

## INVESTMENT MANAGEMENT REPORT

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendation: that the Committee be asked:

1. That the Investment Management Report be noted.
2. That an additional £50 million be invested in the Brunel Sterling Corporate Bonds portfolio, funded by the overweight allocation to Passive Equities.
3. To note compliance with the 2020-21 Treasury Management Strategy.

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### 1. FUND VALUE AND ASSET ALLOCATION

The table below shows the Fund value and the asset allocation for the Fund compared to the target asset allocation as at 31 March 2021.

|                           | <b>Fund Value<br/>as at<br/>31.03.21</b> | <b>Target<br/>allocation<br/>2020/21</b> | <b>Fund asset<br/>allocation<br/>at 31.03.21</b> | <b>Variation<br/>from<br/>Target</b> |
|---------------------------|------------------------------------------|------------------------------------------|--------------------------------------------------|--------------------------------------|
|                           | £m                                       | %                                        | %                                                | %                                    |
| <b>Fixed Interest</b>     |                                          |                                          |                                                  |                                      |
| Global Bonds              | 300.0                                    | 7                                        | 6.0                                              |                                      |
| Multi-Sector Credit       | 344.7                                    | 7                                        | 6.8                                              |                                      |
| Cash                      | 21.0                                     | 1                                        | 0.4                                              |                                      |
|                           | <b>665.7</b>                             | <b>15</b>                                | <b>13.2</b>                                      | <b>-1.8</b>                          |
| <b>Equities</b>           |                                          |                                          |                                                  |                                      |
| Passive Equities          | 1,800.4                                  | 33                                       | 35.8                                             |                                      |
| Active Global Equities    | 314.9                                    | 5                                        | 6.3                                              |                                      |
| Global Smaller Companies  | 284.9                                    | 5                                        | 5.7                                              |                                      |
| Emerging Markets          | 281.7                                    | 5                                        | 5.6                                              |                                      |
| Sustainable Equities      | 153.4                                    | 3                                        | 3.0                                              |                                      |
| Low Volatility Equities   | 336.9                                    | 7                                        | 6.7                                              |                                      |
|                           | <b>3,172.2</b>                           | <b>58</b>                                | <b>63.1</b>                                      | <b>+5.1</b>                          |
| <b>Alternatives/Other</b> |                                          |                                          |                                                  |                                      |
| Diversified Growth Funds  | 476.2                                    | 8                                        | 9.5                                              |                                      |
| Property                  | 409.1                                    | 10                                       | 8.1                                              |                                      |
| Infrastructure            | 203.2                                    | 6                                        | 4.0                                              |                                      |
| Private Equity            | 1.3                                      | 0                                        | 0.0                                              |                                      |
| Private Debt              | 107.6                                    | 3                                        | 2.1                                              |                                      |
|                           | <b>1,197.4</b>                           | <b>27</b>                                | <b>23.7</b>                                      | <b>-3.3</b>                          |
| <b>Total Fund</b>         | <b>5,035.3</b>                           | <b>100</b>                               | <b>100.0</b>                                     |                                      |

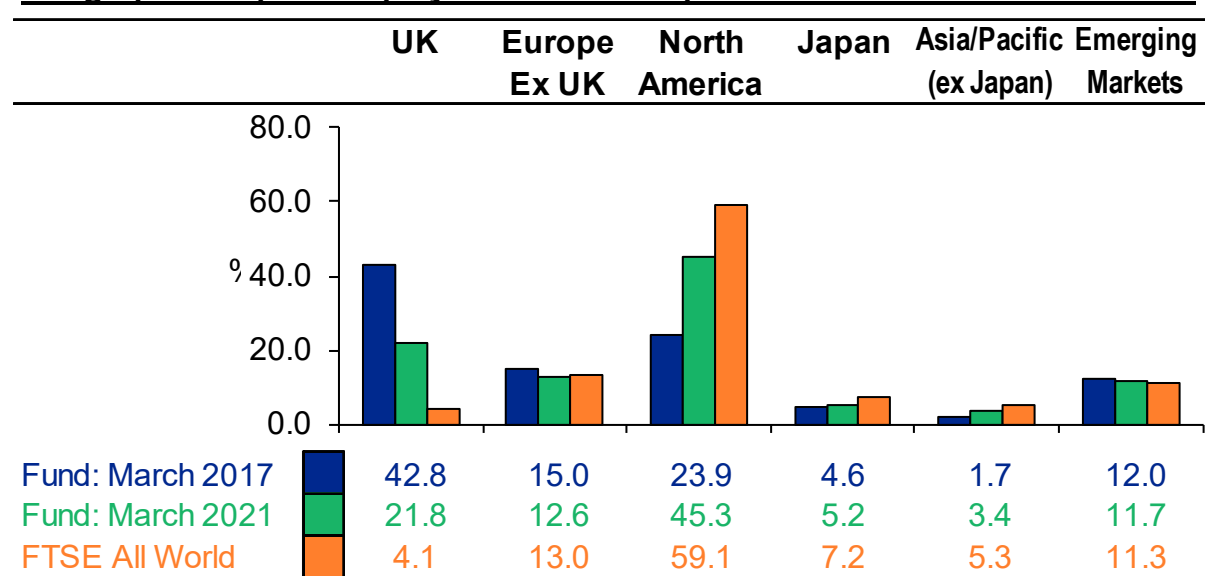
The key points with regard to the end of quarter asset allocation are summarised below:

- a) The Fund value as at 31<sup>st</sup> March 2020 stood at £5,035 million, an increase of around £110 million over the quarter, and £1,025 million over the year.
- b) The dramatic recovery in equity markets has meant that equities are now 5% above the target weighting. This has increased from around 3.5% above target as at the end of December when it was decided to take no action to rebalance. However, the overweight has grown to the extent that it would now be prudent to trim the allocation.
- c) The global bonds allocation was 1% underweight at the end of March. Subsequently this has been transitioned to the Brunel Sterling Corporate Bonds portfolio. It is proposed to top up the allocation by £50 million to bring it up to the target weight, funded from the equity overweight.
- d) The major underweight area is the allocation to alternatives/other, and within that the allocations to the private markets headings. For the private markets allocations, we are dependent on committed funds being called on by Brunel for their underlying investments, so it is not possible simply to reallocate funds quickly.

#### Geographical Weighting of Equity Allocation

- e) The following chart gives the geographical split of the Fund's equity allocations against the FTSE All World Index geographical weightings.

