

London Borough of Enfield

PENSION POLICY AND INVESTMENT COMMITTEE

Meeting Date: 25 November 2021

Subject: LAPFF Quarterly Engagement Update for Sept 2021

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.
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/wp-content/uploads/2021/10/LAPFF_QER03_2021_03.pdf

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

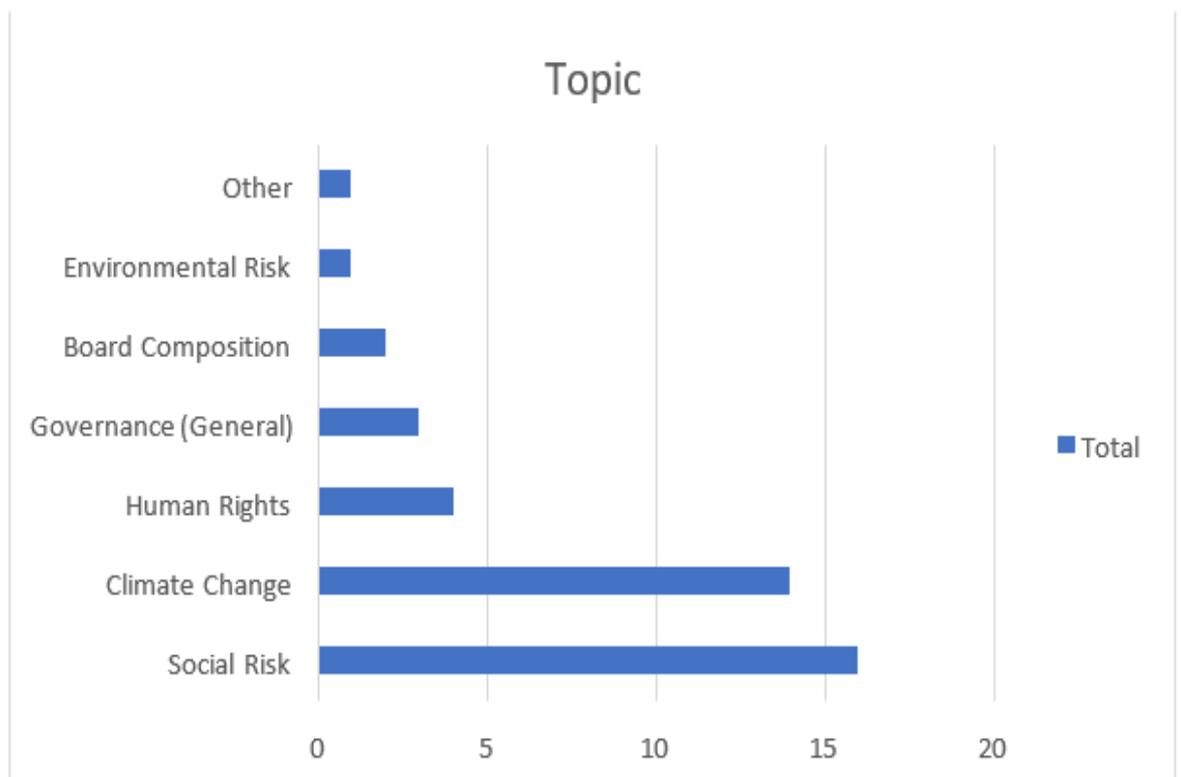
5. Good homes in well-connected neighbourhoods.
6. Build our Economy to create a thriving place.
7. Sustain Strong and healthy Communities.

Background

8. The 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.
9. The Fund also currently delegates broader engagement with investee companies around ESG issues to its external managers. The Fund is 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

10. For this reporting period, LAPFF engaged with various companies on different topics as shown in the below chart.



11. The LAPFF had engaged with 32 companies as listed in the below table e during this reporting period; **Quarter Ending 30 September 2021.**

Thirty two Companies engaged over the quarter

Company/Index	Activity	Topic	Outcome
A G BARR PLC	Meeting	Other	Small Improvement
AJINOMOTO CO INC	Sent Correspondence	Social Risk	Awaiting Response
ALSTOM SA	Meeting	Human Rights	Small Improvement
ANGLO AMERICAN PLC	Meeting	Climate Change	Change in Process
ARCELORMITTAL SA	Meeting	Climate Change	Change in Process
BANK LEUMI LE-ISRAEL BM	Sent Correspondence	Human Rights	Awaiting Response
CAMPBELL SOUP COMPANY	Sent Correspondence	Social Risk	Awaiting Response
COCA COLA BEVERAGES PLC	Sent Correspondence	Social Risk	Awaiting Response
CONAGRA BRANDS INC.	Meeting	Social Risk	Awaiting Response
DANONE	Sent Correspondence	Social Risk	Dialogue
GENERAL MILLS INC	Sent Correspondence	Social Risk	Awaiting Response
HSBC HOLDINGS PLC	Meeting	Climate Change	Change in Process
KELLOGG COMPANY	Meeting	Social Risk	Awaiting Response
KEURIG DR PEPPER	Sent Correspondence	Social Risk	Awaiting Response
MEIJI HOLDINGS CO LTD	Sent Correspondence	Social Risk	Awaiting Response
mitsubishi UFJ FINANCIAL GRP	Meeting	Climate Change	Change in Process

