Quarterly Engagement Report

July-September 2024

BP, Tobacco Industry, Water Stewardship

Local Authority Pension Fund Forum

ENGAGEMENTS

CLIMATE

SUPPLY SIDE

BP & Shell

Objective: During continued engagement with Shell and BP, LAPFF's approach has remained to test oil and gas companies beyond claims of decarbonisation based on existing business models to challenge the viability of the current business. This expectation, based on LAPFF policy, is that the demand for hydrocarbons will 1) reduce in aggregate terms; and 2) that demand will be met by lowest cost producers.

BP has been regarded as at the better end of the sector in recognising climate change as an issue but faces the same competitive and structural pressures above from what is a disruptive transition due to disruptive alternative technologies. The war in Ukraine has increased governments' focus on less reliance on fossil fuels on energy security and price volatility grounds.

What seems to be an inevitable shrinkage in the sector, not matched by growth from elsewhere supports the argument for more cash returns - not buybacks - to shareholders instead.

Achieved Shell: From meeting the then new Chair of Shell in 2023, LAPFF believes that the position holds that the company is better run from the top, as the Chair has a more realistic grasp of the issues at stake regarding decarbonisation and is a plainer communicator and more realistic.

As an example, there is less emphasis on "nature based solutions" (i.e. planting trees) as the IPCC regards that as necessary for hard to abate sectors, not fossil fuel companies.

LAPFF has previously questioned the extent to which its climate change strategy has been sufficiently integrated into business planning and financing. LAPFF was therefore pleased that there has been restructuring and the energy transition work and corporate strategy now reports to the CFO.

Shell has said that it cannot make the investment case for renewables. That is not in itself unreasonable but does support the argument for more cash returns to shareholders instead.

Achieved BP: With regards to BP, LAPFF has noted some rowing back from their 2023 carbon reduction targets. Although BP has made some commitment to investment in renewables, and is stating the supply of power for electric vehicles is a growth area, it does appear that the company has substantial threats to its business model regarding the scope of no-carbon products that would fully replace the scale of the fossil fuel business, and that expectation of more cash returns to shareholders should be more clearly set out.

To understand the company's approach, this quarter LAPFF met with the company's new CEO, Murray Auchincloss. In what was a useful and informative discussion, the company outlined how it was seeking to transition the business, and the scope for scaling up revenues from hydrogen, wind power, biofuels and electric vehicles. The company set out major projects it was seeking to undertake, including a hydrogen and CCS hub in Teeside. The company also discussed how it planned to fund investment in transition initiatives and manage associated financial risks. On the issue of targets, discussion included the pace of the transition, including moving in line with national expectations.

In Progress Shell: A meeting with the Shell Chair is pending. LAPFF continues to challenge whether Carbon Capture and Storage can be made to work as a line of business, given that the costs involved make it a last resort if cheaper substitute energy sources are

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Cooling towers at Drax Power Station near Selby, North Yorkshire.

not possible. Developments in aviation fuels and biofuels need to be examined in more detail, particularly as the mode of synthetic aviation fuel Shell refers to is to take CO2 resulting from combustion by carbon capture from elsewhere and converting it – by an energy intensive process – into a hydrocarbon. That is not a contribution to net zero.

That is merely using the same emission twice, whilst still resulting in an emission.

CCS has been given prominence for, inter alia, gas (methane) for power, hydrogen for home heating, hydrogen for ammonia production and hydrogen for steel making. All of these have non-fossil hydrogen alternatives. It should be noted that CCS for coal was heavily promoted as a way of maintaining coal demand, but never materialised with the phase out of coal on economic as well as emissions grounds. There is the same risk with gas.

In Progress BP: BP has had less emphasis than Shell on Carbon Capture and Storage as a line of business. Developments in aviation fuels and biofuels need to be examined in more detail, BP's annual report suggests a different approach to Shell, being based not on fossil fuel derived carbon, but bio-ethanol, fats and oils. BP is also placing more emphasis on electric vehicle charging.

In our meeting, the company set out its views on the demand for low carbon energy, EV charging and biofuels. While information was provided about how it expects to pivot towards lower-carbon and renewable energy in the medium term, LAPFF will continue to seek to better understand both the scale of such revenues over the longer term and the longer-term impacts for investors of any attempts to transition from an "oil and gas" company to an "energy" company.

Drax

Objective: Drax's Yorkshire power station is the UK's largest single emitter of carbon dioxide. LAPFF has focused for several years, from its own research as well as public coverage of the company, on Drax's business model which faces considerable challenges. These challenges include the continuation of government subsidy which is in excess of £500m a year and is more than all of the profit. That subsidy runs out in 2027.

But added to that is, so far not approved by HM Government, the proposition to add carbon capture and storage to Drax for what is called BioEnergy Carbon Capture and Storage (BECCS) which would require further subsidy, locked in for the duration of at least 25 years.

On the environmental side there are significant issues with claims of net zero as well as continuity of supply of imported wood pellets.

Achieved: LAPFF had identified that Drax has been cutting down rare forest wood in Canada, and also reported that during the energy crisis that Drax had closed a plant, as it was more profitable to sell the pellets than to use the pellets for power generation – thus casting doubt on Drax's role in energy security.

The BBC reported in 2022 that Drax was sourcing pellets from whole trees, not waste wood and sawdust from primary forests in Canada. Then the

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BBC identified that Drax took more than 40,000 tonnes of wood from so-called "old-growth" forests in 2023. Old-growth is some of the oldest forest which the provincial government says provides "unique habitats, structures and ecological functions".

The BBC claims matched LAPFF research, but the company defended the claims from the BBC publicly. However, in August 2024 Drax agreed to settle to the sum of £25m with Ofgem its regulator after its investigation which concluded,

"there was an absence of adequate data governance and controls in place that had contributed to: (i) Drax misreporting data in relation to their annual profiling submission to Ofgem for compliance period 1 April 2021 to 31 March 2022 ("CP20"); and (ii) Drax being unable to provide Ofgem with sufficient evidence demonstrating how its CP20 annual profiling submission had been arrived at and unable to support the reliability of its profiling data reporting of forestry type and sawlogs for Canadian consignments for that same period...

"Ofgem takes the importance of accurate data reporting very seriously, in this case by a company of significant size and a major scheme participant. Accurate information is important for a number of reasons, including helping to improve statistics on biomass use and to monitor the effects of biomass use on the areas of origin. This information is intended to enable the Secretary of State to understand and monitor the extent to which both primary forests and sawlogs are used in woody biomass, which has consequences for carbon emissions and biodiversity."

LAPFF has also since noted that that the video on the Drax website from Drax's CEO rebutting the BBC position is now a dead-link.

LAPFF's original research also identified that the "catchment area" surveys that Drax cites as showing that trees grow to match emissions by offset absorption don't actually do that. The surveys merely ask the question whether there has been a reduction in absorption capacity. That question doesn't address the needed increase in absorption capacity.

