**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

**MUNICIPAL YEAR 2019-2020**

| **PENSION FUND COMMITTEE**<br><br>**6th January 2020**<br><br>**REPORT OF: THE DIRECTOR OF FINANCE AND DIGITAL SERVICES** | **AGENDA ITEM NO. 4**<br><br>**DELEGATED FUNCTIONS – UPDATE REPORT** |
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## 1.0 PURPOSE OF REPORT

1.1 This report sets out the key issues being addressed as delegated functions, as specified in the Pension Fund Governance Policy Statement, by the Director of Finance and Digital Services.

## 2.0 RECOMMENDATIONS

2.1 It is recommended that the Committee:

2.1.1 Note the issues being addressed; and

2.1.2 Consider whether they wish to receive further detail on any issues.

## 3.0 BACKGROUND

3.1 The Director of Finance and Digital Services (in their capacity as S151 officer) supported by an Investment and Administration Advisory Panel with appropriate officer, independent advisor and professional support, has delegated responsibility for all day to day operational matters.

3.2 The Panel advises on all aspects of the Pension Fund. It produces the annual report to Committee and is subject to Audit scrutiny. Areas upon which it gives advice are: -

- Selection, appointment and dismissal of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator and independent professional advisers.

- Making decisions relating to employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.

- Agreeing the terms and payment of bulk transfers into and out of the Fund.

- Agreeing Fund business plans and monitoring progress against them.

- Maintain the Fund's Knowledge and Skills Policy for all Pension Fund Committee Members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.

- Formulating responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.

- Ensuring the Fund is managed and pension payments are made in compliance with the extant Local Government Pension Scheme Legislation, Her Majesty's Revenue & Customs requirements for UK registered pension schemes and all other relevant statutory provisions.

- Ensuring robust risk management arrangements are in place.

- Ensuring the Council operates with due regard and in the spirit of all relevant statutory and non-statutory best practice guidance in relation to its management of the Fund.

- Monitor investment performance.

- Work with the Fund Actuary to determine the level of employer contributions required from each employer within the Fund and ensure such contributions are received.

3.3 The Investment and Administration Advisory Panel meets on a quarterly basis, the most recent meeting taking place on the 11$^{th}$ November 2019.

## 4.0 INVESTMENT PERFORMANCE

4.1 There is a quarterly reporting cycle for pension fund investment performance, with exception reporting agreed with fund managers where there are particular concerns. The most recent panel meeting considered investment performance to the end of September 2019.

4.2 During the quarter ended 30$^{th}$ September 2019, the overall value of the Fund increased from £3,617 million to £3,684 million.

4.3 A summary of performance relative to the Fund specific benchmark is shown below.

**Total Portfolio**

| | **2016** | **2017** | | | | **2018** | | | | **2019** | | | **3yr** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Quarter | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | |
| Fund | 1.8 | 5.1 | 2.8 | 1.7 | 3.9 | -2.0 | 6.6 | .2.8 | -8.1 | 7.9 | 5.0 | 1.9 | **9.9** |
| B'mark | 3.2 | 4.3 | 0.7 | 1.5 | 3.9 | -3.4 | 4.9 | 2.4 | -6.2 | 7.0 | 4.1 | 3.1 | **8.5** |
| Relative | -1.3 | 0.8 | 2.1 | 0.3 | 0.1 | 1.5 | 1.6 | 0.5 | -2.0 | 0.9 | 0.9 | -1.2 | **1.3** |

4.4 As shown, the rolling 3 year performance of the Fund is 1.3% positive as compared to benchmark. For the last quarter (i.e. quarter 3), performance was in line with the benchmark for the actively managed BMOgam bond portfolio and BlackRock passive equity portfolio. Whilst the rolling 3 year performance for Baillie Gifford traditional equity portfolio and CBRE Property mandates outperformed the benchmark, the third quarter's performance underperformed against the benchmark.

4.5 Following the transition of the High Alpha global equity funds[1] into the Wales Pension Partnership (WPP) in quarter 1, quarter 3 performance for Global Growth underperformed the benchmark and Global Opportunities was in line with the benchmark.

4.6 The November 2019 Panel agenda included a review of Fund Manager Benchmarks and Targets which affirmed the current targets should remain and the Panel identified the continued need for on-going development of Fund Manager reporting arrangements. The Panel also received presentations from CBRE, the Pension Fund's property manager, and Link Solutions and Russell Investments, the Wales Pension Partnership operator and consultant.

4.7 As Members will be aware, the March 2018 meeting of the Committee agreed to the revised asset allocation strategy for the Fund and the steps to be taken to move toward the preferred strategy. The following table provides a summary of progress made in this regard to 30th September 2019.