MONDELEZ INTERNATIONAL INC	Sent Correspondence	Social Risk	Awaiting Response
NESTLE SA	Sent Correspondence	Social Risk	Awaiting Response
NEXTERA ENERGY INC	Received Correspondence	Climate Change	Substantial Improvement
PEPSICO INC.	Sent Correspondence	Social Risk	Awaiting Response
PERSIMMON PLC	Meeting	Climate Change	Moderate Improvement
RIO TINTO PLC	Meeting	Climate Change	Change in Process
ROYAL DUTCH SHELL PLC	Sent Correspondence	Climate Change	Awaiting Response
ROYAL DUTCH SHELL PLC	Meeting	Governance (General)	Dialogue
SAINSBURY (J) PLC	AGM	Environmental Risk	Dialogue
SANWA HOLDINGS CORP	Sent Correspondence	Board Composition	Dialogue
SSE PLC	Meeting	Climate Change	Change in Process
STANDARD CHARTERED PLC	Sent Correspondence	Climate Change	Awaiting Response
SUMITOMO MITSUI FINANCIAL GROUP	Sent Correspondence	Board Composition	Substantial Improvement
SUNTORY BEVERAGE & FOOD LTD	Sent Correspondence	Social Risk	Awaiting Response
THE KRAFT HEINZ COMPANY	Sent Correspondence	Social Risk	Awaiting Response
UNILEVER PLC	Sent Correspondence	Social Risk	Awaiting Response

12. Detailed below are some of the LAPFF engagements with some companies, carried out during this reporting period; **Quarter Ending 30 September 2021** with *Shell, Rio Tinto, Anglo American, SSE, Standard Chartered, HSBC, Mitsubishi Financial and Sainsbury*.
13. **Shell** - LAPFF had some serious concerns about the out-going Shell Chair's statement that oil and gas would be needed as part of the company's portfolio for the foreseeable future. Various conversations and interactions with the CEO had also raised concerns about the company's trajectory, both from a carbon perspective and from a business perspective. Consequently, LAPFF was keen to meet the new Shell Chair, Andrew Mackenzie, formerly CEO of BHP and no relation to current BHP Chair, Ken MacKenzie.
14. The meeting took place in early September, with the conversation focused primarily on Shell's financial performance and how the company's approach to fossil fuels would impact on that performance. LAPFF Chair, Cllr Doug McMurdo, noted that compared to BHP's total shareholder returns over the last ten years, Shell had performed poorly and that net zero objectives would not enable the company to achieve Paris-aligned climate targets. While LAPFF was grateful to Sir Andrew for his engagement and welcomed his willingness to take suggestions, significant inconsistencies in Shell's business strategy, business model, and climate strategy appear to persist. LAPFF will continue to engage with Shell to work toward a truly Paris-aligned climate and business plan for the company.
15. **Rio Tinto** - This year, LAPFF attended Rio Tinto's AGM to push the company on recognising the financial impacts of its social challenges. Cllr McMurdo met with Rio Tinto's Chief Financial Officer, Peter Cunningham, to discuss this issue further. Mr. Cunningham took over as interim CFO when Jakob Stausholm became CEO but has been made permanent recently. It appears that Mr Cunningham understands and agrees with the proposition that social impacts affect financial materiality at companies. However, everyone LAPFF has spoken to at Rio Tinto acknowledges that despite progress since Juukan Gorge, the company has some way to go to regain investor and affected community trust in its operations.
16. One area where Rio Tinto has improved substantially is in its willingness to engage with LAPFF. After the destruction of the Juukan Gorge rock shelters, LAPFF tried in vain to obtain meetings with the Chair to discuss what had happened but did not manage to do so for over six months after the shelters were destroyed. This year, LAPFF has met not only with Peter Cunningham but also with Mr. Stausholm and Chair Simon Thompson. The company continues to offer meetings with various specialist staff and affected community members with which the company engages.
17. LAPFF recognizes that engagement is not progress. It also recognizes that the staff and community members put forward by Rio Tinto probably have a particular bias or perspective on Rio Tinto's activities, especially since LAPFF continues to hear contradictory information from affected community representatives. However, engagement with all affected parties is useful for LAPFF to understand what questions to ask the various parties involved.