The one catchment area report that says that there may have been an increase in absorption capacity put that down to replacing indigenous hardwood with (mono-culture) pine. That is an ecological problem for biodiversity.

Also of note is this statement from the new Secretary of State for Energy and Net Zero, Ed Miliband made on Monday 8th July 2024.

"In an unstable world, the only way to guarantee our energy security and cut bills permanently is to speed up the transition away from fossil fuels and towards homegrown clean energy."

Given that Drax supplies wood pellets from overseas, and UK forests do not have the capacity to make any appreciable alternative supply, there must be a problem with the term "homegrown".

In Progress: The meetings offered with the CFO and the senior SID following questions at the last AGM are pending.

The issues LAPFF has raised are central to the business model.

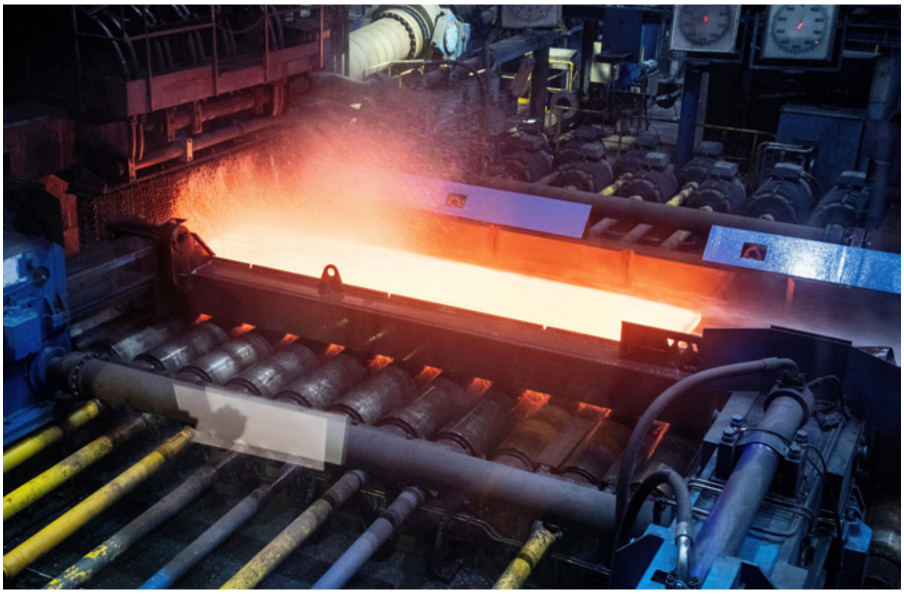
The argument for the government to continue to support Drax is the mantra that "the UK can't be carbon net-zero by 2050 without it" thus Drax with carbon capture and storage would result in "negative emissions". The problem with that is several fold:

1) security of supply of pellets
2) ecological issues
3) water supply as CCS is very water intensive
4) ammonia is a toxic chemical used in large quantities in the process
5) the cost of government support for CCS on top of the existing subsidy, which has an effect on electricity prices – which as well as affecting domestic consumers also raises the cost of power for electricity intensive new industries e.g. steel from electric arc furnaces
6) the fact that all that CCS would do – if it were to work – would be to remove the carbon dioxide from burning the woody biomass that wouldn't have been emitted if the wood were not burned. Drax with CCS would only be "negative" if counteracting tree grow due to the cutting of trees also matched emissions, which due to the long growth cycle is not the case something that is not currently proven.
7) the combination of the high subsidy for a putative national target, raises the question, "if Drax is so important why not nationalise it?" That is relevant as Drax has been prone to brinkmanship to lobby for continuing subsidy.

Steel -SSAB & ThyssenKrupp

Objective: Steel is a major contributor to global emissions and an industry with emerging green technologies. LAPFF has engaged the sector on transition plans and building on this sought to engage companies on the developing alternatives to coal/coke-based steel production.

SSAB is an international steel producer headquartered in Sweden. Sweden itself has large iron ore deposits in the Kiruna region north of the Arctic Circle. ThyssenKrupp is a large engineering company based in Essen,



Fossil-free steel is manufactured at the ironworks at SSAB in Oxelosund, Sweden

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Germany. It manufactures steel based products, it is also a steel producer currently producing virgin steel from iron ore, with none from recycling.

LAPFF's focus was therefore on their transition plans to achieving net zero. Ahead of the meetings LAPFF noted that SSAB has a low Carbon Disclosure Project (CDP) rating of D, and ThyssenKrupp, a rating of A.

Achieved: LAPFF has previously identified in a report on steel to a LAPFF Business Meeting that SSAB had innovative "green steel" production in the form of new steel produced not by blast furnaces but direct reduction of iron using hydrogen from electrolysis. The power for that coming from hydroelectric power in northern Sweden. LAPFF had identified that green steel has the potential to be disruptive technology on the basis of cost and the fact that hydrocarbons do not play a role in the process

LAPFF met with SSAB in September 2024 where it heard of not only the commitment to green steel being called "HyBrit" but also recycled steel for which the melting is done using an electric arc furnace with fossil fuel free electricity. That is in fact more flexible than blast furnaces as blast furnaces have a fixed production capacity, whereas the output from electric arc can be matched to demand and quality required.

It is apparent that SSAB is disappointed with its CPD rating and research prior to and discussions in the meeting leads to an agreement on that. It seems that other steel companies are disclosing less practically, and less strategically, credible routes to decarbonisation, which rely on unproven technology for maintaining blast furnaces with CCS or hydrogen from CCS.

LAPFF also met with ThyssenKrupp in September 2024. The company currently produces 11.5MT of steel per year, but a strategic change will reduce that to 9MT. The company plans to produce steel by Direct Reduction of Iron (DRI) as "green steel" from green hydrogen, which will be sourced externally, principally from Rotterdam by pipes as Germany has relatively little capacity for home production. The plant will replace more than one blast furnace. Current production is 0.15MT and the plan is for that to rise to 0.5MT.

In the initial stages the DRI will run from unabated methane and will then switch to green hydrogen. Potential future supplies of green hydrogen will be from the Middle East and Australia. One potential method of carrying hydrogen is by converting to ammonia and then back again. Ore is sourced mainly from Brazil and Australia.

There are not plans to produce recycled steel, and there are no plans to use CCS dependent technology.

In Progress: More steel company engagements are planned. LAPFF intends to explore further why less strategically credible (i.e. fossil fuel dependent) routes to net zero seem to achieve a higher CDP rating than SSAB, reverting to SSAB and ThyssenKrupp if necessary and appropriate. There are long-term geographic issues about the price of green steel if production nearer the ore and energy sources will ultimately give rise to lowest cost production.

Asia Research and Engagement

Objective: LAPFF has worked with Asia Research and Engagement (ARE) for several years. ARE is facilitating collaboration between investors seeking to accelerate the shift towards sustainable energy in Asia. The initial focus of the engagements has been reducing the carbon risks facing financial institutions and coal-exposed power companies.