[1] High Alpha global equity funds - sub funds of Global Growth (80%) and Global Opportunities (20%).

| | | Proposed Step 1 | Proposed Step 2 | Proposed Step 3 |
|---|---|---|---|---|
| **Asset Class** | **Allocation 30/09/19** | **Current Benchmark** | **Strategy (1)** | **Strategy (2)** |
| **Total Equities** | **67%** | **63%** | **63%** | **58%** |
| **Total Alternatives** | **8%** | **10%** | **20%** | **25%** |
| Absolute Return Bonds | | | 10% | 10% |
| Infrastructure | | | | 5% |
| Property | 8% | 10% | 10% | 10% |
| **Total Bonds & Cash** | **25%** | **27%** | **17%** | **17%** |
| Fixed Interest (UK) | 11% | 12.5% | 7.5% | 7.5% |
| Corporate Bonds (UK) | 13% | 12.5% | 7.5% | 7.5% |
| Cash | 1% | 2% | 2% | 2% |
| Expected return (pa) | | 5.9% | 6.2% | 6.3% |
| Expected volatility (pa) | | 12.2% | 12.2% | 11.7% |

4.8 The asset allocation of the Fund by fund managers as at 30th September 2019 is by mandate, which includes cash, and is shown in the table below.

| | | |
|---|---|---|
| Baillie Gifford Traditional | Global Equities | 22.6.% |
| Link – Global Opportunities Fund | Global High Alpha Equities | 32.0% |
| Link – Global Growth Fund | Global High Alpha Equities | 8.2% |
| BlackRock | Passive Global Equities | 4.6% |
| CBRE | UK Property | 7.7% |
| BMO Global Asset Management | UK Bonds | 24.9% |
| Internal | Cash | 0.0% |

4.9 Following agreement at the last Committee to move the investments of the current mandate with Blackrock to the ACS World Low Carbon Equity Tracker Fund, the required due diligence is due to be concluded shortly.

## 5.0 ADMINISTRATION UPDATE

5.1 The 2019 Valuation exercise is progressing in line with the timetable; further to setting key assumptions with the Fund Actuary, initial Fund results are being received and circulated to the relevant Fund Employers. The review indicates a significant increase in the funding level, which is estimated to be around 98% at 31st March 2019. The formal consultation of the ‘Funding Strategy Statement’ update commenced during December and will be considered for approval by the Committee in March 2020.

5.2 Completion of the annual Pension Regulator governance survey was undertaken in conjunction with the Chair of Pension Board and reviewed by the wider Pension Board prior to submitting in November.

5.3 As reported to the 22nd October 2019 Pension Fund Committee meeting, Equitable Life Assurance Society (ELAS) are proposing to transfer their business to Utmost Life. Since this time, the Director of Finance and Digital Services submitted the Administering Authority’s vote by the due date and on 1st November 2019 the Scheme and Change of Articles were both passed by an overwhelming majority. The next step is the High Court approval process that will commence on 22nd November with an expected effective date of 1st January 2020, if approved.

5.4 The Annual General Meeting took place on the 25th November. The Fund Actuary (AON), the Fund’s Independent Advisor (David Cullinan) and a representative from the Local Authority Pension Fund Forum (LAPFF – Keith Bray) presented at the event, which was well attended. At the meeting, a copy of the Pension Fund Annual Report 2018/19 was made available for attendees, that incorporated the required changes as set out by CIPFA, and the document was published prior to the statutory deadline.

5.5 Data quality and compliance remains a key priority for the Pension Fund. The Pension Regulator scheme return submitted on 17th November reported improvements in data scores (Common data 97.1%, Specific Data 97.5%), as a result of targeted exercises; Employers formally requested to provide an update on their ‘I-connect’ monthly data transfer implementation, in line with it being rolled out on a mandatory basis by December 2019; and a complete document review commenced in line with the requirements of the General Data Protection Regulations.

5.6 Member Self Serve (MSS) continues to be promoted and registrations of Active, Deferred, Pensioner and Dependant members are shown overleaf (as at October 2019).

| | Member Numbers | MSS Registrations | Current % Take-up | % Reported Previously |
|---|---|---|---|---|
| Actives | 23,418 | 8,800 | 37.58% | 37.43% |
| Deferred | 26,849 | 6,834 | 25.45% | 24.47% |
| Pensioners | 17,413 | 3,159 | 18.14% | 16.82% |
| Dependants | 2,696 | 102 | 3.78% | 3.74% |

5.7 Eight ‘Key Performance Service Standards’ are monitored by the Panel. It was noted that in respect of performance for the period April to September 2019, one measure was behind target:

- **% transfers in processed within 10 days** (85% for the year to date against a target of 90%). This measure does not impact on the physical payment of benefits. For the latest month, all 27 cases were completed within the 10 day target.

5.8 The number of ‘Internal Dispute Resolution Procedure’ Appeals in progress continues to be extremely low, with no obvious trends to report.

## 6.0 PENSION BOARD

6.1 The Pension Board last met on 29th November 2019 and the next meeting is scheduled for 31st January 2020.

6.2 The Pension Board agreed at its recent meeting to support a joint compliance review of the Fund against the recently published Pension Regulator ‘Governance and Administration Risk’ engagement report.

6.3 At this meeting the Pension Board also commented on the improved engagement and representation at the Fund’s AGM, as a positive governance step.