LAPFF is continuing to liaise with other interested investors, Rio Tinto, and affected communities and their representatives in Australia, the US, Papua New Guinea, and elsewhere. This triangulated communication helps to paint a more complete picture for LAPFF of Rio Tinto's progress from a financial, social, and financial perspective.

18. **Anglo American** - LAPFF has been concerned that Anglo American's board and management have not been sufficiently engaged with community members affected by the company's operations. However, LAPFF learned at the Anglo American AGM that the company's CEO, Mark Cutifani, had visited the company's controversial Colombian joint venture with Glencore and BHP, Cerrejon.
19. Cllr McMurdo met with Mr Cutifani to hear about the CEO's experience of visiting the project. LAPFF appreciated Mr Cutifani's openness in discussing the political, cultural, and environmental challenges surrounding Cerrejon. The project is a thermal coal mine, and just days after speaking to both Mr Cutifani and BHP Chair, Ken MacKenzie, LAPFF received news that both Anglo American and BHP were pulling out of the joint venture to leave Glencore as the sole mining giant involved with the project. Subsequently, LAPFF representatives also met with Anglo American to discuss the company's next 'say on climate' resolution.
20. Anglo American has also developed a detailed community engagement approach as part of its Social Way programme. However, the fact remains that all three companies have been investors in Cerrejon during a time when there have been allegations of severe human rights and environmental violations. All three companies have been named in a complaint filed with a number of OECD National Contact Points on these grounds. LAPFF will continue to engage with Anglo American on its community engagement approach and its climate approach.
21. **SSE** - Cllr Rob Chapman met with SSE to discuss the company's 'say on climate' resolution ahead of SSE's AGM in July. LAPFF and SSE have a longstanding dialogue on environmental, social, and governance issues, including a just transition. The Forum is keen to continue this dialogue as SSE has been particularly constructive in its discussions with LAPFF over the years and has undertaken some innovative work in both the social and the environmental areas, not least a just transition to a zero carbon economy.
22. Acknowledging that SSE is ahead of the game on much of its transition planning, LAPFF raised some concerns in particular around Scope 3 emissions measurement and targets. A number of just transition challenges for the company were also discussed, along with a further discussion on the relevance of and uses for carbon capture and storage (CCS).
23. After the engagement meeting, Cllr Chapman also attended SSE's AGM by virtual means to ask questions around CCS and grid structure in relation to SSE's climate goals. LAPFF and SSE have agreed to continue dialogue and speak as necessary, but in particular prior to SSE's next 'say on climate' resolution.

24. **HSBC** - The LAPFF chair met with HSBC representatives to ascertain how HSBC will be assisting its clients to set and implement coal phase-out plans in line with the bank's own commitment and timeline. Clarity was also sought on how the company is progressing on pulling out of coal-intensive industries.
25. Representatives noted that the International Energy Agency scenario 'net zero by 2050' will be used to benchmark progress. The company has undertaken new analysis, with more data to be considered. The company joined the net zero banking alliance in April to help understand the transition journeys clients are on, and how the bank can have impact. On retreating from coal intensive industries, it was noted that coal exposure represents 0.2% of wholesale loans and advances as measured under the Taskforce on Climate Related Financial Disclosure metrics in 2020.
26. However, it was recognised this still represents investments of £1.2 billion, but as existing, not new, commitments. Representatives noted that they are developing the methodology for a transition risk questionnaire for clients and that commitments would be made in 2021. A further request was made to disclose fossil fuel investments in the annual report. This is done at 'top level' but would not separate out renewables investments made by such companies. At this stage, the outcome was considered 'change in progress'.
27. **Mitsubishi Financial** - Cllr Glyn Caron, of the LAPFF executive, joined a collaborative investor call organised by Asia Research and Engagement with Mitsubishi UFJ Financial (MUFJ). The meeting sought to cover constituent details of a plan which would align financing to the goals of the Paris agreement and the setting of a net zero financed emissions target. This call followed LAPFF correspondence with the company on the issuing of a voting alert for the company's June AGM supporting the company issuing a plan to align financing with the Paris Agreement. The engagement was followed by media coverage on concerns over the bank's provision of finance to fossil fuel expansion and deforestation.
28. In May MUFJ made a net zero declaration, and as part of this commitment joined the net zero banking alliance. The company is committed to developing a plan but has only just started addressing policy formulation and implementation. This initial activity has been through setting up working groups to see if improvement can be made on the current investment threshold of 50% coal, which is 50% of 'total capacity'. The company representative noted this standard would be revised and a goal set, which will be shown in due course. On physical risk, currently only flooding impact is mapped.
29. It was agreed further correspondence would follow, including sharing examples of good practice from other financial institutions and benchmarking of these companies on coal policies. It was noted further physical risks could be considered going forward. Overall, the outcome from the meeting illustrated there was a 'change in process'.
30. **Sainsbury** - LAPFF attended Sainsbury's 'Plan for Better' event and posed questions, both at this event and at the AGM, on the company's packaging

practices, electric vehicles, supply chains, climate change and Say on Climate.