#### Geographical Split of Equity Allocation compared to the FTSE All World Index

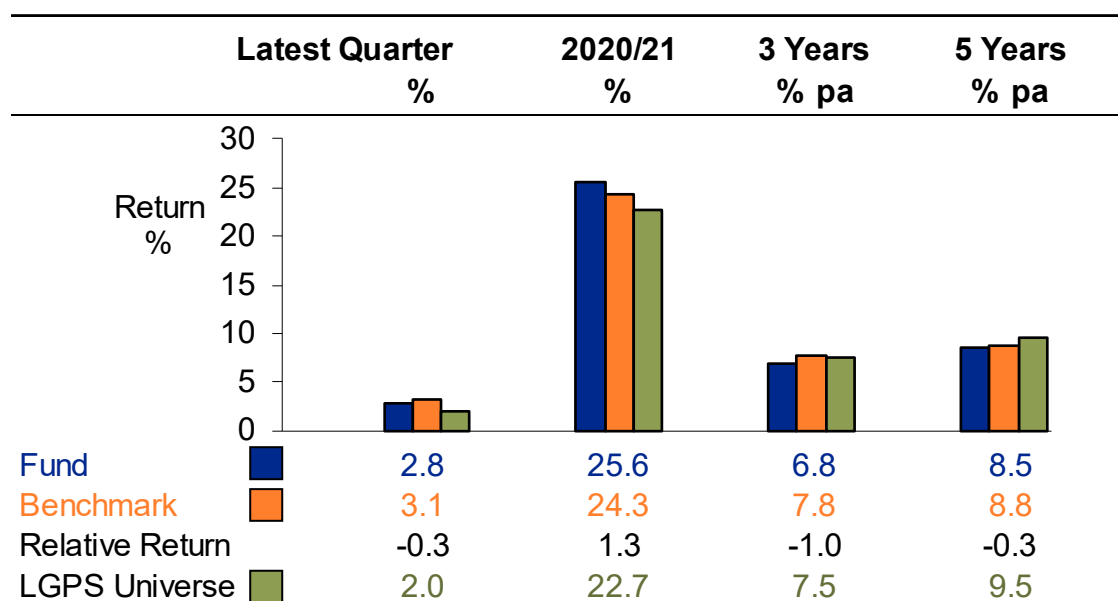


- f) The Fund remains overweight to UK equities and underweight to North America. Action was taken to reduce the UK overweight on a phased basis between March 2017 and February 2019, but the Committee then agreed that no further action be taken, on the basis that the US market was beginning to look expensive, whereas the UK market looked comparatively cheap. During the last quarter the UK market performed well, but over the year as a whole the US market continued to outperform the UK market, which has not helped the overall Fund return. This is addressed further in a separate report on the agenda for this meeting.

## 2. FUND PERFORMANCE

The performance of the Total Fund over the last quarter, the financial year, and on a rolling three and five year basis is shown in the following chart.

### Longer Term Fund Performance Summary



Source for LGPS Universe: PIRC Local Authority Pension Performance Analytics

The performance statistics quoted are net of fees. The LGPS universe figures for the last quarter are based on the asset allocation of the PIRC Local Authority Universe with index returns applied. The previous periods are updated to include actual Universe returns.

The Fund return of +25.6% over the year reflects the significant recovery of markets after the falls during the quarter to 31 March resulting from the coronavirus pandemic, and the optimism in markets resulting from the vaccination programme. The return over the last quarter and the financial year are ahead of both the strategic benchmark and the LGPS universe average.

The three year returns to 31<sup>st</sup> December are behind both the benchmark and universe returns largely as a result of the poor performance during the quarter from January to March 2020 when the Fund was affected more significantly than others by the impact of the pandemic on markets, although the Fund has bounced back since. Looking back to three years ago, the Devon Fund was seen as more defensively positioned than other funds, but since then some other funds have taken advantage of a period of good returns to de-risk, which put them in a better position to withstand the market losses arising from the pandemic, while the Devon Fund's greater reliance on the DGFs' defensive capabilities did not deliver to the same extent.

A breakdown of the performance of the Total Fund for the year and three years to 31 March 2021 and the comparative Index returns are shown in the following table:

## Performance to 31 March 2021

| Sector                    | Financial Year To Date |             | Three Years |            | Benchmark Description      |
|---------------------------|------------------------|-------------|-------------|------------|----------------------------|
|                           | Fund Return            | Benchmark   | Fund Return | Benchmark  |                            |
|                           | %                      | %           | %           | %          |                            |
| <b>Fixed Interest</b>     |                        |             |             |            |                            |
| Global Bonds              | -1.2                   | -2.4        | 3.5         | 3.3        | BarCap Global Bonds        |
| Multi-Sector Credit       | 24.4                   | 18.4        | 5.6         | 2.9        | MSC Bespoke *              |
| Cash                      | -0.5                   | -0.1        | 1.1         | 0.3        | GBP 7 Day LIBID            |
| <b>Equities</b>           |                        |             |             |            |                            |
| Passive Equities          | 37.5                   | 37.8        | 9.3         | 9.3        | Devon Passive Index        |
| Active Global Equities    | 44.5                   | 39.2        | 10.4        | 13.3       | FTSE World / MSCI World    |
| Global Smaller Companies  | 27.3                   | 27.2        | -           | -          | MSCI World Small Cap       |
| Emerging Markets          | 46.0                   | 42.8        | 8.4         | 7.5        | MSCI Emerging Markets      |
| Sustainable Equities      | 9.5                    | 12.6        | -           | -          | MSCI AC World              |
| Low Volatility Equities   | 20.2                   | 39.6        | -           | -          | MSCI AC World              |
| <b>Alternatives/Other</b> |                        |             |             |            |                            |
| Diversified Growth Funds  | 14.9                   | 4.1         | 1.1         | 4.4        | Devon Multi Asset          |
| Property                  | 3.6                    | 1.5         | 3.8         | 2.1        | MSCI Property Indices      |
| Infrastructure            | 4.7                    | 5.0         | 5.7         | 5.4        | GBP 7 Day LIBID+5%         |
| Private Equity            | 52.0                   | 3.5         | -           | -          | MSCI AC World              |
| Private Debt              | 0.9                    | 5.0         | 7.4         | 5.4        | GBP 7 Day LIBID+5%         |
| <b>Total Fund</b>         | <b>25.6</b>            | <b>24.3</b> | <b>6.8</b>  | <b>7.8</b> | <b>Devon Bespoke Index</b> |

\* Composed of 1/3 Bank of America Merrill Lynch Global High Yield Constrained Index; 1/3 JPMorgan Emerging Markets Bond Index Plus; 1/3 CSFB Bank Loan Index.

- a) Global bonds delivered a small negative return over the year, having delivered good positive returns in March 2020 when the rest of the market collapsed. Despite the negative return, performance was still better than the benchmark.
- b) Multi-Sector Credit which represents the riskier end of the listed fixed income market, delivered a good positive return, ahead of benchmark. In general, riskier assets performed well during 2020/21.
- c) Equities have delivered good positive returns over the financial year, as markets rebounded following the falls of the quarter to March 2020, and were then buoyed up by the optimism resulting from the vaccination programme.
- d) Within the equity allocations, active global equities have performed above benchmark, with significant out-performance from the Brunel Global High Alpha portfolio. The active global equities return also includes the performance of the specialist funds up to September when they were transitioned to Brunel's Global Smaller Companies portfolio.
- e) The returns of the Global Smaller Companies and Sustainable Equities allocations are only part year returns, as they were only launched in September/October 2020. The performance of the RWC Fund has contributed to the total Global Smaller Companies return. The Sustainable