6.4 Pension Board meeting agendas and minutes are published on the Fund website in accordance with the Pension Regulator’s requirements.

6.5 The Chair of the Pension Board continues to attend meetings across the Fund’s governance arrangements and represents the Fund at Welsh Pension Board Chair engagements

## 7.0 OTHER ISSUES

7.1 The Panel reviewed the skills and knowledge framework and noted the updates.

7.2 The Risk Register was considered and updates noted. A review of the Risk Register is being dealt with elsewhere in this agenda.

7.3 Attached at Appendix 1 is the latest LAPFF quarterly engagement report for the period July to September 2019.

## 8.0 CONCLUSION

8.1 This report sets out, for the Committee, the key issues being addressed as delegated functions, as specified in the Pension Fund Governance Policy Statement, by the Director of Finance and Digital Services.

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Quarterly Engagement report

July-September 2019

# BAE Systems, Boeing, Lockheed Martin, Petrobras, ArcelorMittal, National Grid

Local Authority Pension Fund Forum



Amnesty International campaigners drawing attention to UK-manufactured arms being used to commit war crimes in Yemen.

## YEMEN

# LAPFF engages with defence contractors over Yemen

LAPFF uses community engagement to link stakeholder input to investor value

**Objective:** ascertain if defence companies have increased their scope for building leverage in setting or influencing contract terms with national governments in relation to social and environmental factors.

**Achieved:** the reputational damage facing local authority funds as a result of holding Aerospace and Defence companies has been outlined.

**In progress:** through dialogue the companies have begun to recognise the populations affected by their products as one of their stakeholder groups.

After four years of deadly civil war, according to the UN, over 18 million Yemenis currently lack access to clean drinking water

Over the summer, LAPFF has been engaging with a number of defence companies cited for their role in supplying weapons to the Saudi coalition for the war in Yemen. The LAPFF Executive approved this engagement because LAPFF funds have been targeted by protestors concerned about the role of local authorities in funding this war.

Initially, the Forum contacted nine companies for engagements – BAE Systems, Boeing, Lockheed Martin, Raytheon, Thales, General Electric, General Dynamics, Textron, and Airbus. LAPFF has managed to hold meetings with three companies, BAE, Boeing and Lockheed, despite expecting little or no response from the companies approached.

A limited response was expected owing to the close relationship between defence companies and national governments. This relationship also meant it was not clear at first how to structure these engagements. If companies are contracting with governments in relation to national security, there seems to be little scope for them to influence the governments' approaches to this issue, and the companies engaged pushed this line hard. However, the pre-meeting research and the company discussions have helped to clarify how companies might push back in these situations.

First, in reviewing company materials, it was evident that although defence companies often espouse the principle of stakeholder engagement, affected communities – such as the Yemeni population being bombed – are not included in the scope of stakeholders considered. This omission likely affects the decision-making about the impact of the products

"It is important for companies to recognise all those affected by the products they make and sell as important stakeholders. Without appropriate recognition, companies are unable to build a complete picture of the market and leave themselves exposed to unexpected changes in market dynamics."

Cllr Doug McMurdo
LAPFF Chair

# YEMEN

and services these companies offer. In consideration of this likelihood, LAPFF pushed for companies to consider communities affected by these companies' products and services as stakeholders.

Second, different companies have different ways of contracting. For instance, BAE and Lockheed contract almost exclusively with governments. Boeing, however, has a much more robust commercial component. Consequently, Boeing arguably has more leverage in being able to push governments to comply with international human right standards. For example, in this situation, if a government client were to commission weapons that a company isn't comfortable with, or that are to be used for a purpose that a company isn't comfortable with, it would likely be easier for the company to ramp up its commercial production and refuse the government contract.

Third, a number of defence companies are looking at different defence options. For example, cyber security is an area of interest for defence contractors. This area might be considered non-traditional for defence companies, but there seems to be scope for these companies to develop this type of technology – both on a military and commercial basis – rather than continuing to focus exclusively on traditional weaponry. Some companies, like Lockheed, are also selling these services to government clients such as energy departments, not just the military services. Therefore, by developing client relationships with government departments other than the military, companies might be able to pull back when faced with dubious military contracts.

All of the defence companies reviewed for this engagement had values such as 'respect for life' and 'integrity'. It is hard to see how companies can uphold these values if they are trapped in contracts that, by definition, require them to betray these values. Therefore, LAPFF will continue to apply what it has learned so far in engaging with defence contractors to work with these companies to uphold not only their own values, but LAPFF's policies too. The engagements are not easy or straightforward, but at least now there appear to be ways to move the human rights agenda forward in a way that should produce more sustainable returns for LAPFF members, as well as other investors.

● Boeing has a joint direct attack munition contract and a wideband global satellite communication contract with the US Air Force, an MH-47G Block II Chinook (pictured below) contract with the US Army Special Operations, and an F/A-18 service life modification contract with the US Navy.