31. Sainsbury's 'Plan for Better' ESG event covered a broad range of ESG topics, noting targets and progress against them. In 2020, Sainsbury announced its climate target to be net zero by 2040 and has this year announced Scope 3 emissions target, which followed with a key theme of this year's ESG event being that the company was engraining ESG at the core of its business strategy. It is taking a number of steps in stores to tackle plastic packaging, opting for loose veg as opposed to prepacked. These steps have led Sainsbury to be recognised by Greenpeace as the retailer with the second highest proportion of loose fruit and vegetables in the market.
32. A large part of Sainsbury's strategy with plastic packaging is attempting to enable a circular economy, having launched an initiative in June, offering customers the opportunity to bring back any flexible plastic packaging to front of store collection points in 520 supermarkets for recycling. LAPFF has also co-led an engagement with Sainsbury in a coalition led by First Sentier Investors, pushing for suppliers and distributors of domestic and commercial washing machines to fit, as a standard procedure, filters to their products to prevent plastic microfibres entering the world's ecosystems. Sainsbury responded that they had engaged with white goods suppliers and were looking at viable options. LAPFF will be meeting with Sainsbury in Q3 for a more in-depth conversation on the company's approach to a zero-carbon transition and will be querying the company further on a Say on Climate vote.

Occupied Palestinian Territories (OPT) Engagements

33. There are short-term and long-term objectives with this engagement. The short-term objective is to have the LAPFF target companies operating in this area engage meaningfully with LAPFF on their human rights practices in the OPT. The long-term objective is to have these companies produce credible, robust, independent human rights impact assessments of their practices in the OPT so that LAPFF members can assess whether the companies' human rights practices meet international human rights and humanitarian law standards.
34. In line with the UN Guiding Principles on Business and Human Rights, LAPFF has engaged a business and human rights expert to help with this engagement. This expert has joined LAPFF an engagement with Altice this quarter, providing invaluable contributions to the engagements and ideas for how to proceed with the engagement.
35. LAPFF sent a follow up meeting request to the target companies and was able to schedule a few more meetings this time round. It will continue to approach companies for engagement and to request meaningful responses to information requests. Specifically, LAPFF is not content with the explanation that companies are abiding by the relevant law in the way they conduct business in the OPT. In all of LAPFF's work globally, this response is a red flag to LAPFF that companies are treading a thin line between legality and illegality in their conduct. This margin is not acceptable to LAPFF.

Persimmon

36. LAPFF has been engaging with Persimmon over a number of years following serious concerns about excessive executive pay, customer care and build quality. The Forum has also identified housebuilders as an important sector for climate change engagements, given the level of emissions from residential property. The Forum therefore sought to meet with the Chair of Persimmon, Roger Devlin, to discuss improvements in customer care and executive pay alongside how it was seeking to move to a net zero business model.
37. It was noted how the company had made changes to its approach to customer care following a review by Stephanie Barwise QC. The meeting covered inspections of properties following historic build quality concerns and the company's improved customer ratings. The issue of executive pay was covered, including resolving issues that led to the high pay award of the former chief executive.
38. On climate change, Persimmons' targets to reach net zero were discussed. Persimmon has made a commitment that all new homes will be net-zero by 2030 and for the company, including its operations, to be net zero by 2040. Gas boilers are being banned in new homes from 2025 and the discussion focused on how Persimmon was seeking to get ready for this change.
39. The company has made improvements to customer care but there is scope for further improvements. While emission targets have been set it will be important to monitor their progress towards net zero.

Safeguarding Implications

40. 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

Public Health Implications

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

Equalities Impact of the Proposal

42. 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

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

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

44. 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.
45. 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

46. This is a noting report.

Financial Implications

47. This is a noting report and there are no direct financial implications as a result of the contents of this report.
48. 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

49. 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:
 - a) 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.
 - b) The authority's policy on the exercise of the rights (including voting rights) attaching to investments.
50. 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.
51. There are no immediate legal implications arising from this report.

Workforce Implications

52. 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

53. None

Other Implications

54. None

Options Considered

55. 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 for September 2021

Background Papers

https://lapfforum.org/wp-content/uploads/2021/10/LAPFF_QER03_2021_03.pdf