

LONDON BOROUGH OF CAMDEN	WARDS: All
REPORT TITLE: Engagement Report	
REPORT OF: Executive Director Corporate Services	
FOR SUBMISSION TO: Pension Committee	DATE: 5 March 2024
SUMMARY OF REPORT: This report brings Members up to date with engagement activity undertaken by the Fund and on its behalf by LAPFF (the Local Authority Pension Fund Forum) since the last Committee meeting. This work is important to the Fund's ambition to be a fully engaged investor and demonstrates its commitment to Responsible Investment and engagement in Environmental, Social and Governance (ESG) issues as the Fund works to maximise returns on investment.	
Local Government Act 1972 – Access to Information No documents requiring to be listed were used in the preparation of this report:	
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RECOMMENDATIONS: The Committee is requested to note the contents of this report	
Signed by	
Executive Director Corporate Services Agreed
Date: 22/02/2024

1. LOCAL AUTHORITY PENSION FUND FORUM (LAPFF)

- 1.1 The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of 81 local authority pension funds and seven Local Government Pension Scheme (LGPS) pools (ACCESS have recently joined), with combined assets of over £350 billion. It exists to promote the investment interests of member funds, and to maximise their influence as shareholders to promote high standards of corporate governance and corporate responsibility amongst the companies in which they invest.
- 1.2 Members of the Pension Committee are welcome to attend meetings of the Forum. As a member of LAPFF the Fund is entitled to contribute to and participate in the work plan organised by the Forum around issues of common concern.
- 1.3 LAPFF produce a **Quarterly Engagement Report** to give an overview of the work undertaken. This is attached as **Appendix A** to this report and highlights the achievements during the quarter. It also lists engagement undertaken with several companies. **Table 3** lists the value of the Fund's equity holdings with those companies, as at 31 December 2023.

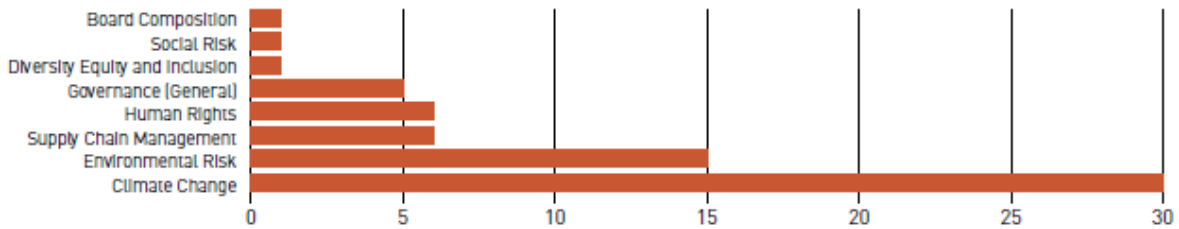
Quarterly Engagement Visual Data

- 1.4 A visual representation has also been included in LAPFF's report which provides a snapshot into the types of engagement undertaken by LAPFF over the quarter and can be seen below in Table 1. The first chart splits activity into five subsections: topic, activity, outcomes, position engaged and company location.
- 1.5 Climate Change has been the subject of the most engagement, followed by Environmental Risk, Human Rights and Supply Chain Management, with other issues such as General Governance having lower levels of engagement over the quarter. With regards to activity, LAPFF sent 3 pieces of correspondence, received 21 pieces of correspondence and met with companies on 25 occasions. Statistically most of LAPFF's activity is performed in dialogue with the firms. Improvement makes up 23% of all outcomes however; 5% of total engagement outcomes are awaiting response.
- 1.6 LAPFF also provide data on what types of issues are being discussed during engagements and their frequency relating to Sustainable Development Goals (SDGs) in Table 2. These were adopted by the United Nations in 2015 and also link to the Fund's Investment beliefs. Over the quarter, LAPFF has done most engagement with companies over: SDG 13: Climate Action, SDG 15: Life on Land, and SDG 12: Responsible Production and Consumption.