● The UK has suspended granting new export licenses for arms that might be used by the Saudi Arabia-led coalition in Yemen while it considers a landmark court ruling that found the government's decision-making processes were unlawful. The outcome of this litigation could have implications for BAE, and specifically the planned export to Saudi Arabia of 48 of its Eurofighter Typhoon jets worth £5 billion (top).

# COMPANY ENGAGEMENT

GOVERNANCE RISK

## Anti-Corruption Engagements Ramp Up

Along with Sarasin, Church Commissioners and Royal London Asset Management, LAPFF has been engaging with Glencore over concerns about corruption in the Democratic Republic of Congo. The issues raised during this engagement prompted the Forum to send engagement requests to four other companies embroiled in corruption probes – Shell, ENI, Petrobras and Total.

As with the Yemen engagement, there was doubt about whether the companies would be willing to discuss on-going corruption allegations. Shell wrote back re-stating the content of the company's annual report on the matter and batting back the meeting request. However, both ENI and Petrobras got back almost immediately to offer meetings. Total has also now agreed to a meeting.

To date, the meetings with Petrobras and ENI have taken place. It is interesting to note that Petrobras is still a partly state-owned enterprise, although the Brazilian President, Jair Bolsonaro, has stated he would like the Company to be privatised by 2022. ENI began life as a state-owned company but became public in 1992. Shell and Total are both public companies. Given the role of state parties in corruption cases, these distinctions might be highly relevant and will be explored in the remainder of the engagements.

The Petrobras engagement centred around the Car Wash Investigation, a money laundering scandal that found that executives at Petrobras had accepted bribes in return for awarding contracts to construction firms. This outcome led to Petrobras' writing off US$2,527 million of capitalised costs for overpayment to contractors and suppliers

**Objective:** Ensure companies have made provisions for the potential liabilities associated with the corruption scandals. Ensure companies have updated internal mechanisms for finding and dealing with corruption across all levels of company operations.
**Achieved:** clarification gained on the extent of the corruption allegations and a the ultimate financial cost that might be incurred as a result of the litigation and the financial damage.
**In Progress:** dialogue on companies disclosing the extent to which ongoing corruption investigations are impacting profitability and growth.

"Companies leave themselves exposed to significant legal, financial and reputational risks if they fail to implement effective anti-corruption control mechanisms. The scandal at Petrobras outlines well the negative impact corruption scandals can have on shareholder value."

Cllr Rob Chapman - LAPFF Vice Chair

Operation Car Wash or 'Lava Jato' is an ongoing corruption investigation which initially started in 2008 involving Petrobras, politicians and construction companies.

# COMPANY ENGAGEMENT

## VOTING ALERTS

**Sports Direct**
LAPFF issued two voting alerts during the period under review. The first alert related to Sports Direct, a company that has recently faced the ire of investors after its latest results highlighted underwhelming performance as well as substantial unpaid taxes. These issues led to the company's primary auditor, Grant Thornton, announcing the intention to resign ahead of the company AGM. It is clear to LAPFF that although the Board has undergone significant change in recent years - improving independent oversight at Board level - the new directors have not held Mr Ashley to account, as evidenced by the company's continued spree of disparate retail aquistions. This acquisition strategy has raised significant concerns amoung investors. As a result, LAPFF recommended that member funds vote to oppose the entire board. Given the continued confusion with Grant Thornton and the controversy around Sports Direct's Belgian tax payments, LAPFF also recommended opposing the report and accounts, which are unlikely to give an accurate view of the business.

**Ryanair**
The second alert relates to Ryanair. LAPFF has requested that the company improve its governance practices for a number of years. Despite signing recognition agreements with a number of unions, Ryanair management still appears to struggle to work constructively with unions and staff to negotiate mutually beneficial terms and conditions of employment. With a board lacking in independence, LAPFF considers the board should be refreshed with a greater proportion of independent directors and skill sets appropriate to address and challenge the current company positions. On this basis, LAPFF recommended that members vote to oppose all board directors who are not independent.

## ENGAGEMENT MEETINGS

## Remuneration

As part of a wider investor discourse, LAPFF joined a call with Southern Company to discuss the implementation of compensation mechanism which links executive remuneration with climate factors. Southern Company is the second largest gas and electric utility company in the US and has recently set GHG reduction targets of 50% by 2030 (compared 2007 output) and 'low-to-no carbon emissions' by 2050. In support of this target, the company has also announced a new compensation metric that is tied to the carbon reduction goal.

The metric has both quantitative and qualitative components, ranging from adding zero-carbon megawatts and retiring coal to leadership in energy policy and R&D investment. The linking of GHG emissions to executive compensation is becoming more frequent across the energy sector, with Shell announcing similar metrics at the end of 2018.

Whilst the move has been welcomed by stakeholders, a number of concerns relating to Southern's remuneration mechanism were voiced at the meeting. These concerns raised three concerns about whether or not the proposed metrics can be considered effective in incentivising performance: (1) Southern has already announced GHG reductions of over 4,000 MW compared to the maximum award goal of 3,500 MW; (2) a net reduction in GHGs is not conditional upon achieving full vesting of the award as failure to reduce emission output can be offset by the generation of zero-carbon energy; and (3) the GHG reduction element of the award represents just 10% of the CEO's total opportunity under the long-term incentive.