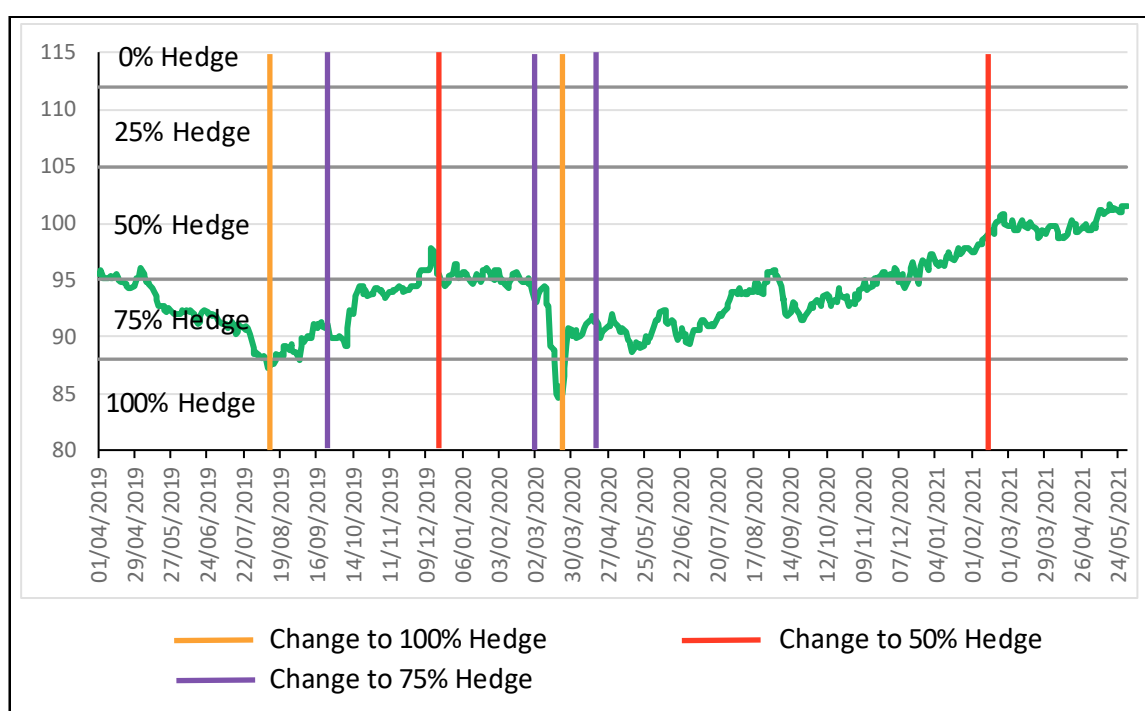
Equities performance was below benchmark, as “value” stocks such as oil and financial companies, which would not be seen as “sustainable” stocks rallied over the last quarter driving the returns of the wider market.

- f) The Emerging Markets portfolio has also had high above benchmark returns.
- g) The Low Volatility Equities portfolio has performed well below the benchmark. This is to be expected in a rising market, as low volatility equities are expected to provide more stable returns. Although the performance against the broader global equity index appears disappointing, the portfolio has performed in line with the more comparable MSCI Minimum Volatility Index. This gives some comfort that the managers’ strategy is in line with the market proxy, despite the fact that the market conditions witnessed over the past year have not been favourable to a low-volatility investment strategy.
- h) The diversified growth funds have recovered with a +14.9% return over the year, but this has not made up for the poor performance in the quarter to 31 March. Performance over the last full year remains negative. The DGFs transitioned across to Brunel’s Diversifying Returns Fund during August/September, and the performance reported is a combination of the previous managers (Barings and Baillie Gifford) and the Brunel portfolio.
- i) Property, infrastructure and private debt have all had weaker returns over the year. While equity markets fell in March 2020 and then bounced back, the impact of the pandemic on the private markets had less initial impact due to lagged valuation cycles, but has resulted in lower, but still positive, returns in the current financial year.

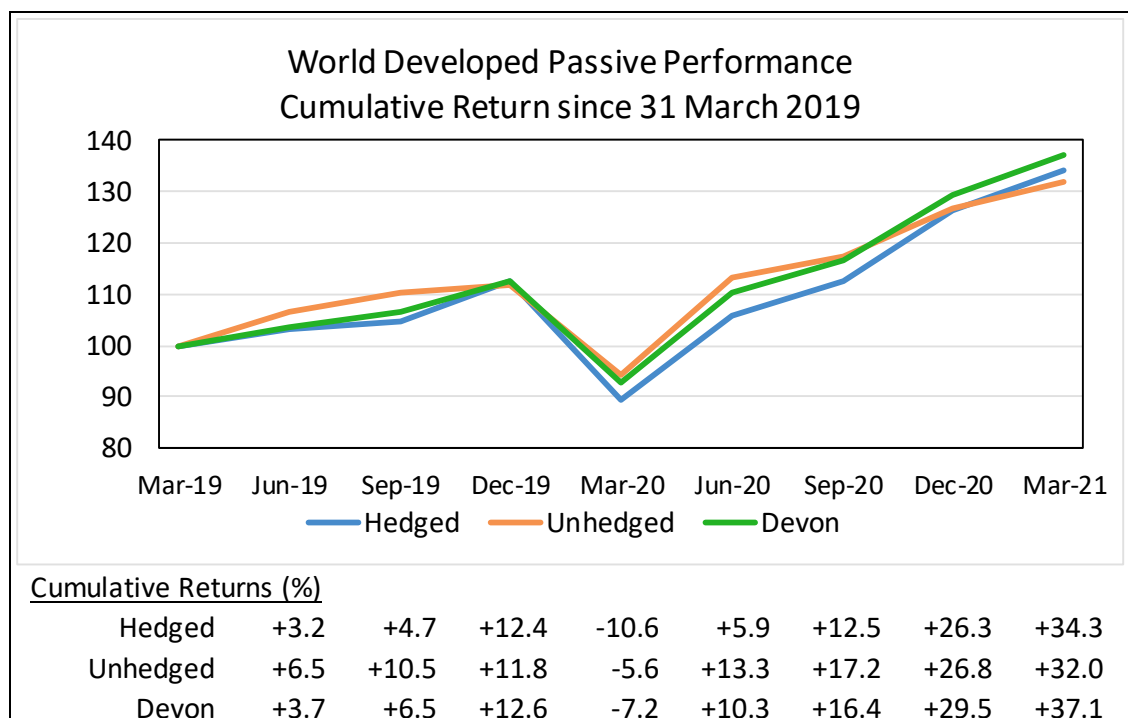
### Currency Hedging

- j) The following graph shows the value of Sterling against a weighted average of the other major currencies, from April 2019 onwards. This represents the period over which the current strategy of hedging the global developed passive allocation has been implemented automatically by Brunel’s selected passive manager, Legal and General Investment Management.

**Value of Sterling v. Weighted Average of US Dollar, Euro and Yen**



- k) The strategy agreed by the Committee is to increase or decrease the hedge ratio on the Fund's global passive equity funds based on the ranges as shown on the chart. The middle (base 100) position reflects a weighted average of £1 = \$1.40, £1 = €1.15 and £1 = ¥150. The hedge ratio was decreased from 75% to 50% in February as the value of Sterling increased against the major world currencies.
- l) The return achieved by the strategy compared with the returns of the fully hedged global developed passive fund and the unhedged fund over the period from 1 April 2019 to 31 March 2021 are shown by the following chart. The ability of the strategy to vary the hedge has enabled the Devon allocation to outperform both the unhedged and 100% hedged returns over the period shown.



### 3. FUNDING LEVEL

The triennial actuarial valuation, as at 31 March 2019, carried out by the Fund Actuary, Barnett Waddingham, determined that the Devon Pension Fund had a funding level of 91%.

The Fund Actuary has provided a quarterly update, using the approach of rolling forward the data from the 2019 valuation, and updating it for subsequent investment returns, pension and salary increases. While it is not possible to assess the accuracy of the estimated liability as at 31 March 2021 without completing a full valuation, the results will be indicative of the underlying position.