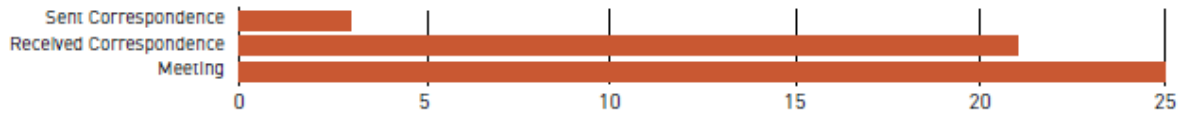
TABLE 1

ENGAGEMENT DATA

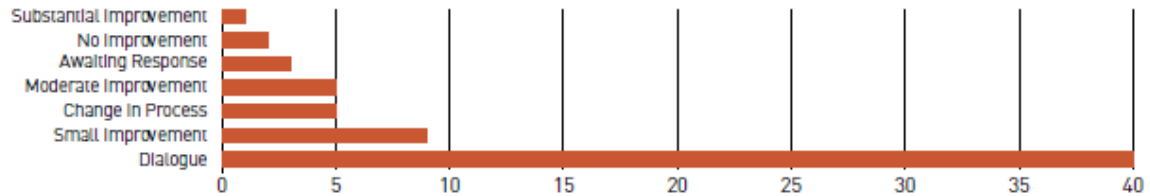
ENGAGEMENT TOPICS



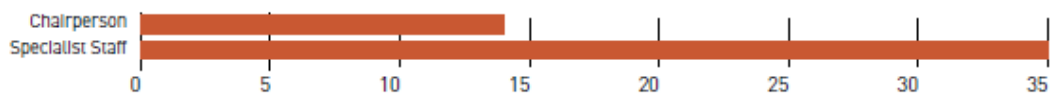
ACTIVITY



MEETING ENGAGEMENT OUTCOMES



POSITION ENGAGED



COMPANY DOMICILES

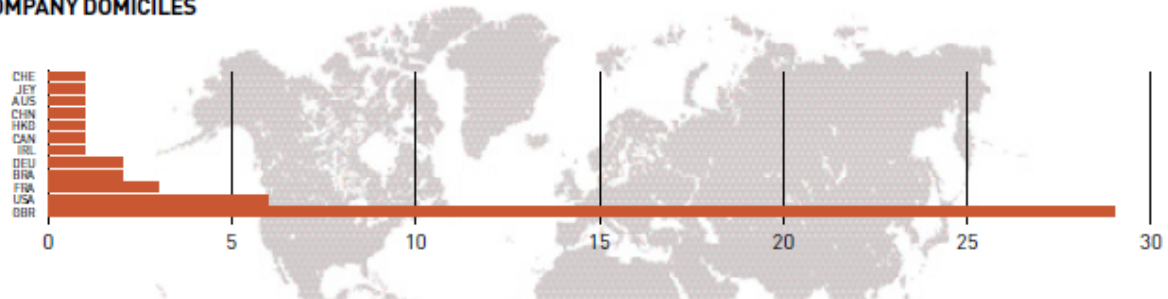
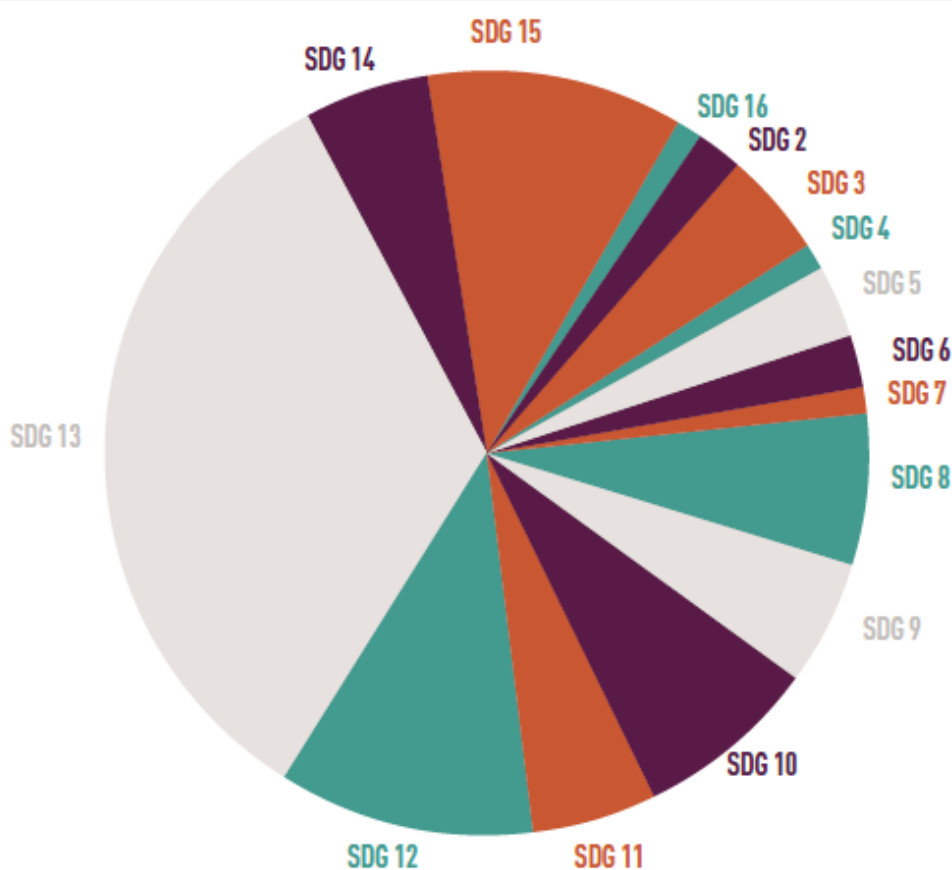


TABLE 2

ENGAGEMENT DATA



LAPFF SDG ENGAGEMENTS

SDG 1: No Poverty	0
SDG 2: Zero Hunger	2
SDG 3: Good Health and Well-Being	4
SDG 4: Quality Education	4
SDG 5: Gender Equality	3
SDG 6: Clean Water and Sanitation	2
SDG 7: Affordable and Clean Energy	1
SDG 8: Decent Work and Economic Growth	6
SDG 9: Industry, Innovation, and Infrastructure	5
SDG 10: Reduced Inequalities	7
SDG 11: Sustainable Cities and Communities	5
SDG 12: Responsible Production and Consumption	10
SDG 13: Climate Action	31
SDG 14: Life Below Water	5
SDG 15: Life on Land	10
SDG 16: Peace, Justice, and Strong Institutions	1
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

1.7 The **Quarterly Engagement Report** for October to December discussed a number of important issues and some of these issues are summarised in the following paragraphs, the full report is appended as **Appendix A**.