Achieved: LAPFF met with Kasikorn Bank, one of the major financial institutions in Thailand, to discuss progress on its approach to sustainable finance. The company has made progress in a number of areas, notably in its goals regarding its levels of 'sustainable financing'. The company has not disclosed a breakdown of allocations within this, such as how much it invests in climate solutions and transition technologies. However, it has made positive headway in its aspirations and overall progress. Investors also looked at the company's exposure to physical climate risks, particularly flooding and rising sea levels, with large parts of Thailand at potential risk in different climate change scenarios.

In Progress: There is a pipeline of engagement calls, many of which are companies that LAPFF has met through the initiative before. We hope to see progress being made and will continue encourage companies to further reduce the risks they face. These engagement calls continue to be a valuable avenue to engaging companies with material-climate risks and who are essential to the energy transition in Asia.

DEMAND SIDE

Airlines

Objective: Airlines account for approximately 2% of global CO2 emissions. A paper on the decarbonisation of aviation is being produced for the LAPFF membership. Ahead of that LAPFF met in September 2024 with Ryanair.

Achieved: The meeting was encouraging and reinforced our research. There were no areas for disagreement or potential disagreement. 99% of Ryanair's emissions are from the fuel. The Ryanair team were knowledgeable on the methods and options for decarbonisation with a lot of detailed information on savings and targets and UK and EU requirements and targets. Ryanair has a target of 12% use of Sustainable Aviation Fuel (SAF) by 2030, which compares to a UK Government target of 10% and EU target of 5%. That is in addition to emissions reduction from newer aircraft and engines, which are more fuel efficient.

Biomass derived SAF has some limits around land-use and other crop displacement.

It is envisaged that hydrogen-based fuels won't be around until after 2050 as that requires a redesigning of aircraft, given that although having much less mass per unit of energy, there is the problem that hydrogen requires much larger volume than kerosine which are larger than the wing space which is where fuel currently resides.

The International Air Transport Association (IATA) has chosen Trinity College Dublin as the certification body for all new SAF pathways.

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In Progress: LAPFF is planning to engage with other airlines and with Shell and BP, which are significant aircraft fuel suppliers.

CLIMATE TRANSITION PLANS

Objective: Due to the scale of climate risks, LAPFF expects companies to outline credible transition plans, which include Paris-aligned targets and detailed strategies for reaching those goals. To enable investors to make informed investment and stewardship decisions these plans should be disclosed with material climate-related impacts included within financial statements.

LAPFF also considers it good practice for companies to provide shareholders with the opportunity to express their views on the credibility of the plans through a specific AGM vote. A specific vote on a company's transition plan enables shareholders to signal support for the decarbonisation strategy and any associated capital expenditure requirements. Such a vote also enables shareholders to indicate their confidence in the plan through a dedicated vote rather than directing it at different resolutions on the ballot.

To encourage companies to provide such a vote to shareholders, LAPFF has organised collaborative letters to companies. Research for LAPFF suggests that around a fifth of FTSE 100 companies have provided such a vote in the past three years. As such, LAPFF continues to seek to encourage additional companies to provide 'say on climate' votes to its shareholders.

Achieved: To achieve that ambition of wider support for transition plan votes, LAPFF alongside CCLA organised a letter to FTSE 100 companies that have not provided such a vote over the past three years. The letter outlined the case for companies providing shareholders the opportunity to have a say on the company transition plan. It noted that emerging good practice was for plans to be updated every three years, and in line with that expected a vote on the plan at least every three years.

Over the quarter, LAPFF sought to gain wider investor support for the letter which was then sent to companies in September. LAPFF saw increased support for the letter from last year with 41 investors signing up to the letter. In total, the investors represented £1.6 trillion in AUM demonstrating the scale of support. Alongside sending the letter to the companies, the letter was also press released to raise awareness of the issue and gain wider support.

In progress: LAPFF asked companies to respond to the letter and will be tracking those responses. LAPFF will also scrutinising AGM agendas to see whether more say on climate votes are provided over the coming year. In addition, LAPFF will be continuing to place pressure on issuers to provide their shareholders the opportunity to voice their opinions through a dedicated vote on what is a major risk and concern for responsible investors.

HARD TO ABATE SECTORS

Cement - CRH

Objective: Cement was agreed as an area of focus by LAPFF members at the business meeting in July 2024. CRH is a building supplies and cement producer and the majority of CRH's sales are cement. Cement accounts for approximately 8% of global greenhouse gas emissions. Emissions come from 1) a non-fossil fuel source, the chemical decomposition of calcium carbonate in cement manufacturing 2) the heat needed for cement production in kilns. Cement is a difficult to abate sector and the carbon emissions from the calcium carbonate will require some form of carbon capture and storage ('CCS').

Achieved: LAPFF met with CRH to discuss its actions towards achieving net zero. The meeting was encouraging. CRH has already been benefiting from cost savings and opportunity from the transition, such as cheaper electricity for kilns and other energy dependent processes, and also 'recycling' roads in renewing roads. The company's plans are thoughtful and backed by actions and implementation.

As of 2024 there is no working model of CCS on cement, though Heidelberg cement may have a working site by the end of 2024. CRH's actions to decide on investment in Carbon Capture and Storage won't affect 2030 targets as the working assumption is that CCS won't be used before that date. Actions will require forms of regulation to both mandate the use of 'carbon-neutral cement' as well as restricting cement that had been produced traditionally from competing unfairly, or by passing it off as carbon-neutral when it isn't.

In Progress: LAPFF is planning to engage with other cement producers on a comparative basis.

ENVIRONMENT

TOBACCO COMPANIES & PLASTICS

Objective: There is also increasing global pressure for companies to address single-use plastics in their product ranges. This affects tobacco companies as cigarette butts, which are largely made of a plastic, are the most littered item in the world with an estimated 4.5 trillion cigarette butts being thrown away each year. LAPFF's aim in these engagements was to understand how companies were assessing risk in these areas, and modelling for potential needs to adopt their business model to a changing regulatory environment, as well as how they were taking action to look for plastic alternatives.

Achieved: LAPFF met Philip Morris, Imperial Brands, and Japan Tobacco Inc. this quarter to discuss these issues. It is clear that the tobacco industry has not yet found a suitable alternative to the plastic filters used in cigarettes. Several companies describe this in their reports as challenging, largely due to consumer acceptance, but also because of the implications for emissions and the costs associated with R&D.

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Polluted Water sign at River Mole, Surrey, UK

While tobacco products remain a key part of these companies' business models, there is a drive to create what are often referred to as 'reduced risk products' or 'next generation products', which broadly encompasses heated tobacco products and various types of vapes. As companies seek to expand their business into other areas, the increased prevalence of vapes in their product mixes raises additional concerns around plastics and the disposal of batteries in single-use vapes. This will require a more circular economy, which all three companies are adopting in slightly different ways. Whilst there is work being done by the tobacco industry, there is a long way to go.