LAPFF also asked the company if they would consider tying the GHG metric to the pay of other executive officers.

# COMPANY ENGAGEMENT

"This initiative makes clear that mobilizing for the planet goes hand-in-hand with protecting our pensions, and we need these commitments now."

Scott F Stringer, New York City Comptroller

## AGM ATTENDANCE THE CLIMATE CRISIS: CLEAN ENERGY AND STRATEGIC RESILIENCE

### National Grid

National Grid will be critical player in delivering the infrastructure needed to decarbonise the UK economy and meet government targets. LAPFF has therefore been engaging the company for a number of years to ensure it is managing the risks of a rapid transition. At this year's AGM, Cllr Glyn Carron welcomed the company's recent progress including its analysis on how net zero carbon emissions could potentially be achieved by 2050 and what this would mean for energy demand and use. Cllr Caron also congratulated the company for joining the Powering Past Coal Alliance, which had been a request at the last meeting with the company. Cllr Carron asked whether National Grid were confident they would be able to meet the new demands on the energy system and infrastructure if there was a rapid shift towards decarbonisation, not least regarding electrification of cars and heating of homes. The company outlined some of the challenges of moving away from certain types of fuel and initiatives they were undertaking with government on electric charging points.

## PROGRESS

- National Grid is planning to implement carbon pricing on all major investment decisions by 2020.

- LAPFF joins an international grouping of investors sending a Statement to over 30 global oil and gas companies, on methane management, disclosure, and the importance of strong U.S. federal methane regulation.

- Earlier this year LAPFF joined other Climate Majority Project coalition members calling on the 20 largest carbon emitting US utility companies to commit to achieving net-zero carbon emissions by 2050, and to make this commitment by September 2020. In late September both DTE Energy and NRG Energy made unambiguous commitments to net-zero carbon emissions by 2050.

- LAPFF also signed up to an investor statement on deforestation and forest fires in the Amazon. The statement called on companies to disclose and implement a commodity-specific no deforestation policy with quantifiable, time-bound commitments covering the entire supply chain. This statement, which was co-ordinated by the PRI, was issued in direct response to the escalating crisis of deforestation and forest fires in in Brazil and Bolivia during the period under review.

### The largest steel-maker in the world, ArcelorMittal

LAPFF met with senior executives of ArcelorMittal in early July, following the publication of the company's first Climate Action report.

•**The commitment:** ArcelorMittal has committed to carbon neutrality in Europe by 2050 and to substantial reductions globally.

•**How the company plans to achieve it:** the Climate Action report has quite detailed low emission technology pathways, with the commercial time horizon for each set out.

•**Target setting:** the meeting had a strong focus on target setting, which ArcelorMittal aim to do in 2020, when the methodology for science-based targets for the steel industry is released. The current target is for an 8% carbon footprint reduction by 2020, against a 2007 baseline.

•**Limitations:** Lakshmi Mittal, ArcelorMittal's joint chair, chief executive has been very clear on his view for the need for a green border tax to make implementation of many of the low carbon technologies commercially viable.

•**Focus for future engagement:** as with other Climate Action 100+ engagements, trade association memberships and target setting are key themes. Company participation in the Energy Transitions Commission, which had been a request at the AGM, has emphasised the view of the need to move to hydrogen technology using renewable energy. ArcelorMittal has already launched a new project in Hamburg to use hydrogen on an industrial scale for the direct reduction of iron ore in the steel production process.

### SSAB – Swedish steel-making technology with virtually no carbon footprint

A joint investor call/webinar with the Swedish steelmaker, SSAB, provided useful context for understanding how companies are approaching the technological challenges of moving to low or net-zero carbon steel-making.

SSAB are working in partnership with a mining company (LKAB) and a utility (Vattenfall) on the Hybrit project. The Hybrit project is a hydrogen based process, with a byproduct of water instead of carbon dioxide. The partnership appears

# COMPANY ENGAGEMENT

a crucial underpin to its success.

There has been much interest in Hybrit from other steel companies, and almost all major steel companies in Europe have launched similar initiatives. Currently, there is a projected 20-30% increase in cost for this steel, but with renewable electricity costs dropping over time, and the EU emissions trading scheme costs for carbon emissions rising, SSAB has concluded that in future, steel from this process will be able to compete in the market with traditionally made steel. In the interim, SSAB considers customers will be willing to pay a premium for low to zero carbon steel. Ultimately, SSAB is aiming for carbon-neutral production by 2045 in line with the national target for Sweden.

## Centrica plans to exit oil and gas exploration and production

Following on from a meeting with Centrica's new Chair, Charles Berry, in May, LAPFF participated in an investor meeting/webinar with Centrica executives which provided the opportunity to not only hear about changes to the company's strategy, but also to probe further into the context for Centrica's target setting.