2. **LAPFF BUSINESS MEETING JANUARY 2024**

Climate Strategy

- 2.1 LAPFF's understanding on climate change has evolved recently, which leads them to fundamentally question the standard approach to climate change and to review their priorities and activities accordingly. LAPFF's key insight is that the current standard approach to climate change (emissions-focused) needs to evolve to one which considers climate change as a challenge of systematic change at companies.
- 2.2 There are three key issues that define the new paradigm:
- Changing how LAPFF assess climate impact to reflect climate risks more fully,
 - Recognising the very real risks of a disorderly transition,
 - Refocusing skills and overcoming the dangers of climate group-think.
- 2.3 This paper looked at the implications of this new climate paradigm on key aspects of the climate debate, including transition plans, sector impacts, just transition, wider investment implications, corporate governance, and governmental climate policy.
- 2.4 LAPFF's analysis suggests a key reason for these shortcomings is too narrow a focus on greenhouse gas emissions, whether as a measure of climate risk, overall climate impact, or the change needed. For many businesses, scope 3 emissions are more significant than direct emissions but harder to track.
- 2.5 The official COP process is also starting to reflect this shift. COP28 at the end of last year started to talk about a "transition away" from fossil fuels rather than focusing narrowly on emissions. It also highlighted the need, not just to reduce emissions, but to invest extensively in clean energy infrastructure. Increasing focus on aspects of climate change, such as biodiversity risks and the need for a just transition, including support for developing countries, reflect this broader agenda.
- 2.6 History shows us that major change within industrial systems is never a smooth linear process of gradually shifting out of one area into another. Rather, it is a highly disruptive process with new companies emerging and others collapsing as their markets disappear.
- 2.7 Leaders in the solar industry, the most significant source of clean energy, did not exist 20 years ago, neither did what is now the world's most valuable carmaker, while bankruptcies that have been seen in the coal industry are an indicator of what may be to come.
- 2.8 The third issue is group-think. A whole industry has built up around climate change and business.
- 2.9 The report considered a number of industries: cars, oil and gas, power generation, and iron, steel, cement, and chemicals.

2.10 The report concluded that this revamped approach to climate change builds on much of the work LAPFF have done already but seeks to put it in a more formal framework. It is potentially likely to be quite controversial given the consensus regarding a smooth transition, and the number of initiatives built on that. However, given that this approach is built on a more realistic view of the energy transition and the risks involved, it should gain traction with many companies and investors, and help bring the climate change debate out into the public realm and turn into something which company directors and fund managers can re-engage with and find a source of value.

UK Climate Policy

2.11 With 2023 being the warmest year on record, and with continuing litany of high profile climate disasters, climate action is needed now more than ever. COP28 called for countries to transition away from fossil fuels and for renewable energy capacity to triple. LAPFF has engaged with companies for many years on their climate change plans but is also aware of the important role of policy. This report sets out some recommendations for climate policy in the UK, from the perspective of a long term investor interested in reducing risks and strengthening growth and competitiveness.

2.12 LAPFF is concerned that recent actions risk undermining the UK's international business reputation and the confidence of investors. These actions include the removal of key long-term targets, support for new fossil fuel projects, the mismanagement of the last offshore wind auction, and signs that the consensus on climate action is weakening. With stronger climate action being taken elsewhere, notably in the US and EU, the UK risks being seen as a far less attractive place for investment and its long-term competitiveness could suffer as a result.

2.13 A particular concern is that current support is too focused on expensive, long term solutions which are unlikely to boost competitiveness and innovation – redeploying funds to areas such as training and genuine innovation are likely to be significantly cheaper and more effective.

2.14 As an example of this, current plans are too dependent on Carbon Capture and Storage (CCS), despite the consistent failure of CCS to achieve viable and cost-effective carbon reductions. LAPFF has found significant misinformation around CCS which has exaggerated its potential, undermining the credibility of UK strategy. Furthermore, CCS is profoundly anti-innovative as it disincentivises innovation in key sectors.

2.15 Much support currently allocated to CCS should be redeployed to support innovation and deployment of genuine climate solutions in key industrial sectors: iron and steel, cement, chemicals, buildings, and agriculture, as well as the general electrification of industry.

2.16 Hydrogen should be supported but only where it makes sense. Using hydrogen for home heating should be rejected as expensive and inefficient and instead it should be targeted at reducing emissions in key sectors such as iron and steel, chemicals, and aviation.

2.17 Given the urgency of climate change there should be a special focus on short-term action to mitigate it including addressing methane emissions, removing regulatory obstacles, and changing consumer behaviour.