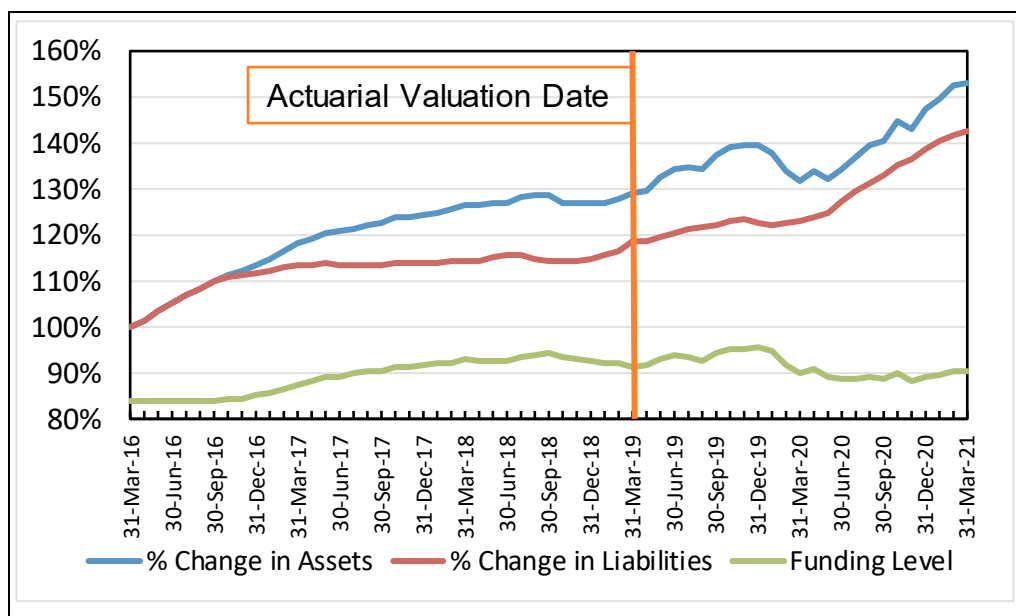
- a) The returns over the period since the 2019 Triennial Valuation are shown in the following table.

|                                          | Actuarial Assumption | Actual Return |
|------------------------------------------|----------------------|---------------|
| 2019/20                                  | 5.1%                 | -8.0%         |
| 2020/21 to date                          | 5.1%                 | 25.6%         |
| <b>Return since 31/3/19 (annualised)</b> | <b>5.1%</b>          | <b>7.5%</b>   |

- b) Following the bounce back of the markets from the March falls, the annualised return to date of +7.5% is now above the Actuary's assumption of a +5.1% return. This has a positive impact on the value of Fund assets and therefore on the funding level.
- c) The valuation of liabilities depends on the assumptions used by the Actuary, in particular those for pension and salary increases and the discount rate applied to liabilities. The assumptions used by the Actuary for the March 2021 funding update, compared with those used in the 2019 Triennial Valuation are shown in the following table.

| <b>Actuarial Assumptions</b> | <b>March 2019</b> | <b>March 2021</b> |
|------------------------------|-------------------|-------------------|
| Pension Increases (CPI)      | 2.65%             | 2.70%             |
| Salary Increases             | 3.65%             | 3.70%             |
| Discount Rate                | 5.10%             | 4.50%             |

- d) The assumption for pension and salary increases has been increased slightly, but the more significant change is the reduction in the discount rate used to value the Fund's liabilities. This change reflects reductions in the assumed yields on both equities and bonds going forward, and also the impact of RPI/CPI (Retail Prices Index / Consumer Prices Index) changes that will be introduced by 2030. The revised assumptions have the effect of increasing the Fund liabilities, which has a negative impact on the funding level.
- e) The Actuary's valuations and funding updates show the financial position on a smoothed basis for each month since the 2016 full valuation. Therefore, the chart below smooths to some extent the impact of the significant market falls resulting from the pandemic, and the following recovery.



- f) Using the smoothed basis, the Actuary has estimated a funding level of 90% as at 31 March 2021, compared with the 91% funding level at the 2019 Triennial Valuation. The funding level at the 2016 Valuation was 84%.
- g) One issue not factored into the analysis is the impact that Covid-19 may have on mortality rates, and therefore the impact of revised demographic assumptions on the liability value. This is an area that the Fund Actuary will be exploring further ahead of the next triennial valuation in 2022.

#### 4. BUDGET FORECAST 2020-21 AND 2021-22

Appendix 1 shows the income and expenditure for 2020-21 against the original budget forecast. The following points should be noted.

- a) Both employer and member contributions were higher than forecast. This results from a higher overall level of pensionable pay across fund employers. Transfers into the Fund have also been higher than the forecast for the year.
- b) Investment income from property, infrastructure and private debt is received in cash and can be used to aid cashflow. Income to date from these allocations is around £10 million lower than would normally be anticipated, largely as a result of the pandemic, which has reduced rental income from property and the income from some economically sensitive infrastructure assets.
- c) The income that is accounted for, but automatically reinvested as cash, is projected to be higher than originally forecast, largely because transition of the global bonds segregated mandate managed by Lazard to Brunel has been delayed. The pooled equity funds managed by Brunel do not yield income as the income from the underlying assets is retained and invested within the fund.
- d) Peninsula Pensions expenditure shows a £100,000 underspend against forecast.
- e) Expenditure on investment management fees was significantly higher than forecast. However, the main reason for this is the inclusion of the fees from the property funds managed by Brunel. In the past, when these assets were managed by La Salle and before them Aviva, the fees accounted for were those paid to La Salle/Aviva, rather than the fees charged by the underlying property funds. These fees, totalling £2.7 million, have always existed but have now been included in the statement of accounts. This has been offset to some extent by a lower level of performance fees payable for the 2020 calendar year. Performance fees are charged by several of the Infrastructure and Private Debt funds based on achieving a return above a hurdle rate. As a result of the impact of the pandemic, returns were lower, resulting in a lower level of performance fees.
- f) Governance and oversight costs were £60,000 below forecast. This comprises a number of small underspends, with no significant underspending on any individual line.
- g) The analysis also shows the forecast budget for 2021/22. The main changes in the 2021/22 forecast are:
  - Contributions and benefits allow for inflationary increases, plus an increase in the number of pensioner members receiving benefits.
  - A forecast reduction in the investment income received, as a result of the Lazard global bond mandate transitioning to the Brunel Sterling Corporate Bonds portfolio. This means that income won't be directly received but retained within the pooled fund.



- Forecast investment management fees reflect the higher current asset values. The invoiced fees will significantly reduce as the fixed interest assets transition to Brunel, as the current managers submit invoices, but the fees for the Brunel portfolios will be taken out of the funds.
- There are expected to be minimal changes to the cost of oversight and governance.

## 5. CASH MANAGEMENT

The following table shows that the unallocated cash on deposit, as at 31 March 2021, was £39.9m, plus \$0.4m in US Dollars. As at 31 May the cash on deposit was £56.4m, plus \$5.7m in US Dollars. The cash held is being maintained at a lower level than in the past, with a target level of only 1% of the Fund, and it is therefore necessary to ensure its liquidity for cashflow purposes. Interest rates available for cash have reduced further as a result of the coronavirus pandemic and are now barely above zero.