Centrica plans to exit oil and gas production, including selling its stake in Cuadrilla which operates fracking operations in Lancashire. This move supports a strategic focus on customers, which is mirrored by its target setting for carbon reduction. Customer emissions represent 90% of total company emissions, and the target is to reduce the use of gas and electricity by customers by 25% by 2030, with a goal of net zero by 2050.

For many companies, customer emissions are much larger than their direct and operational emissions, so investors keep a keen eye on target setting in this area, as an indication that boards are addressing this primary carbon reduction challenge. BHP has been notable amongst the diversified miners in this regard, announcing in July that it will set and disclose goals in 2020 to tackle emissions from customers that use its iron ore and coking coal for steelmaking and other products.

## Carmakers in the US

LAPFF alongside other investors has been engaging both Ford and General Motors (GM) on their approach to climate change, which became more pressing with the US administration planning a roll-back on fuel efficiency standards. LAPFF and other investors were initially calling on companies to engage with the federal government but also with California. The Forum had previously written to the companies to continue to work with California on agreed standards to reduce greenhouse gas emissions regardless of the federal approach. GM responded to a separate correspondence from the investor coalition outlining their investment in electric vehicles and stating that they were encouraging a negotiated national solution. However, there was a more positive response from Ford alongside BMW, Volkswagen and Honda who have agreed a deal with California on fuel efficiency standards. The Forum wrote to those companies thanking them for their agreement to voluntarily comply with California's rules while also calling on GM to follow suit. This agreement is a major win for the Forum and will potentially have significant environmental and economic benefits for all stakeholders.

## SOCIAL RISK ENGAGEMENTS
### DIVERSITY

## Aveva Group

LAPFF has identified the technology sector as having particularly low levels of women represented on company boards and therefore has focused diversity engagements in this sector. As part of this engagement strand, the Forum spoke with the Philip Aiken (pictured), chair of UK-based technology company Aveva, to gain a better understanding of how Aveva is tackling management of diversity throughout the company as well as any target setting on gender diversity in particular. Mr Aiken provided a clear outline of measures the company was taking in recruiting and retaining women in Aveva's workforce and the approach to boardroom appointments, with the latest appointments split equally between men and women. Further improvement in board level diversity is unlikely in the short-term, with no board appointments imminent, leaving the company still falling short of 30% female board representation mark.

## COLLABORATIVE ENGAGEMENTS

## Methane: regulatory oversight

Four oil and gas majors have come out publicly in support of federal methane regulation (Shell, BP, Exxon Mobil and Equinor) with Shell's statement being the strongest. Despite this, the Trump Administration is seeking to remove methane from regulatory oversight. LAPFF has supported an Investor Statement which asks a range of these 'non-renewable' companies to speak out publicly on the need to maintain both the federal regulation of methane and the US Environmental Protection Agency (EPA)'s 'Endangerment Finding'. This finding dates from 2009 and requires the EPA to take action under the Clean Air Act to curb emissions of carbon dioxide, methane and other greenhouse gases which would endanger 'the public health and welfare of current and future generations'. The Investor Statement is also being sent to a number of US Electric Power companies on the risk posed to downstream companies including Dominion, Duke, Xcel, Exelon, Southern and NRG. LAPFF has also written to the National Grid Chair with the Statement as the company has significant operations in the US distributing electricity and natural gas.

## The Powering Past Coal Alliance

The government department for Business, Energy and Industrial strategy (BEIS) is working to develop Finance Principles for the UK and Canadian government-led 'Powering Past Coal Alliance'. The PPCA Finance Principles are covered in the government's new Green Finance Strategy.

LAPFF has signed up to be a partner to the 'Powering Past Coal Alliance'. This decision is in line with LAPFF policy that there should be no new investment in coal. This position will be made public in New York in late September as part of UN Climate Action Summit (pre)meetings. There will be further opportunities for

# COMPANY ENGAGEMENT

LAPFF members to join PPCA through to and including COP26 in late 2020.

US Corporate Lobbying positions
Companies have significant influence on climate and energy policies and LAPFF has concerns, shared by other investors, about lobbying activities that are inconsistent with addressing the risks posed by climate change.

LAPFF, through its CERES membership, has therefore joined other signatories to an investor letter to 55 US companies to share expectations on the topic of corporate lobbying on climate change and to request information about how each company ensures that its lobbying activities are consistent with the goals of the Paris Agreement on climate change. Some members wishing to take a more active approach have taken up the opportunity to file or co-file resolutions to US companies that have been identified with significant federal and state lobbying expenditures and that lack or have poor disclosure on trade association memberships.

## POLICY ENGAGEMENTS

## Reliable accounts updates

There have been few developments in this area since the last Quarterly Engagement Report, other than the fact that the new Chair of the Audit, Reporting and Governance Authority (ARGA) has been announced as Simon Dingemans.

Further to the penalties on Tesco plc, following accounting irregularities in 2014, LAPFF has again approached the Financial Conduct Authority (FCA) and a meeting between the LAPFF Chair and the FCA is pending. LAPFF made the point that the system the FCA had used, compensating one class of shareholder at the cost of another, was disadvantageous to long-term shareholders.