Conversations also followed how tobacco companies faced increasing global regulatory pressures on smoking and vaping, including proposed legislation like the UK Tobacco and Vapes Bill, which if pursued, would mean anyone born after 1 January 2009 can never legally be sold tobacco products.

In Progress: LAPFF is set to meet British American Tobacco in October to discuss these same issues and will be monitoring progress by the companies in these areas as regulation develops.

WATER STEWARDSHIP

Constellation Brands

Objective: LAPFF is a founding member of the Valuing Water Finance Initiative which engages companies on their water impacts and seeks to reduce their exposure to material water-related risks. As part of the initiative, LAPFF is the lead investor for Constellation Brands. LAPFF has been asking the company to set time-bound, science or contextual goals, targets or policies to address impacts on water availability in water scarce areas across the sections of the value chain for which water is most material.

Achieved: In January 2024 LAPFF member Greater Manchester Pension Fund (GMPF) filed a resolution ahead of Constellation Brands AGM. It requested that Constellation Brands issue a report assessing the feasibility and practicality of establishing time-bound, quantitative goals to reduce supply chain water usage to mitigate value chain risks related to global water scarcity in high-risk areas. During Q2 LAPFF issued a voting alert recommending members support the resolution. The alert highlighted the need for investors to be able to assess the extent to which companies, for which water is material, demonstrate sustainable practices. Constellation Brands AGM was held in July during which over 35% of votes represented supported the resolution, despite the Board's opposition to the proposal. Given 2024 is the first year a resolution of this kind has been filed at Constellation Brands, the result is significant and demonstrates the appetite among investors for the company to improve its approach to managing water-related risks.

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In Progress: It is LAPFF's view that Constellation Brands remains acutely exposed to water-related risk within its supply chain, potentially limiting its ability to protect shareholder value. While Constellation Brands has committed to and worked to manage their water-related risks in direct operations, they have been unable to demonstrate they are managing the same risks across the supply chain which could lead to increased input prices and disruptions. LAPFF will re-engage with the company during Q4 with a view to leveraging momentum off the back of the shareholder proposal.

UK Water Utility Companies

Objective: Since 2022, LAPFF has engaged with water utility companies to address ongoing concerns about the pollution of rivers and coastal areas caused by storm overflows through Combined Sewer Overflows (CSOs). CSOs act as relief valves during periods of heavy rainfall, preventing sewage from backing up into homes by releasing excess stormwater and wastewater into the environment.

Under the UK government's 2050 plans, the number of CSO overflow incidents is expected to decrease gradually through increased investment. As a highly regulated sector, water companies must submit their investment plans for review every five years to the Water Services Regulation Authority (Ofwat) for review and approval. Achieving environmental objectives within these five year plans has both reputational and financial implications, as companies face rewards or penalties based on their performance.

Through its engagements, LAPFF aims to ensure that water utilities companies are making progress in reducing overflow incidents while ensuring that upcoming five year business plans are cost efficient and include both environmental and social commitments. This year's engagements reflect on data from 2023, a year that saw an increase in overflow incidents due to significantly wetter weather in the UK. LAPFF seeks to understand how companies are interpreting the impact of this wet year and whether they remain on track to meet the target of reducing overflows to an average of no more than 20 incidents per year by 2025.

Achieved: In the quarter LAPFF met the chair of Severn Trent Water (STW). STW is one of the largest water utility companies in the UK, serving over 4.5 million households and businesses across the Midlands and parts of Wales.

This was the third meeting that LAPFF has had with Severn Trent's chair and the Forum welcomed the ongoing dialogue with the company on the issue. The meeting took place just after Ofwat released draft determinations for the next regulatory period (2025-2030), outlining proposed price controls and investment allowances for water companies. To meet the expected increase in capital expenditure to address, amongst other things, pollution from storm overflows water companies are seeking to increase water prices. STW plans were well received by Ofwat even if the regulator reduced the company's proposed price increase. Despite significant sector challenges, they remain committed to meeting their sewer overflow targets. Progress is being made towards addressing Combined Sewer Overflow (CSO) spills, including network-wide CSO monitoring, nature-based solutions, and innovations such as the company's "Zero Spills Hub".

In Progress: Despite progress being made, water companies continue to have some way to go to reduce overflows and reduce the regulatory and reputational risks they face on the issue. LAPFF will therefore continue to engage with water utility companies with the focus on ensuring progress towards their targets and that the additional investment is being used cost-efficiently. LAPFF will also be following the regulator's final determinations.

NOVO NORDISK & NA100

Objective: Nature Action 100 (NA100) seeks to mobilise investors to drive corporate action in addressing biodiversity loss and nature-related risks. Its primary goal is to ensure companies integrate nature into their strategies, reduce negative impacts on ecosystems, and contribute to global biodiversity targets through enhanced accountability and transparency.

Achieved: One of the companies that LAPFF is engaging through the NA100 initiative is the Danish Pharmaceutical company Novo Nordisk. Pharmaceutical companies have been identified by the initiative as a key sector to engage. Pharmaceutical companies face a range of physical and transition risks, including species loss affecting the ability of companies to develop new drugs.

The investor group met a representative from investor relations. The representative answered the investor questions but did not engage in detailed discussion. Key points covered included the company's use of the Science-Based Targets Network, and timelines for assessments being made public. Whilst detail in the conversation was limited, the company appeared to be making sizable considerations about how to address its impact and dependencies on nature.

In Progress: An aim of the engagement is to meet with companies involved at least twice a year. Whilst LAPFF and other investors have been discussing indicators of NA100's benchmark in company engagements, the benchmark itself, which will score companies across its six key pillars, is set to be published at COP16 in late October 2024. Companies have had a chance to respond with further information to this benchmark. Once published, it will provide industry comparisons, information on potential areas of best practice and a further basis for engagement.

SOCIAL FACTORS

ZERO HOUR CONTRACTS

Objective: LAPFF has initiated a series of engagements focused on the use and potential elimination of zero-hours contracts (ZHCs) in the UK. The Forum is seeking to engage with companies that utilize ZHCs as part of their core operations to understand the extent of their use, the potential impacts of a ban on business operations, and any steps being taken to mitigate a ban and/or associated risks. Where applicable, the Forum may also seek further disclosure on ZHC exposure to help investors better assess the potential effects on specific

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A member of staff at Hollywood Bowl in Thurrock, Essex

companies or sectors.

There are estimated to be around 1 million workers on ZHC's in the UK. Women and people from ethnic minority backgrounds are more likely to be employed under this type of contract, and the very large majority of workers on them are in non-supervisory roles. The use of ZHCs is clustered in several sectors such as hospitality, arts, entertainment and leisure, health and social care, transport and storage, wholesale and retail.

Prior to the July UK general election, the Labour Party had committed to ban zero-hours contracts in its Employment Rights Green Paper. Following the election, the government has promised to introduce The Employment Rights Bill which will prohibit ZHCs. Therefore, it is conceivable that some form of ban or restrictions placed on the use of ZHCs might be enacted in the coming years, which might have a significant impact on certain companies or sectors.