### Cash on Deposit

| Type of Deposit          | Maturity period | Actual as at 31/03/21 | Average Interest Rate | Current as at 31/05/21 | Average Interest Rate |
|--------------------------|-----------------|-----------------------|-----------------------|------------------------|-----------------------|
| <b>GBP Deposits</b>      |                 | <b>£m</b>             | <b>%</b>              | <b>£m</b>              | <b>%</b>              |
| Call and Notice Accounts | Immediate       | 39.9                  | 0.01                  | 46.4                   | 0.03                  |
|                          | 35 Day Notice   | 0.0                   |                       | 0.0                    |                       |
|                          |                 |                       |                       |                        |                       |
| Term Deposits            | <30 Days        | 0.0                   |                       | 0.0                    |                       |
|                          | >30 Days        | 0.0                   |                       | 10.0                   | 0.09                  |
|                          |                 |                       |                       |                        |                       |
| <b>TOTAL GBP</b>         |                 | <b>39.9</b>           | <b>0.01</b>           | <b>56.4</b>            | <b>0.04</b>           |
| <b>USD Deposits</b>      |                 | <b>\$m</b>            | <b>%</b>              | <b>\$m</b>             | <b>%</b>              |
| Call and Notice Accounts | Immediate       | 0.4                   | 0.00                  | 5.7                    | 0.00                  |

Points to note:

- The weighted average rate being earned on GBP cash deposits, as at 31 March 2020, was 0.01%. This included a large distribution of around £20 million received in late March being held by the Fund Custodian at a zero rate of interest. £10 million of this has subsequently been invested in a 3 month term deposit, and the remainder transferred to a call account with a low, but above zero rate of interest.
- Further income distributions, in both GBP and US Dollars have increased the cash balance as at 31 May.
- The Bank of England is expected to maintain the base rate at 0.1% for the foreseeable future, and the yield on immediately available cash from both banks and money market funds is therefore likely to remain at very low levels. The US Federal Reserve has similarly low rates and as a result the rate achievable on US Dollars investment has fallen to zero.
- The deposits in place during 2020-21 have fully complied with the Fund's Treasury Management and Investment Strategy.

## 6. ENGAGEMENT ACTIVITY

As a responsible investor, the Fund should report regularly on its engagement activity. Voting and engagement are largely delegated to the Fund's external investment managers. The voting records of the Fund's principal equity managers at company meetings held over the last quarter is summarised in the following table.

### Votes Cast at Company Meetings in the quarter to 31 March 2021

| Manager                          | Quarter to 31 March 2021 |                       |                                         |
|----------------------------------|--------------------------|-----------------------|-----------------------------------------|
|                                  | Number of Meetings       | Number of Resolutions | Votes against management recommendation |
| Brunel / LGIM Passive Portfolios | 611                      | 6,738                 | 1,009                                   |
| Brunel - Active Portfolios       | 124                      | 1,455                 | 130                                     |
| RWC European Focus Fund          | 3                        | 33                    | -                                       |

Points to note:

- a) Brunel actively vote the shares held within their funds on behalf of their client funds, including Devon. The Brunel passive allocation will include all the companies in the relevant indices, both UK and across the developed world, hence there are many more meetings voted at than for the active portfolios. For the passive equity allocation Legal and General Investment Management (LGIM) manage the investments and voting on the shares is delegated to them, hence they are shown separately. On significant issues, Brunel may request that their shares held by LGIM are split out and a different vote made. Brunel's engagement activities are also included in their quarterly report.
- b) The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), who undertake engagement activity on behalf of their member funds. Where significant issues arise on the agendas of company meetings, for example on remuneration policies or shareholder resolutions on climate change related issues, LAPFF will issue a voting alert to its members, including a recommendation on how to vote. However, no voting alerts were issued for the quarter to 31 March 2021.
- c) The LAPFF quarterly engagement report for the quarter to 31 March is attached at Appendix 2 to this report. The report again highlights LAPFF's engagement activity on the issue of climate change, including engagement with National Grid and Shell, and with Volkswagen and General Motors around the need to shift manufacture to electric vehicles. There are also details of LAPFF's engagement with BHP and Rio Tinto around the impact of their new joint venture, Resolution Copper, on the local communities affected by the operation.

Mary Davis  
County Treasurer

[Electoral Divisions: All]

**LOCAL GOVERNMENT ACT 1972:**  
**LIST OF BACKGROUND PAPERS: NIL**  
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## Appendix 1

### Devon County Council Pension Fund Budget Forecast 2020/21

|                                                        | Actual<br>2019/20<br>£'000 | Original<br>Forecast<br>2020/21<br>£'000 | Actual<br>2020/21<br>£'000 | Variance<br>from<br>Original<br>Forecast<br>£'000 | Forecast<br>2021/22<br>£'000 |
|--------------------------------------------------------|----------------------------|------------------------------------------|----------------------------|---------------------------------------------------|------------------------------|
| <b>Contributions</b>                                   |                            |                                          |                            |                                                   |                              |
| Employers                                              | (207,397)                  | (135,000)                                | (139,874)                  | (4,874)                                           | (142,000)                    |
| Members                                                | (40,758)                   | (40,000)                                 | (42,805)                   | (2,805)                                           | (45,000)                     |
| Transfers in from other pension funds:                 | (17,279)                   | (9,000)                                  | (12,970)                   | (3,970)                                           | (9,000)                      |
|                                                        | <b>(265,434)</b>           | <b>(184,000)</b>                         | <b>(195,649)</b>           | <b>(11,649)</b>                                   | <b>(196,000)</b>             |
| <b>Benefits</b>                                        |                            |                                          |                            |                                                   |                              |
| Pensions                                               | 157,626                    | 165,000                                  | 163,522                    | (1,478)                                           | 170,000                      |
| Commutation and lump sum retirement benefits           | 27,170                     | 28,000                                   | 24,617                     | (3,383)                                           | 27,000                       |
| Lump sum death benefits                                | 3,674                      | 4,000                                    | 4,300                      | 300                                               | 4,000                        |
| Payments to and on account of leavers                  | 497                        | 500                                      | 586                        | 86                                                | 500                          |
| GMP Refund from HMRC                                   | (519)                      | 0                                        | 0                          | 0                                                 | 0                            |
| Individual Transfers                                   | 12,778                     | 9,000                                    | 7,851                      | (1,149)                                           | 8,000                        |
|                                                        | <b>201,226</b>             | <b>206,500</b>                           | <b>200,876</b>             | <b>(5,624)</b>                                    | <b>209,500</b>               |
| <b>Net Withdrawals from dealings with fund members</b> | <b>(64,208)</b>            | <b>22,500</b>                            | <b>5,227</b>               | <b>(17,273)</b>                                   | <b>13,500</b>                |
| <b>Investment Income</b>                               |                            |                                          |                            |                                                   |                              |
| Received as Cash                                       | (36,532)                   | (35,000)                                 | (24,333)                   | 10,667                                            | (30,000)                     |
| Reinvested by Fund Manager                             | (22,820)                   | (5,000)                                  | (10,687)                   | (5,687)                                           | (1,000)                      |
|                                                        | <b>(59,352)</b>            | <b>(40,000)</b>                          | <b>(35,020)</b>            | <b>4,980</b>                                      | <b>(31,000)</b>              |
| <b>Administrative costs</b>                            |                            |                                          |                            |                                                   |                              |
| Peninsula Pensions                                     | 2,328                      | 2,400                                    | 2,304                      | (96)                                              | 2,400                        |
|                                                        | <b>2,328</b>               | <b>2,400</b>                             | <b>2,304</b>               | <b>(96)</b>                                       | <b>2,400</b>                 |
| <b>Investment management expenses</b>                  |                            |                                          |                            |                                                   |                              |
| External investment management fees - invoiced         | 7,485                      | 3,500                                    | 4,400                      | 900                                               | 1,800                        |
| External investment management fees - not invoiced     | 7,849                      | 11,500                                   | 12,836                     | 1,336                                             | 16,500                       |
| Custody fees                                           | 59                         | 60                                       | 82                         | 22                                                | 60                           |
| Transaction costs                                      | 1,153                      | 1,200                                    | 400                        | (800)                                             | 600                          |
| Stock lending income & commission recapture            | (36)                       | (10)                                     | (23)                       | (13)                                              | (5)                          |
| Class Action Proceeds                                  | (41)                       | 0                                        | 1                          | 1                                                 | 0                            |
| Other investment management expenses                   | 23                         | 25                                       | 20                         | (5)                                               | 25                           |
|                                                        | <b>16,492</b>              | <b>16,275</b>                            | <b>17,716</b>              | <b>1,441</b>                                      | <b>18,980</b>                |
| <b>Oversight and governance costs</b>                  |                            |                                          |                            |                                                   |                              |
| Investment & Pension Fund Committee Support            | 76                         | 90                                       | 82                         | (8)                                               | 92                           |
| Pension Board                                          | 36                         | 45                                       | 41                         | (4)                                               | 46                           |
| Investment Oversight and Accounting                    | 376                        | 380                                      | 360                        | (20)                                              | 380                          |
| Brunel Pension Partnership                             | 45                         | 45                                       | 28                         | (17)                                              | 30                           |
| Legal Support                                          | 20                         | 25                                       | 22                         | (3)                                               | 25                           |
| Actuarial Services                                     | 144                        | 50                                       | 60                         | 10                                                | 60                           |
| Investment Performance Measurement                     | 115                        | 100                                      | 91                         | (9)                                               | 100                          |
| Subscriptions                                          | 49                         | 50                                       | 41                         | (9)                                               | 45                           |
| Internal Audit fees                                    | 25                         | 25                                       | 20                         | (5)                                               | 22                           |
| External Audit fees                                    | 24                         | 25                                       | 26                         | 1                                                 | 25                           |
|                                                        | <b>910</b>                 | <b>835</b>                               | <b>771</b>                 | <b>(64)</b>                                       | <b>825</b>                   |
| <b>Total Management Expenses</b>                       | <b>19,730</b>              | <b>19,510</b>                            | <b>20,791</b>              | <b>1,281</b>                                      | <b>22,205</b>                |