As part of an investor group led by Sarasin & Partners LLP, LAPFF attended a meeting with PwC about the extent to which auditors are able to provide assurance that companies are accounting for material climate risks. The concern is whether audit committees, as well as the auditors themselves, are able to ensure that a company's financial statements convey a true and fair view of the businesses financial performance if climate considerations are not adequately disclosed. The balance sheets of oil and gas companies (now classified as 'non-renewables') are particularly at risk of potential overstatement given the increase in risk of asset depreciation consequent to changes in government policies, technological advances and public opinion amongst other factors. PwC acknowledged the role of the auditor in reporting climate risks. It became apparent during the discussion that the primary obstruction to consistency in reporting climate risks originates from the judgement auditors make around whether financial statements that do not outline climate change as a material risk remain compliant with reporting requirements.

## Investing in a Just Transition to a Net Zero Economy – What needs to change?

Changes to secure investment in the Just Transition were discussed at the Liberal Democrat, Conservative and Labour conferences. Organised by the Smith Institute, the meetings provided a platform for LAPFF to set out what these changes should be. Both the LAPFF Chair, Cllr Doug McMurdo and Vice-chair, Cllr Rob Chapman identified that partnership is critical to the success of the Just Transition. So a core recommendation from LAPFF was that the UK government should establish a Just Transition Commission, along the lines of the Scottish Commission, to bring public and private sectors together.

A consensus from the Liberal Democrat meeting was that there needed to be much more certainty around environmental regulation and policy to support the move to a net zero economy in a just way. The regulatory environment was also central to discussions at the Conservative fringe meeting with a call for greater cross government collaboration and a dedicated cabinet minister and governmental department. At the Labour meeting, there was agreement that the target of net zero emissions by 2030 achieved in a 'just' way was ambitious and that there should be focus on making as much progress in the short term as possible.

## MEDIA COVERAGE

**Pension fund anger at Sports Direct's Mike Ashley: 'There's a problem here'**
*Yahoo! Finance, 11 September 2019*
**A third of Sports Direct investors vote against re-electing Mike Ashley**
*The Guardian, 11 September 2019*
**Sports Direct in race against time to find new auditor**
*Financial Times, 11 September 2019*
**Sports Direct shares recover some losses**
*The BBC News, 29 July 2019*
**Results debacle hits Sports Direct shares**
*The Times, 30 July 2019*
**Investors urge cement makers to cut emissions**
*Financial Times, 21 July 2019*
**Super Fund corrals $13trn for livestreaming action**
*Newsroom, 20 August 2019*
**Germany and Slovakia head list of new Alliance members at UN Climate Action Summit**
*Powering Past Coal Alliance, 22 September 2019*
**Inside view: How to be an effective steward of assets**
*Funds Europe Magazine, 25 September 2019*

## NETWORKS AND EVENTS

**ClientEarth 'Climate Change and the Law' Seminar** - This event explored how to use the existing legal framework to better encourage companies to report both on their climate change impacts and on how they will be affected by climate change.

**LAPFF attended the launch of the FAIRR Protein Producer Index.** The Index benchmarks the largest global meat, dairy and aquaculture producers using environmental, social and governance risk factors in line with the Sustainable Development Goals.

The processing of 70 billion animals for human consumption annually is responsible for 14% of the world's greenhouse gas emissions.
*Jeremy Coller - Coller FAIRR Protein Producer Index*

# COMPANY PROGRESS REPORT

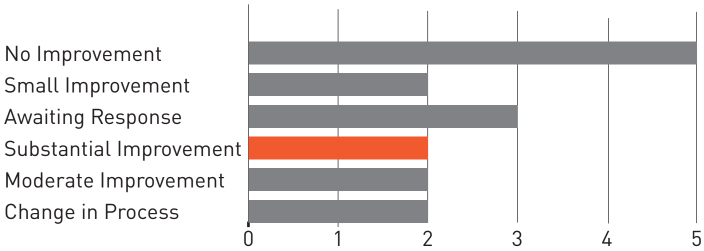
108 Company engagements over the quarter including the following meetings, voting alert submissions and filing of shareholder resolutions

| Company | Activity | Topic | Outcome |
|---|---|---|---|
| ARCELORMITTAL SA | Meeting | Climate Change | Change in Process |
| BAE SYSTEMS PLC | Meeting | Human Rights | No Improvement |
| CENTRICA PLC | Meeting | Climate Change | Substantial Improvement |
| GENERAL MOTORS COMPANY | Meeting | Environmental Risk | Small improvement |
| GLENCORE PLC | Meeting | Audit Practices | Small Improvement |
| NATIONAL GRID PLC | AGM | Climate Change | Substantial Improvement |
| PETROBRAS-PETROLEO BRASILIERO | Meeting | Reputational Risk | Moderate Improvement |
| RYANAIR HOLDINGS PLC | Alert Issued | Governance (General) | |
| SOUTHERN COMPANY | Meeting | Climate Change | Change in Process |
| SPORTS DIRECT INTERNATIONAL PLC | Alert Issued | Governance (General) | |
| WALT DISNEY | Resolution filed | Climate Change | Dialogue |