- 2.18 The report considered Carbon Capture and storage, Hydrogen, a just transition. It also considered the electricity, housing and heating, road and rail, industry, agriculture and finance sectors.
- 2.19 The report concluded that UK climate policy should be reset to ensure the UK economy is not left behind. At present, other countries are pushing ahead and increasing their actions on climate, with often what are more dynamic and expansive policies. To ensure the UK plays its leading role, it should avoid delaying climate policies. Such delays endanger UK competitiveness and makes the UK a less attractive place to invest, particularly for long term investors such as LAPFF members.

Carbon Capture and Storage (CCS)

- 2.20 A 2020 LAPFF paper highlighted the risk that CCS's contribution to emissions reduction is being overplayed to keep fossil fuels in the energy system for as long as possible despite alternative and cheaper decarbonisation pathways.
- 2.21 CCS, together with Carbon Dioxide Removal (CDR) technology (direct air extraction), were cited by fossil fuel producing companies as a means to avoid reducing extraction activities in the short and medium term. This applied in a similar way to ambitions for tree planting without clear targets or evidence of their potential abatement contribution.
- 2.22 At 2020 what was marked was how little progress there had been in rolling out CCS at scale. This report sets out how little has changed in that regard. Also coming to the fore in energy policy is the fact that fossil fuel prices and sourcing are causes of economic and geopolitical instability.

Capital Markets Working Group

- 2.23 It was agreed at the June 2023 Executive Meeting that a Capital Markets working group be set up.
- 2.24 There are a few issues that had made UK equities less attractive to shareholders: removal of dividend tax credit for UK shares, a shift to global shares, accounting standards and pension regulation and the poor quality of some companies listing.
- 2.25 There are also some recurring themes: systems of regulation being overly influenced by lobbying, Parliamentary Committees being ignored, lack of research on smaller companies, poor governance at non-governmental standard setting.
- 2.26 The working group will focus on the governance of regulation. Recommendations from the Group will be presented at subsequent meetings of the LAPFF Executive Meetings for consideration.

Double Materiality – ESG, financial issues and standards

- 2.27 The International Sustainability Standards Board – which sets Environmental, Social and Governance (ESG) standards has come under the ambit of the International Accounting Standards Board (IASB). LAPFF has for over a decade had problems with the model that the IASB which is not a publicly accountable body, and it is self-appointing. Problems have been identified with the poor standards and reaction time in rectifying defects before and after the banking crisis. The IASB has been implicated in company collapses including Carillion, Enron, and banks.

- 2.28 There are also problems with the IASB membership. These are particularly relevant given its involvement with ESG issues. It is heavily influenced by those who are the dominant funders of the IASB, large companies, including banks, extractive firms and the Big 4 accounting firms.
- 2.29 There are also geographic issues. The IASB board/trustees include a representative from Saudi Arabia and China, which makes setting leading edge standards on ESG issues difficult.
- 2.30 The problems with IASB standards are impact related:
- The accounting standards can produce a set of accounts which make it impossible to determine whether a company is a going concern or not.
 - That defect itself then has the added problem of making it impossible to determine whether a distribution by way of dividends or buybacks is lawful or not.
- 2.31 Double materiality is the concept that it is not just climate-related impacts on the company that can be material but also impacts of a company on the climate.
- 2.32 LAPFF agreed to note the paper and that questions of materiality are raised in meetings with companies.

Draft Workplan

- 2.33 The draft LAPFF workplan sets out a range of current and anticipated company and policy engagement areas for the coming year.
- 2.34 The aim of providing the workplan for comment is to ensure that members are content with LAPFF's areas of focus, and that they have the opportunity to provide comment so that LAPFF's engagements align with these areas of focus.
- 2.35 Climate risk continues to feature prominently – in respect of supply and demand for hydrocarbons and the need for credible transition plans. Given the importance and risks associated with biodiversity and natural resource management, these issues now have their own subsection.
- 2.36 Reflecting and building on the work LAPFF is undertaking and current geopolitical developments, the scope of work concerning human rights has been broadened to include a greater focus on humanitarian considerations and conflict affected areas.
- 2.37 Executive remuneration has been given more focus in this version, with specific work intended to address issues on this topic.
- 2.38 Considerations on artificial intelligence have been further developed in different subsections, looking at potential human rights impacts, and governance issues.
- 2.39 LAPFF members will be written to following the conclusion of the Business Meeting, with this workplan to ask for comments and feedback.