Achieved: During Q3 LAPFF received written responses from both Compass Group and Hollywood Bowl. Mitie Group agreed to a meeting with LAPFF vice-Chair John Gray. Frasers Group refused LAPFF's invitation to engage and did not provide its position as it relates to Zero Hour Contracts.

In response to the question of exposure, Compass Group stated its use of ZHCs is limited to only specific areas, such as hospitality and sporting events, where flexibility is beneficial to operations. The company further elaborated that its flexible working policy ensures that employees on ZHCs can request fixed-hour contracts, and all ZHC employees have full employment contracts with the same terms and benefits as the broader workforce. The company believes its approach aligns with best practices and would not be impacted by the Labour party's proposed changes.

Hollywood Bowl outlined that a small proportion of its hourly workforce, primarily university students, are on zero-hour contracts which will be phased out by September 2024 in favour of fixed-term contracts for those returning during holiday periods. The company is awaiting further government guidance on the proposed Employment Rights Bill 2024 before determining its broader approach. They remain open to further engagement with the Forum as the proposed UK Employment Rights Bill 2024 develops.

In Progress: LAPFF's policy is that, on balance, there is no clear evidence that business models based on zero-hour contracts and precarious work outperform business models with different and more inclusive human capital strategies. In that context, LAPFF will continue to monitor developments relating to Employment Rights Bill and continue to engage investee companies regarding their exposure to the practice.

CAHRA

Objective: LAPFF met with Maersk earlier in 2024 amidst increasing scale and intensity of armed global conflicts, noting that Maersk had operations in the Red Sea and had faced attacks stemming from the escalation of conflict in Gaza. LAPFF aimed to explore how the company was approaching heightened human rights due diligence (hHRDD).

Achieved: LAPFF met with Maersk for a second time to discuss hHRDD and the company's approach to global conflict zones. Whilst the company was able to provide some specific examples of hHRDD in its operations, it was still unclear how it implemented an approach that incorporated this approach more widely across its entire operations where appropriate.

Alongside this engagement, LAPFF continued its participation in the Investor Alliance for Human Rights (IAHR) pilot project on conflict-affected and high-risk areas (CAHRAs). The initiative is: "engaging a delimited set of portfolio companies in the technology and renewable energy sectors with exposure to risks in CAHRAs."

In Progress: LAPFF will consider following up with Maersk to discuss hHRDD more widely. LAPFF continues to engage as a supporting investor through IAHR's pilot project to inform engagement with other companies on CAHRA.

NIKE VOTING ALERT

Nike faced five shareholder resolutions at its September 2024 AGM, with one on a 'Supply Chain Management Report', and another regarding 'Work-driven Social Responsibility'. These come amidst ongoing concerns around Nike's approach to addressing significant risks such as forced labour, wage theft, and other human rights violations within its supply chain. These concerns come as the push for stronger transparency and accountability is driven by new regulatory frameworks such as the EU's Corporate Sustainability Due Diligence Directive, which will require companies to take a more proactive role in managing human rights in their supply chains.

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LAPFF recommended a vote in favour of both resolutions given alignment with the Forum's principles of engagement, aiming to enhance accountability, transparency, and the ethical management of human rights risks. The resolutions called for more detailed assessments and disclosures on supply chain practices and the adoption of Worker-Driven Social Responsibility (WSR) principles, which emphasise stronger, worker-centered mechanisms for addressing labour violations. LAPFF believes that resolutions such as these demonstrate an investor voice asking that Nike ensure its policies are not only compliant with international standards but also effectively safeguard workers' rights and reduce reputational, legal, and operational risks.

GOVERNANCE

EXECUTIVE REMUNERATION

Objective: During Q3, LAPFF requested engagement with UK-listed companies at which significant dissent to remuneration was observed during the 2024 proxy season. The objective of the engagements was to understand what was driving the dissent and steps being taken by the company to address shareholder concerns.

Achieved: LAPFF held meetings with AstraZeneca, Pearson and Synthomer to discuss the high levels of shareholder dissatisfaction. This included a meeting with the Chair of AstraZeneca, Michel Demaré, to discuss the company's approach to Executive compensation following opposition of 35.6% to the remuneration report at the 2024 AGM. The CEO of AstraZeneca was the highest paid in the FTSE100 in 2024, receiving over £18 million in total compensation. Mr Demaré outlined that the company benchmarked pay against a US peer group, a market in which the quantum of pay is comparatively high versus the UK. Mr Demaré further highlighted the value created for shareholders by AstraZeneca over recent years. In response, LAPFF outlined expectations of its members as it relates to excessive quantum and observed that a focus on the development of talent internally for the purpose of succession planning could alleviate pressures on the granting of excessive awards for the purpose of retention.

LAPFF also met with Sherry Coutu, Chair of the Remuneration Committee of the educational publishing company Pearson. The company had received an opposition vote of 30.2% to the remuneration report during its AGM earlier this year. Similarly to AstraZeneca, the company outlined that a relatively high percentage of its revenue derives from the US and higher quantum was necessary to retain and motivate talent. LAPFF raised concerns over the apparent excessive nature of a buyout award made for new CEO Omar Abbosh which totalled over £13 million. The award was granted to replace shares Mr Abbosh lost as a result of leaving the employment of Microsoft. LAPFF also raised concerns over the recent increase in maximum variable pay levels from 550% to 750% of the base salary.

Lastly, LAPFF met with the Chair of Synthomer, Caroline Johnstone, alongside Remuneration Committee Chair, Holly Van Deursen. The company had received 44.6% opposition to its remuneration report during its 2024 AGM. The primary driver behind the dissent was the apparent lack of alignment between the rate of vesting of CEO awards with recent shareholder experience, this in part a result of non-financial performance criteria vesting at 100%. LAPFF further raised concerns over the use of EBITDA as a performance metric in both the annual and long-term incentive scheme, which provided the opportunity for the CEO to be paid twice for the same performance.

In Progress: LAPFF has further calls scheduled with companies at which high levels of investor dissent was recorded during the 2024 proxy season, which will be undertaken during Q4.

HOUSEBUILDERS

Objective: LAPFF continues to engage the largest UK housebuilders on their climate transition strategies. In general, half of the industry's current GHG emissions are from homes in use and the other half are from suppliers (including diesel vehicles and cement). The engagements seek to ensure plans are in place for companies to move to net zero homes, have Paris-aligned transition plans and targets, and ensure they are working with suppliers to reduce emissions, and are prepared for new regulatory standards, such as the Future Homes Standard.

Achieved: In the quarter, LAPFF met the chair of Bellway to discuss its approach to decarbonisation. Bellway presented its "Better with Bellway" strategy, focusing on carbon reduction, including progress on Scope 1 and 2 emissions and plans to tackle Scope 3 emissions, which represent the majority of its carbon emissions. Discussions also covered Bellway's preparation for the Future Home Standard, efforts in heat pump installations, and zero-bill homes. Bellway emphasised its focus on sustainability, supply chain decarbonisation, and long-term emission reduction goals.