**Quarterly  
Engagement  
Report**

January-March  
2021



**National Grid,  
BHP, HSBC,  
Centrica, HSBC,  
Compass Group,  
Heidelberg  
Cement**

# CLIMATE EMERGENCY



## National Grid Commits to Vote on Climate

**Objective:** LAPFF has promoted a ‘Say on Climate’ at the National Grid AGM as a crucial mechanism for investors to be able to approve (or otherwise) the company’s net zero transition plans, preferably on an annual basis.

**Achieved:** Following a series of meetings held with the chair, the board announced in March that an advisory vote would be provided for shareholders at the 2021 AGM to put the company’s climate change-related targets and action plan to the 2022 AGM for review and approval.

**In Progress:** Within the Climate Action 100+ (CA100+) investor initiative, National Grid has come to be identified as a ‘leader’ in many respects, not least due to its ambition to operate a zero-carbon electricity system in the UK by 2025 and for the entire company to be net zero by 2050. In engaging we have continued to push on the long-term objective for the company to set targets for its scope 3 emissions and for it to identify a 1.5 degree scenario for the business. For National Grid, the biggest challenge for scope 3 emissions comes from the US

“As a supporter of ‘Say on Climate’, LAPFF is pleased to have been part of securing a vote at this year’s AGM for the company’s climate change targets and action plan. We appreciate the serious consideration the board has given to the matter and very much welcome the company taking this opportunity to seek shareholder support’.

CItr Rob Chapman, LAPFF vice-chair

electricity and gas distribution businesses and from the carbon-intensity of heat in UK homes. In October 2020, the company announced scope 3 carbon emission reduction targets for the electricity and gas sold to customers of 20% reduction by 2030. This was welcome, and was a target aligned with the Science Based Targets Initiative’s two degrees pathway. CA100+ has issued its benchmarking analysis for National Grid, and engagement will pick up on those areas where further action can better align the company with a 1.5 degree pathway.

## Heidelberg Cement Commits to Review of Lobbying Activity

**Objective:** An ‘explicit and decisive’ response was sought from Heidelberg Cement to towards complying with investor expectations relating to corporate climate lobbying.

**Achieved:** A collaborative letter, under the auspices of the CA100+ initiative, set out a request for public disclosure of a comprehensive corporate lobbying review to assess the alignment of lobbying activities with the Paris Goals, and to set out what steps the Company intends to take in the event of areas identified in misalignment. After a call from lead investors, a response was forthcoming. The company noted it has pushed its associations to take a pro-active stance towards industry transformation in alignment with the Paris agreement and that these actions had already changed the stance of key organisations leading to the publication of carbon-neutrality roadmaps by them.

**In Progress:** The company has fully committed to a review to be published before the 2021 AGM.

# CLIMATE EMERGENCY



## HSBC Resolution Pulled after Shareholder Requests Met

**Objective:** A shareholder resolution was filed for the 2021 HSBC AGM asking for publication of a strategy, with short, medium and long-term targets, to reduce the company's exposure to fossil fuel assets on a timeline aligned with the goals of the Paris agreement.

**Achieved:** The LAPFF chair engaged with HSBC in July 2020 on the group's approach to climate change, with a particular focus on the insurance side of the business, raising concerns over the lack of clarity on climate and business strategy. Following the resolution filing, LAPFF participated in a meeting in February 2021 hosted by Investor Forum with the CEO & Chair to discuss the resolution. The company has acknowledged that 'expansion of coal-fired power is incompatible with the goals of the Paris agreement, and has committed to phasing out coal-fired power and thermal coal mining in the EU and OECD by 2030 and other regions by 2040. Further, in line with the resolution, HSBC has

committed to set, disclose and implement a strategy with short- and medium-term targets to align its financing across all sectors with the goals of the Paris climate agreement. It will use 1.5C pathways that are not overly reliant on negative emissions technologies.

**In Progress:** Commitments made by the company are set out in a special resolution tabled by the bank for its 2021 AGM. The bank has committed to publishing a new coal policy by the end of 2021.

## New LAPFF Monitoring Pledge on Samarco Dam Collapse

**Objective:** LAPFF has been engaging with Vale and BHP for around two years now in relation to both the Samarco and Brumadinho dam collapses. Samarco is a particular concern in relation to the time it is taking to make appropriate reparations. Over five years from the dam collapse in Mariana, Brazil, only five of the over 500 houses destroyed have been re-built, and none of them are occupied. Houses represent only one aspect of the reparations needed, including a

restoration of water quality in the Doce River, community cohesion, and mental health services for people suffering from the impacts of the dam collapse.