3. COMPANY ENGAGEMENTS

- 3.1 The Q4 Quarterly Engagement Report (QER) can be found in Appendix A, covering company engagements over the quarter.

Climate Engagements

- 3.2 **Say on Climate:** Last quarter, LAPFF coordinated an investor letter to 35 FTSE companies in high emitting sectors requesting a shareholder vote on their transition plans. The letter was signed by 18 other investors with around £1.8tn Assets Under Management (AUM). LAPFF have received substantive responses to the letter, some companies have outlined their approach to climate and have stated that they are considering such a vote for their AGM next year.
- 3.3 LAPFF has been seeking to improve the disclosure and accountability on direct and indirect lobbying of **National Grid** (Fund holdings of £0.495m managed by L&G Global and Future World). In November, LAPFF and the Church of England wrote to the company stating their expectations for its upcoming lobbying report. LAPFF was happy to discuss the transition plan to be published next year, this is likely to be updated next year and will be put to a shareholder vote. LAPFF also encouraged the company to look at how they can facilitate new infrastructure to be built and the company's wider role in the energy transition. The company recognise the challenge in reaching long-term targets of net zero by 2040.
- 3.4 LAPFF attended a meeting with the Chair of **BP** (Fund holdings of £0.945m managed by L&G Global and Future World), Helge Lund, in November and were told that the departure of Chief Executive Bernard Looney had not changed BP's climate commitments (including the transition away from fossil fuels and net-zero by 2050).
- 3.5 LAPFF met with representatives from **Persimmon** (Fund holdings of £0.41m managed by L&G Global) to discuss target setting covering issues around embodied carbon, transition planning and so-called hard to abate sectors within the supply chain, trial schemes for net-zero homes and engagement with smaller suppliers on the transition.
- 3.6 **TJX Companies** (Fund holdings of £1.241m managed by L&G Global and Future World) is exposed to various commodities linked to deforestation in its supply chain, it currently lacks a public deforestation policy and doesn't address this issue in its vendor code of conduct. LAPFF have met with TJX Companies for the first time to discuss the development of such a policy. Cllr Johnson took part in this meeting as part of the Executive.
- 3.7 LAPFF met with **Nestlé** (Fund holdings of £3.332m managed by L&G Global and Future World) to gain insights into the strategies and initiatives involved in implementing regenerative agriculture. The conversations indicated a strong commitment from Nestlé, further evaluation will be required in the future to gauge the impacts of strategies. Cllr Johnson took part in this meeting as part of the Executive.
- 3.8 The initial engagement objective for **Chipotle's** (Fund holdings of £0.725m managed by L&G Global and Future World) approach to water stewardship was met during 2022. In October 2023, CERES published a corporate benchmark assessing the water stewardship practices of 72 companies against the six corporate expectations for valuing water, Chipotle underperformed

relative to the Quick Service Restaurant (QSR) peer group. LAPFF have met with the company in December to discuss progress in adopting a more ambitious approach to its water stewardship.