LAPFF met with the Chief Operating Officer and the Group Company Secretary at Vistry Group to discuss the company's sustainability initiatives, its approach to reducing Scope 3 emissions, planning and pilots to be ready for the Future Homes Standard. The COO highlighted Vistry's commitment to engaging with supply chain partners, increasing the use of timber frame construction, and ensuring compliance with evolving regulations. The meeting also discussed the challenges of meeting both housing targets and sustainability goals.

At both meetings LAPFF also raised the Competition and Markets Authority (CMA) investigation regarding the alleged sharing of commercially sensitive information.

In Progress: Across both engagements with Bellway and Vistry, LAPFF heard of progress in preparing for regulatory changes such as the Future Homes Standard and efforts to work with suppliers to reduce emissions across their value chains. LAPFF has plans to engage other housebuilders in the following quarter and longer term to ensure continued progress in meeting their decarbonisation objectives, especially in regard to their supply chain.

In the meeting with Vistry, LAPFF raised the fact that the company had a combined CEO and Chair role and will be following up on this.

CAPITAL MARKETS - LSEG

Objective: LAPFF has been concerned about the weakening of standards relating to new entrants to the London listed companies' market, which has included, Aston Martin Lagonda, NMC Health, Finablr and Quindell, the former of which has lost >90% of its value since listing, the other three being 100% losses.

The LAPFF Executive convened a 'Capital Markets Working Group' in the light of a recent concerted campaign by some interests to further weaken the standards of the listing regime. That campaign has included the Capital Markets Industry Taskforce, which is just that, it is a coalition of "fee earning" interests rather than shareholder interests, including issues of investor protection. It is chaired by the CEO of the London Stock Exchange.

Achieved: An open letter was sent in May 2024 to the Chair of London Stock Exchange Group, which asked for an evidence-based approach, and to supply the evidence for assertions made to date. Unfortunately, the response did not sufficiently address the issues.

Because of that LAPFF in August 2024 wrote back to the LSEG, making it clear that LAPFF expected the May letter to be answered properly, with evidence and accuracy. It was stressed that like any other listed company, LSEG should be making accurate representations to shareholders and the market about its own business.

LAPFF is aware of one large quality company that has delisted which doesn't accord with the narrative that over-regulation is a problem. What appears to be the problem is the unattractiveness of the FTSE Index, given that a few large companies dominate by market capitalisation ('top-heavy composition') which works against diversification – and of which oil and gas companies as well as financials are factors in that. For example, the largest oil and gas company in the S&P 500 index is Exxon which is 15th by market capitalisation, compared to the UK where Shell is 2nd and BP 5th.

In Progress: The Capital Markets Working Group plans to undertake a survey of LAPFF members on these issues. The position of asset owners versus fund managers is particularly relevant to this area.

LAPFF PARTY CONFERENCE EVENTS

Each year LAPFF hosts fringe events at political party conferences. These meetings provide the opportunity to raise awareness of the work that LAPFF undertakes and engage with national politicians and other stakeholders.

At the Lib Dem conference, the focus of the meeting was: Investing in the green transition – what needs to change? The discussion was chaired by Gideon Amos MP, with Cllr Toby Simon speaking on behalf of LAPFF and outlining the work of the Forum. The other speakers included Wera Hobhouse MP, Energy and Climate Change Spokesperson, Baroness Shaista Sheehan, Director, Peers for the Planet Group and Cllr Martin Horwood, President Green Liberal Democrats. The discussion covered divestment, fiscal incentives and fossil fuel subsidies and offsetting.

At the Labour Party conference, the meeting was titled: A new deal for working people – how will investors react? LAPFF vice-chair Cllr John Gray outlined company engagement on employment standards and the importance of social factors to responsible investors. The other speakers were Liam Byrne MP, Chair of the Business and Trade Select Committee and Nicola Smith, Head of the Rights, International, Social and Economics department at the TUC. The discussion covered the importance of good workplace practices for creating growth, the role investors can play in driving better standards, the upcoming employment rights bill, directors' duties, fiduciary duties, company reporting and the government's pension investment review.

At the Conservative Party conference, the event was focused on: "Investing in the UK – can British pension funds do more?" The meeting was chaired by Charlotte Pickles, the director of the think tank Reform with LAPFF's chair, Cllr Doug McMurdo, outlining fiduciary duties and the importance of corporate

Top: Liberal Democrat leader, Ed Davey MP delivers his keynote speech on the last day of the conference
Middle: Conservative Party leadership candidate Kemi Badenoch seen at the conference
Bottom: Prime Minister Keir Starmer delivers his Party Conference speech at the Labour Party Conference 2024

governance standards when it comes to investing in public equities. The other speakers were Lord Dominic Johnson, former Minister for Investment and Karim Palant, Director of External Affairs, BVCA. The discussion covered the number of DC schemes, pension fund consolidation, and the government's pension investment review.

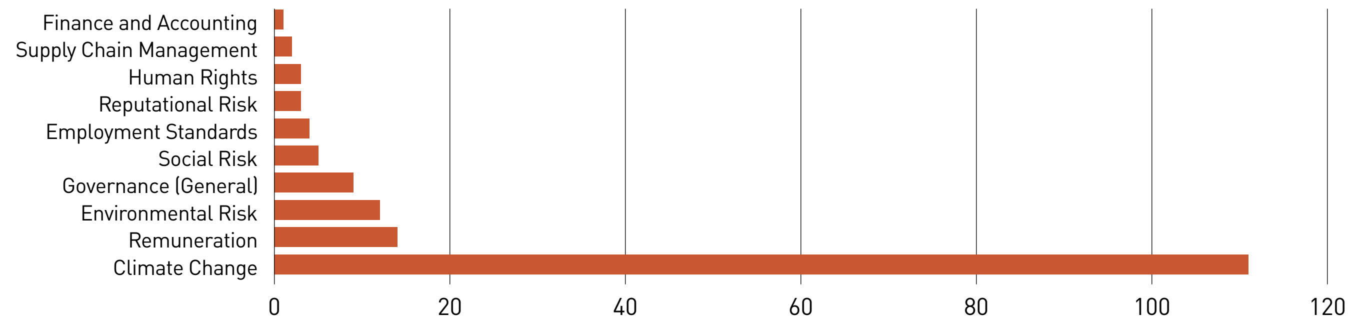
COMPANY PROGRESS REPORT

Excluding the 76 letters through the Climate Transition Plan (CTP) initiative, 42 Companies were engaged over the quarter. The table below shows those companies engaged outside the CTP initiative, but the graphs include those engagements.