The reparations were meant to be undertaken by the Renova Foundation, a joint venture established through Vale and BHP in partnership with Brazilian officials. However, Renova has been unable to follow through to date. Part of the problem appears to be that the affected communities do not trust Renova to act on their behalf. In fact, there has now been a lawsuit filed by the Brazilian Public Prosecutor in Minas Gerais, where Mariana is located, calling for Renova to be disbanded. The suit alleges that Renova has served to limit the liability of BHP and Vale rather than pursue the interests of the communities in the reparations process.

Given these obstacles and delays, LAPFF's primary objective is to put pressure on BHP, Vale, and Renova to speed up the reparations process. A corollary of this objective has been to determine what the specific community asks of the companies and of Renova are.

**Achieved:** While BHP Chair, Ken MacKenzie, does not appear to be eager to engage, Cllr McMurdo had another useful meeting with Sandra Guerra, a non-executive director at Vale. He also met with Renova Foundation's CEO, Andre de Freitas. Neither Ms. Guerra nor Mr. de Freitas is happy with the slow pace of reparations, but they both pointed to obstacles they believe have prevented a faster process.

Cllr McMurdo also joined Adam Matthews and John Howchin in LAPFF's quarterly discussion with affected community members. The community members present urged the investors to do more and emphasised the slow pace of reparations. The meeting was quite frustrating in that LAPFF was unable to ascertain exactly what the community is asking of BHP, Vale, and Renova. However, subsequently it became clear that they would like to see Renova disbanded and replaced with an entity that better respects and incorporates community voice into reparations decision-making.

LAPFF does not doubt that there are significant obstacles to providing reparations. Nonetheless, over five years on, it is also clear that no excuses can be made. Cllr McMurdo was clear

## COMPANY ENGAGEMENT

in both meetings that notwithstanding the obstacles articulated, both Vale and Renova, along with BHP, must find a way to speed up the reparations process. LAPFF therefore expressed its intention to all three parties to post monthly on the LAPFF website the number of houses that have been re-built. It is hoped that

all houses will be re-built by 5 November, the next anniversary of the Samarco dam collapse. This first post on the LAPFF website will take place in early April.

**In Progress:** LAPFF will continue to engage with BHP, Vale, the Renova Foundation, and affected communities in the hopes of speeding up reparations. It

will check in monthly with Renova and the communities to ensure that it has the accurate number of houses to post on the LAPFF website. This process highlights the importance of ensuring that companies prevent these disasters rather than scrambling to make reparations, where these are even possible, after the fact.

## Resolution Copper Developments on Hold

**Objective:** LAPFF has been engaging with BHP and Rio Tinto on the joint venture, Resolution Copper, to ensure that the project is being undertaken responsibly. Concerns have been raised about the type of engagement the companies have had with communities affected by the project. In particular, the San Carlos Apache Tribe in Arizona has objected to the project, claiming that the proposed copper mine would destroy one of the tribe's sacred sites. Other groups have expressed concerns that Resolution Copper and Rio Tinto – the operating partner in Resolution Copper – have not taken adequate steps to protect natural resources, such as water, affecting surrounding communities. Therefore, meaningful community engagement and protection of natural resources, including water, are the two overarching objectives of this engagement.

**Achieved:** For Resolution Copper to move forward, the US Forest Service must issue an impact assessment that allows for a land swap from the federal government to Rio Tinto. In the final days of the Trump Administration, this impact assessment was issued, and it was assumed that the land swap would follow within 60 days, as prescribed by the law governing the exchange. LAPFF spoke with representatives of Resolution Copper and Rio Tinto, including a representative of the Hopi tribe which, along with the San Carlos Apache, is affected by the Resolution Copper project to obtain the companies' view of the project. LAPFF also reviewed the Forest Service impact assessment.

What emerged from this research was that there were huge gaps in the information provided by the Forest Service impact assessment. Neither the Resolution Copper nor Rio Tinto representatives have provided LAPFF with impact assessments of the mine itself,



despite repeated requests to both parties for this information. They only provided 36 cultural impact assessments pertaining to the land surrounding the mine. The Forest Service impact assessment also refused to assess the mine's impact on the grounds that it would soon be private land and therefore not within the purview of its analysis. This assessment was issued notwithstanding the fact that the lands are still public and there is some question about the legality of transferring them to a private actor. In LAPFF's view, the quality of this assessment was also extremely poor overall. Among other deficiencies, it failed to address water supply issues for the surrounding communities in any useful way.

The water concerns surfaced in a meeting between LAPFF Chair, Cllr Doug McMurdo, and Mayor of Superior, Arizona, Mila Besich. This meeting was very interesting because Mayor Besich is very keen for the Resolution Copper project to proceed. She believes it will bring



Top: Sunrise Dance on the San Carlos Indian Reservation Arizona

Above: Roy Chavez, a resident of Superior, Arizona, and former miner, shows a model detailing the subsidence that can occur from the block cave mining method at the Oak Flat Campground, which Chavez and others believe will be destroyed by eventual cave-in from the Resolution Copper mine.

Picture taken June 13, 2017

## COMPANY ENGAGEMENT

significant economic benefits to her town, which has suffered from job losses and economic woes since the 1980s. However, she spoke about her struggles in engaging with Resolution Copper and Rio Tinto. Specifically, she found the companies dismissive of her community's needs, including access to water. Moreover, she expressed the opinion that what the companies needed to do to fix the water access concerns would have cost the equivalent of a rounding error to them.

LAPFF was concerned after this engagement that there was not enough information to make a good assessment about the risks of the project. Additionally, in LAPFF's view, it made no sense to proceed with the land swap without understanding if the project was viable first. Therefore, LAPFF wrote to Deb Haaland, who was confirmed on 15 March as the new – and first ever Native American - US Secretary of the Interior. The letter expressed LAPFF's concern about the risks surrounding the Resolution Copper project and the need for the companies to engage in a positive way with communities affected by their project.

Just after the Biden Administration took office, LAPFF received notification from a community representative that the US Forest Service impact assessment had been rescinded and that consequently the land swap would be postponed. The US Forest Service will issue a new impact assessment, presumably to help address some of the shortcomings of the rescinded assessment. The time frame for the new Forest Service assessment and land swap is not clear at this point.

**In Progress:** LAPFF has made clear to both BHP and Rio Tinto that there cannot be another Juukan Gorge (the event in Western Australia where Rio Tinto blew up two culturally significant caves against the will of the affected Aboriginal community). LAPFF has also made clear that it makes no sense for the land swap to proceed unless there is clear evidence of Resolution Copper's viability. There are continuing discussions with both BHP and Rio Tinto on these issues. LAPFF continues to be open to discussion with a San Carlos Apache representative who has been invited to discuss the issue with Cllr McMurdo. It is also hoped that with Ms. Haaland's confirmation, she might meet with Cllr McMurdo to share her thoughts on the project.

### Compass Group Food Parcels Questioned

**Objective:** In January 2021, multiple media articles came to light about Chartwell (a subsidiary of Compass Group Plc) and its contract awarded by the government to supply £30 for free school meals. The articles and pictures of school meals in the press presented what a family had been supposedly been provided for ten days and were highly critical of the allocation. Cllr McMurdo immediately reached out to Compass Group to ascertain what had gone wrong in Chartwell's supply chain. He asked why there had been governance failings and what was being done to ensure this did not happen again.