Human Rights Engagements

- 3.9 Companies **Glencore** (Fund holdings of £2.327m managed by Harris and L&G Global) and **Grupo Mexico** (Fund holdings of £0.165m managed by L&G Global and Future World) were the focus for engagement this quarter. LAPFF is of the view that in the coming year Glencore is likely to be the target of a concerted union and community campaign due to its human rights and environmental practices. LAPFF have reached out to the company for a follow up meeting to discuss stakeholder concerns and to push the company to build and disclose stronger stakeholder engagement mechanisms and climate practices.
- 3.10 Heather Johnson, executive member of LAPFF, met with **SAP** (Fund holdings of £1.014m managed by Harris) facing specific risks related to AI, including products which support HR functions. The discussion focused on how the company was managing the risks of adverse human rights impacts and the company has set out the framework and processes in place for preventing negative impacts.
- 3.11 LAPFF has maintained ongoing dialogues with **Ford** (Fund holdings of £0.497m managed by L&G Global and Future World), **Renault** (Fund holdings of £0.052m managed by L&G Global) and **Mercedes** (Fund holdings of £4.807m managed by Harris, L&G Global and Future World), all of which have shown notable progress in their human rights management processes and efforts to comply with regulations.
- 3.12 LAPFF continues to find great value in engaging with community groups affected by mining company operations. LAPFF held their first in-person meeting since the pandemic with those affected by **Glencore** operations in Columbia and Peru. LAPFF will continue to seek to clarify the link between human rights and financial materiality in its engagements with both companies and investors.
- 3.13 LAPFF continued to work closely with the Investor Alliance for Human Rights, both in relation to the Uyghur Group and in relation to conflict-affected and high-risk areas.

Governance Engagement

- 3.14 LAPFF met with the Chair of **Barclays** (Fund holdings of £0.347m managed by L&G Global and Future World), Nigel Higgins in October to discuss the ban of former executive Jes Staley and to discuss the actions the bank had taken including freezing deferred bonuses to Stanley at the time of investigation. LAPFF will be monitoring the governance going forward as the company have said they have strengthened their board recruitment practices and have remained vigilant. LAPFF have also requested an update of Barclay's climate policy and have arranged to have a meeting on this topic separately.

3.15 Future meeting dates are:

Business Meeting, Wednesday 17 April 2024
 Business Meeting, Wednesday 12 July 2024
 Business Meeting & AGM, 16 October 2024

LAPFF Annual Conference 4-6 December 2024

TABLE 3: EQUITY HOLDINGS IN RELATION TO LAPFF'S Q4 2023 COMPANY ENGAGEMENTS

3.16 LAPFF engaged 44 companies during the quarter.

Company	Harris (£000)	BG (£000)	L&G Future World (£000)	L&G Global (£000)	Total (£000)	Topic
AIA GROUP LTD		3,955	510	625	5,090	Environmental Risk
ASTON MARTIN LAGONDA GLOBAL HOLDINGS PLC					-	Climate Change
AVIVA PLC			95	108	203	Climate Change
AXA			316	384	700	Climate Change
BAE SYSTEMS PLC			139	309	448	Climate Change
BAKKAVOR GROUP PLC					-	Climate Change
BARCLAYS BANK PLC			134	213	347	Governance (General)
BP PLC			231	714	945	Governance (General)
CENTAMIN PLC					-	Climate Change
CHIPOTLE MEXICAN GRILL INC			315	410	725	Environmental Risk
CRH PLC			129	360	489	Climate Change
EASYJET PLC					-	Climate Change
ENERGEAN PLC			42		42	Climate Change
EXXON MOBIL CORPORATION				2,647	2,647	Social Risk
FORD MOTOR COMPANY			184	313	497	Supply Chain Management
FRESNILLO PLC				10	10	Climate Change
GLENCORE PLC	1,796			531	2,327	Board Composition

