPFF will continue to be engaging companies on this agenda and collaboratively with the care sector as part of the UNI Global initiative.
21. Electric Vehicles - LAPFF has sought to engage with the carmakers, who are facing tightening regulatory emission and fuel standards across the globe, which will require them to move to electrify their fleets.
22. LAPFF has sought to engage companies through approaching this challenge and pushing for emission reductions in the short term and achieving net zero emissions in the longer term. LAPFF will continue its engagement with vehicle producers around changing regulation and their approach to electrifying product lines.

### **Safeguarding Implications**

23. 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

### **24. Public Health Implications**

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

### **Equalities Impact of the Proposal**

26. 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**

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

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

28. 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.
29. 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**

30. This is a noting report.

### **Financial Implications**

31. This is a noting report and there are no direct financial implications as a result of the contents of this report.
32. 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**

33. 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**

34. 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**

35. None

### **Other Implications**

36. None

### **Options Considered**

37. 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 Quarterly Engagement Report

### **Background Papers**

[https://lapfforum.org/wp-content/uploads/2021/07/LAPFF\\_QER02\\_2021\\_final-final.pdf](https://lapfforum.org/wp-content/uploads/2021/07/LAPFF_QER02_2021_final-final.pdf)