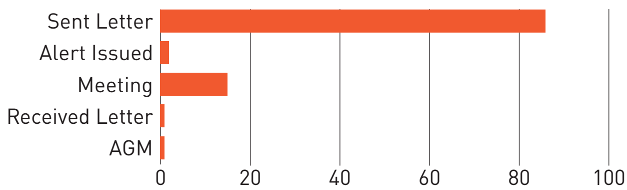
**SUBSTANTIAL IMPROVEMENTS: Centrica** plans to exit oil and gas production, including selling its stake in Cuadrilla which operates fracking operations in Lancashire. **National Grid** is joining the Powering Past Coal Alliance, which had been a request at the last meeting with the company.

# ENGAGEMENT DATA

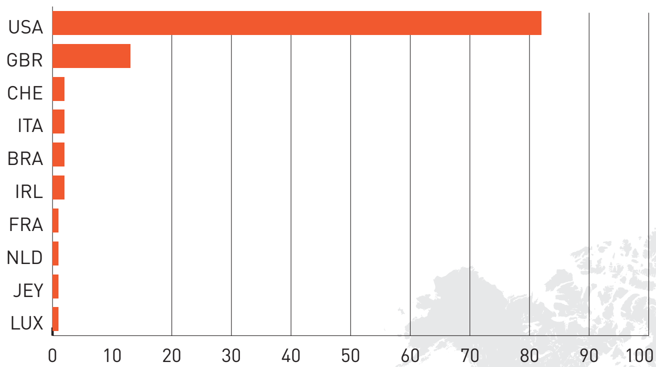
## MEETING ENGAGEMENT OUTCOMES



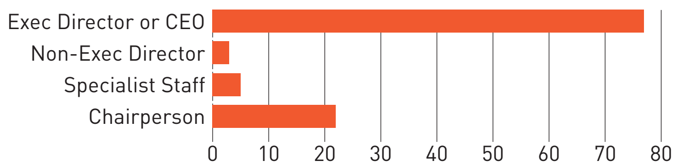

## ACTIVITY




## COMPANY DOMICILES




## POSITIONS ENGAGED




## ENGAGEMENT RE YEMEN

The reputational damage facing local authority funds as a result of holding Aerospace and Defence companies has been outlined.

# LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

Avon Pension Fund
Barking and Dagenham Pension Fund
Barnet Pension Fund
Bedfordshire Pension Fund
Border to Coast Pensions Partnership
Brunel Pensions Partnership
Cambridgeshire Pension Fund
Camden Pension Fund
Cardiff & Glamorgan Pension Fund
Cheshire Pension Fund
City of London Corporation Pension Fund
Clwyd Pension Fund (Flintshire CC)
Cornwall Pension Fund
Croydon Pension Fund
Cumbria Pension Fund
Derbyshire Pension Fund
Devon Pension Fund
Dorset Pension Fund
Durham Pension Fund
Dyfed Pension Fund
Ealing Pension Fund
East Riding Pension Fund
East Sussex Pension Fund
Enfield Pension Fund
Environment Agency Pension Fund
Falkirk Pension Fund
Gloucestershire Pension Fund
Greater Gwent Pension Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney Pension Fund
Hammersmith and Fulham Pension Fund
Haringey Pension Fund
Harrow Pension Fund
Havering Pension Fund
Hertfordshire Pension Fund
Hounslow Pension Fund
Islington Pension Fund
Kingston upon Thames Pension Fund
Lambeth Pension Fund
Lancashire County Pension Fund
Leicestershire Pension Fund
Lewisham Pension Fund
LGPS Central
Lincolnshire Pension Fund
London CIV
London Pension Fund Authority
Lothian Pension Fund
Merseyside Pension Fund
Merton Pension Fund
Newham Pension Fund
Norfolk Pension Fund
North East Scotland Pension Fund
North Yorkshire Pension Fund
Northern LGPS
Northamptonshire Pension Fund
Northumberland Pension Fund
Nottinghamshire Pension Fund
Oxfordshire Pension Fund
Powys Pension Fund
Redbridge Pension Fund
Rhondda Cynon Taf Pension Fund
Shropshire Pension Fund
Somerset Pension Fund
South Yorkshire Pension Authority
Southwark Pension Fund
Staffordshire Pension Fund
Strathclyde Pension Fund
Suffolk Pension Fund
Surrey Pension Fund
Sutton Pension Fund
Swansea Pension Fund
Teesside Pension Fund
Tower Hamlets Pension Fund
Tyne and Wear Pension Fund
Wales Pension Partnership
Waltham Forest Pension Fund
Wandsworth Borough Council Pension Fund
Warwickshire Pension Fund
West Midlands ITA Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund•
Westminster Pension Fund
Wiltshire Pension Fund
Worcestershire Pension Fund