Company	Harris (£000)	BG (£000)	L&G Future World (£000)	L&G Global (£000)	Total (£000)	Topic
HARBOUR ENERGY PLC					-	Climate Change
HSBC HOLDINGS PLC		695	605	1,138	2,438	Climate Change
INTERNATIONAL DISTRIBUTIONS SERVICES PLC					-	Governance (General)
JOHN WOOD GROUP PLC					-	Climate Change
KKR & CO INC			160	359	519	Diversity Equity and Inclusion
LEGAL & GENERAL GROUP PLC			104	139	243	Environmental Risk
LLOYDS BANKING GROUP PLC			200	280	480	Environmental Risk
MERCEDES-BENZ GROUP AG	4,103		306	398	4,807	Human Rights
NATIONAL GRID GAS PLC					-	Climate Change
NATIONAL GRID PLC			140	355	495	Environmental Risk
NATWEST GROUP PLC			59	113	172	Climate Change
NESTLE SA			1,385	1,947	3,332	Environmental Risk
PERSIMMON PLC				41	41	Climate Change
PING AN INSURANCE GROUP		307	227	193	727	Climate Change
PRUDENTIAL PLC		2,059	148	223	2,430	Climate Change
RENAULT SA				52	52	Supply Chain Management
RESTAURANT BRANDS INTERNATIONAL INC			99	158	257	Supply Chain Management
RIO TINTO GROUP (AUS)			154	215	369	Environmental Risk
RIO TINTO PLC			75	581	656	Environmental Risk
ROLLS-ROYCE HOLDINGS PLC			76	229	305	Climate Change
SANOFI			535	720	1,255	Environmental Risk
SAP SE	1,014				1,014	Human Rights

Company	Harris (£000)	BG (£000)	L&G Future World (£000)	L&G Global (£000)	Total (£000)	Topic
SHELL PLC			572	1,562	2,134	Climate Change
STANDARD CHARTERED PLC			102	136	238	Climate Change
THE HOME DEPOT INC			1,309	2,274	3,583	Supply Chain Management
THE TJX COMPANIES INC.			536	705	1,241	Environmental Risk
TI FLUID SYSTEMS PLC					-	Climate Change
VALE SA				356	356	Human Rights
TOTAL					41,614	

4. VOTING

- 4.1 A total of 1383 resolutions were voted upon (this may include non-voting items) across 116 meetings in the quarter. A summary is provided in the table below:

TABLE 4: VOTING

Vote	Occurrences	Proportion (%)
For	992	71.73
Against	386	27.91
Withhold	0	0.0
Abstain	0	0.0
Non-Voting	0	0.0
Not Supported	0	0.0
Withdrawn	3	0.22
US Frequency Vote on Pay	2	0.14
Total	1383	100%

- 4.2 The vast majority of meetings occurred in the UK & British Overseas (114 out of 116). Resolutions on annual reports were 57% FOR, on Directors were 85% FOR, on Executive Pay were 0% FOR, and Dividends were 100% FOR.
- 4.3 A non-vote occurs where there is an agenda item that does not require a vote but is merely there for information. 'Withhold' votes are the equivalent of oppose votes. In the US and Canada, often shareholders may not vote against or abstain on directors and can only withhold their votes. Withdrawn means an item was originally on the agenda but the company withdrew it after publication, for instance where there was a death or resignation of the director standing for election.
- 4.4 The companies at which LAPFF voted during the quarter are listed in **Appendix B** for information. More information can be provided upon request.

5. RESPONSIBLE INVESTOR COMMENT

- 5.1 Understanding how the Fund engages with firms, both individually and as part of LAPFF, is a key part of exercising the Fund's influence as a responsible investor, helping to ensure that the assets in which the Fund invests align with Camden's investment beliefs.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 Further to the Responsible Investment Comment above, a firm understanding of how the Fund engages with firms in which it holds investments improves the Fund's ability to invest in line with our investment principles.

7. FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES

- 7.1 The Executive Director Corporate Services has no finance comments to add.

8. LEGAL COMMENTS OF THE BOROUGH SOLICITOR

- 8.1 The Local Government Pension Scheme Guidance on Preparing and Maintaining an Investment Strategy Statement states that an Administering Authority should publish an annual report on voting activity. This report is part of the process of discharging that responsibility.

9. APPENDICES

Appendix A - LAPFF quarterly engagement report Q3 2023

Appendix B - The companies at which LAPFF voted during the quarter