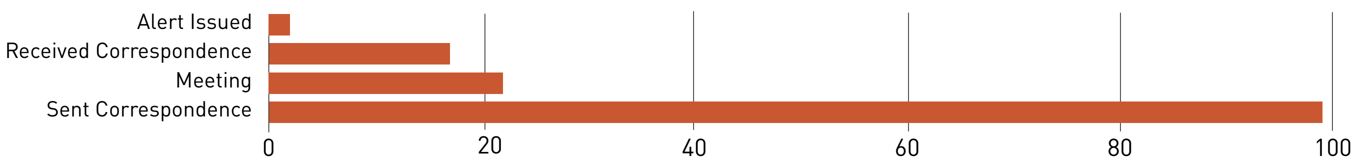
Company/Index	Activity	Topic	Outcome
ALIMENTATION COUCHE-TARD INC.	Alert Issued	Climate Change	
AP MOLLER - MAERSK AS	Meeting	Human Rights	Dialogue
ASTRAZENECA PLC	Meeting	Remuneration	No Improvement
BARRATT DEVELOPMENTS PLC	Sent Correspondence	Climate Change	Awaiting Response
BELLWAY PLC	Meeting	Climate Change	Small Improvement
BERKELEY GROUP HOLDINGS PLC	Sent Correspondence	Climate Change	Awaiting Response
BP PLC	Meeting	Climate Change	Dialogue
BURBERRY GROUP PLC	Meeting	Environmental Risk	Small Improvement
CEMEX SAB DE CV	Sent Correspondence	Environmental Risk	Awaiting Response
CIMB GROUP HOLDINGS BERHAD	Meeting	Climate Change	Moderate Improvement
CLARKSON PLC	Sent Correspondence	Remuneration	Awaiting Response
COMPASS GROUP PLC	Received Correspondence	Employment Standards	Dialogue
CRH PLC	Meeting	Climate Change	Change in Process
FRASERS GROUP PLC	Sent Correspondence	Employment Standards	Satisfactory Response
HEIDELBERG MATERIALS AG	Sent Correspondence	Environmental Risk	Awaiting Response
HOLLYWOOD BOWL GROUP PLC	Sent Correspondence	Employment Standards	Change in Process
HUANENG POWER INTERNATIONAL	Meeting	Climate Change	Moderate Improvement
HUNTING PLC	Sent Correspondence	Remuneration	Awaiting Response
IMPERIAL BRANDS PLC	Meeting	Environmental Risk	Dialogue
JAPAN TOBACCO INC	Meeting	Environmental Risk	Dialogue
KASIKORNBANK PCL	Meeting	Climate Change	Small Improvement
LOREAL SA	Meeting	Human Rights	Substantial Improvement
MITIE GROUP PLC	Meeting	Employment Standards	Dialogue
NIKE INC.	Alert Issued	Human Rights	
NOVO NORDISK A/S	Meeting	Environmental Risk	Dialogue
PEARSON PLC	Meeting	Remuneration	No Improvement
PERSIMMON PLC	Sent Correspondence	Climate Change	Awaiting Response
PHILIP MORRIS INTERNATIONAL INC.	Meeting	Environmental Risk	Small Improvement
PLUS500 LTD	Sent Correspondence	Remuneration	Awaiting Response
PURETECH HEALTH PLC	Sent Correspondence	Remuneration	Awaiting Response
RYANAIR HOLDINGS PLC	Meeting	Environmental Risk	Dialogue
SEVERN TRENT PLC	Meeting	Environmental Risk	Dialogue
SMITH & NEPHEW PLC	Sent Correspondence	Remuneration	Awaiting Response
SPIRENT COMMUNICATIONS PLC	Sent Correspondence	Remuneration	Awaiting Response
SSAB (SVENSKT STAL AB)	Meeting	Environmental Risk	Dialogue
STANDARD BANK	Sent Correspondence	Social Risk	Awaiting Response
SYNTHOMER PLC	Meeting	Remuneration	No Improvement
TAYLOR WIMPEY PLC	Sent Correspondence	Climate Change	Awaiting Response
TBC BANK GROUP PLC	Sent Correspondence	Remuneration	Awaiting Response
THYSSENKRUPP AG	Meeting	Environmental Risk	Dialogue
TRAVIS PERKINS PLC	Sent Correspondence	Remuneration	Awaiting Response
VISTRY GROUP PLC	Meeting	Climate Change	Small Improvement

ENGAGEMENT DATA

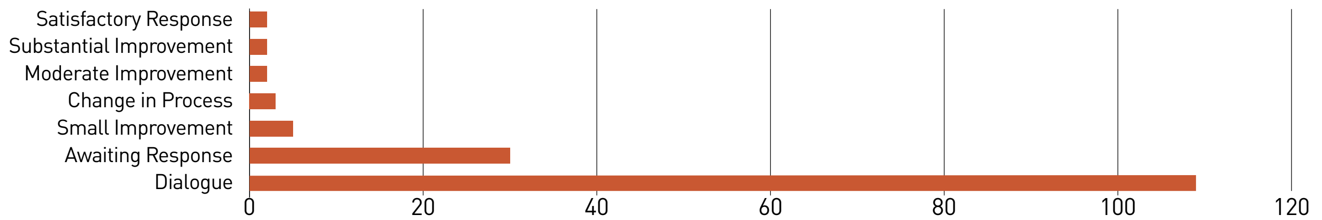
ENGAGEMENT TOPICS



ACTIVITY

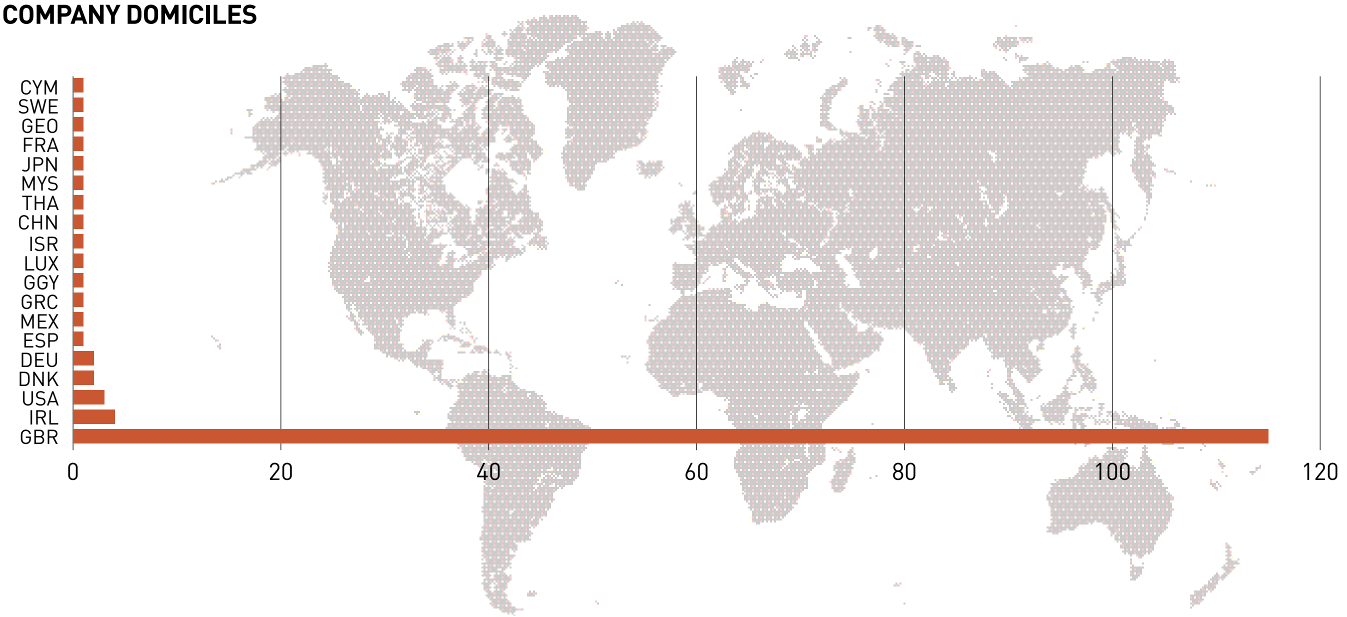


MEETING ENGAGEMENT OUTCOMES

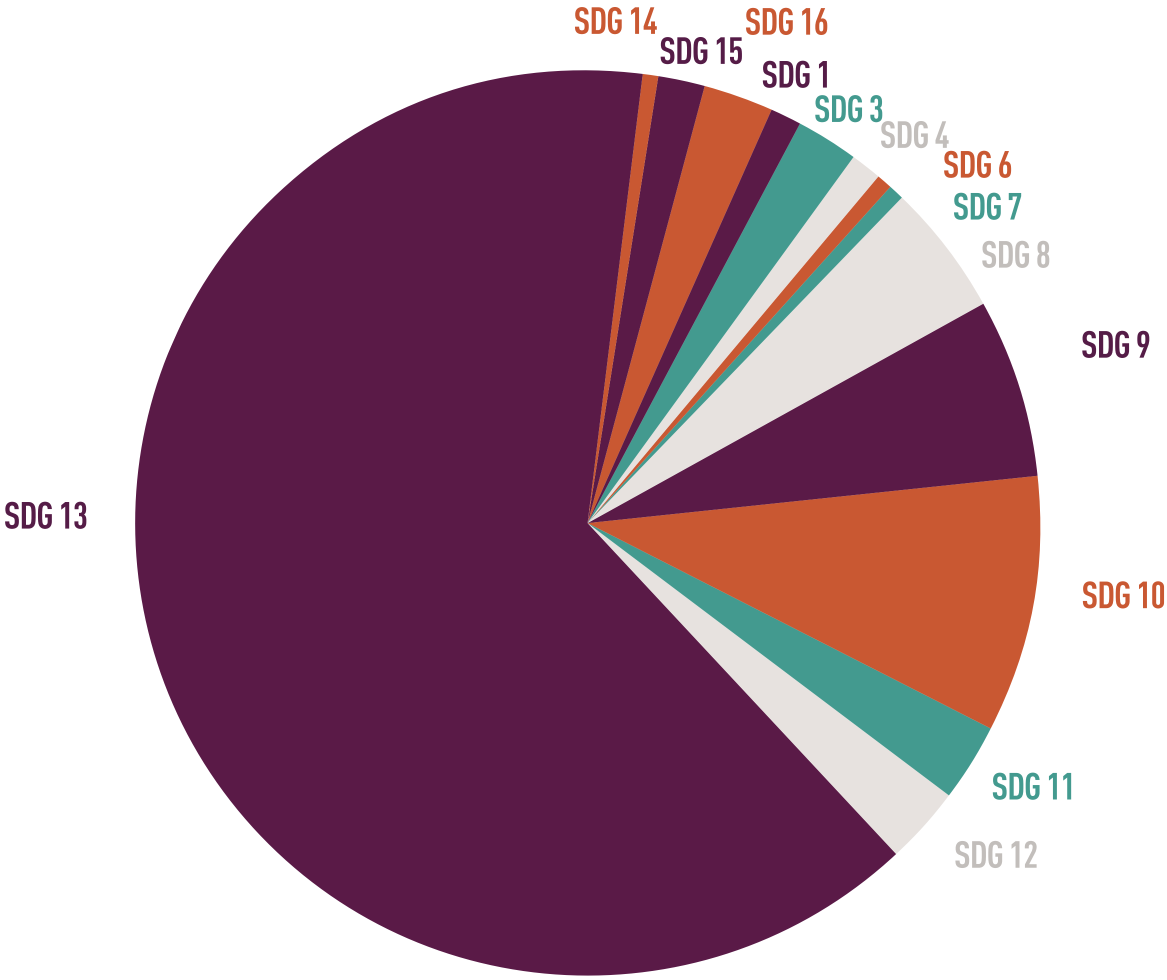


POSITION ENGAGED

COMPANY DOMICILES



ENGAGEMENT DATA



LAPFF SDG ENGAGEMENTS	
SDG 1: No Poverty	2
SDG 2: Zero Hunger	0
SDG 3: Good Health and Well-Being	4
SDG 4: Quality Education	2
SDG 5: Gender Equality	0
SDG 6: Clean Water and Sanitation	1
SDG 7: Affordable and Clean Energy	1
SDG 8: Decent Work and Economic Growth	8
SDG 9: Industry, Innovation, and Infrastructure	11
SDG 10: Reduced Inequalities	16
SDG 11: Sustainable Cities and Communities	5
SDG12: Responsible Production and Consumption	5
SDG 13: Climate Action	111
SDG 14: Life Below Water	1
SDG 15: Life on Land	3
SDG 16: Peace, Justice, and Strong Institutions	4
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

Avon Pension Fund
Barking and Dagenham Pension Fund
Barnet Pension Fund
Bedfordshire Pension Fund
Berkshire Pension Fund
Bexley (London Borough of)
Brent (London Borough of)
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
Essex 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
Hillingdon Pension Fund
Hounslow Pension Fund
Isle of Wight Pension Fund
Islington Pension Fund
Kensington and Chelsea (Royal Borough of)
Kent Pension Fund
Kingston upon Thames Pension Fund
Lambeth Pension Fund
Lancashire County Pension Fund
Leicestershire Pension Fund
Lewisham Pension Fund
Lincolnshire Pension Fund
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
Northamptonshire Pension Fund
Nottinghamshire Pension Fund
Oxfordshire Pension Fund
Powys Pension Fund
Redbridge Pension Fund
Rhondda Cynon Taf Pension Fund
Scottish Borders 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
Waltham Forest Pension Fund
Wandsworth Borough Council Pension Fund
Warwickshire Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Westminster Pension Fund
Wiltshire Pension Fund
Worcestershire Pension Fund

Pool Company Members
ACCESS Pool
Border to Coast Pensions Partnership
LGPS Central
Local Pensions Partnership
London CIV
Northern LGPS
Wales Pension Partnership