**Achieved:** After a thorough conversation around where these failings had happened and why, Compass discussed how it was ensuring that this would not happen again with more thorough procedures in place in certain parts of theirs and Chartwell's business operations, to ensure that all food parcels were of adequate standard. Compass also publicly made a commitment that free breakfast was going to be included in the food parcels for every child eligible for free school meals from the 25<sup>th</sup> of January, as a gesture of goodwill.

**In Progress:** The Forum has since reached out to Compass Group to discuss the

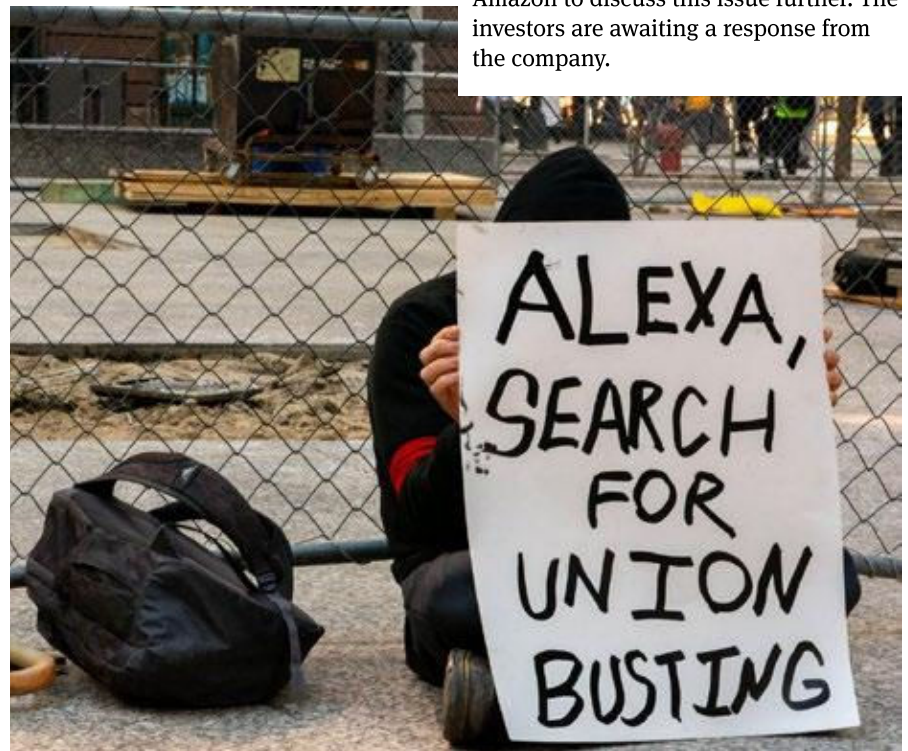
company's governance as a whole during the pandemic and met with the company's Investor Relations representatives on the 31<sup>st</sup> of March.

### Amazon Investor Letter Questions Company's Trade Union Practices

**Objective:** LAPFF signed onto a letter coordinated by Folksam and Ohman to ensure that Amazon is respecting workers' rights to free association and collective bargaining at the company's facility in Bessemer, Alabama in the US. The request includes reassurance that a free and fair union election will take place at the facility.

**Achieved:** There are now investors with just over US\$7.1 trillion in support of this initiative. To date, Amazon has responded in letter form that it has appropriate human rights and labour standards in place. The company stated that it respects trade union rights and has good relationships with its employees. However, the investors in this collaborative engagement have not been satisfied with the company's response. This is in part due to reports that Amazon has hired a consulting company to obstruct trade union activities.

**In Progress:** There has been a follow up letter sent requesting a meeting with Amazon to discuss this issue further. The investors are awaiting a response from the company.





## COMPANY ENGAGEMENT

### LAPFF Challenges Shell on Climate Transition Plan

**Objective:** LAPFF continues to engage with Shell. In addition to its own engagement, LAPFF is engaging via the CA100+ group of investors on Shell. The Forum is very keen to continue the collaboration with other investors, and make sure that investors collectively communicate a consistent and robust case to ensure all aspects of the company's financial outcomes and performance are understood fully.

**Achieved:** Last year, 2020, LAPFF recommended voting for a shareholder resolution at the Shell AGM that requested specific targets for Shell's claimed climate change ambitions. However, on 11 February 2021 Shell published goals that are ambiguous. For example, it claims to remove 120 million tonnes of carbon dioxide by introducing nature-based solutions (trees) by 2030. Achieving that target would require a mature forest the size of Washington State, which is difficult to envisage. In addition, Shell claims to want to remove 25 million tonnes of carbon dioxide by carbon capture and storage (CCS) by 2035. This has not been detailed or scheduled in any other material. The claim represents ten times the largest existing CCS project – [Gorgon Project](#) (Shell 25 percent, Chevron 75 percent) and this project in Australia continues to experience problems. Shell's announcement includes increasing liquid natural gas output by 20 percent by 2030 and only plans for a 17 percent reduction in oil extraction, compared to BPs 40 percent.

**In Progress:** Shell has proposed a non-binding shareholder resolution on its climate change plans. The LAPFF position will be guided by research and further engagement. At present, it is considered much more detail and evidence is required before any conclusions can be drawn about what vote is advisable.

### Israeli-Palestinian Letters

**Objective:** The Israeli-Palestinian Territories have long been fraught with controversy. In February 2020, the Office of the United Nations High Commissioner for Human Rights published a list of 112 business entities that it had identified as having business activities related to settlements in these territories. The

Forum has been monitoring the ongoing situation in the territories and reached out to 16 companies in which a number of member funds hold to seek an engagement meeting. The aim of these engagement letters was to ascertain whether these companies had undertaken human rights impact assessments on their operations and if not, ask them to do so.

**Achieved:** Out of the 16 companies, LAPFF had one engagement meeting in the third quarter of 2020 with Altice Europe N.V and received a number of responses from other companies. As a general blanket response from those whom responded in only written form, companies considered that they were acting in accordance with local law by not discriminating against any residents of the territories in which they were operating. These companies were concerned that simply operating in these areas was justification enough for them to be included on what many observers have dubbed a 'blacklist' from the UN.

**In Progress:** The Forum reached out to the UN OHCHR, seeking a meeting to engage on a couple of aspects of the UN list: (1) the methodology used when deciding what companies would be included on their list; and (2) what the UN considers companies have to do or provide for them to be removed from the list. This meeting took place at the end of March. The Forum has also been investigating models for a human rights impact assessments as a baseline to provide companies with in what the Forum might expect them to be undertaking.

### Suzano and CA100+

**Objective:** Suzano, the Brazilian-based pulp and paper company, has been identified by CA100+ as critical to the net-zero energy transition. As one of two lead investors, LAPFF has been engaging with the company over the last 18 months, pushing it to take action to reduce greenhouse gas emissions, improve disclosures, and implement a strong governance framework from which company decision making can be made accountable. In January, LAPFF met with the company to encourage a response to the CA100+ net zero company benchmark. The benchmark will enable comparative assessment of the world's key emitters and the extent to which

businesses have aligned with a 1.5 degree global temperature rise.

**Achieved:** Since LAPFF began engaging with Suzano 18 months ago the company has set a target to reduce emissions intensity of scope 1 & 2 emissions by 15% by 2030. The company has also set a goal of removing an additional 40 million tons of carbon from the atmosphere by 2030, this on top of the already established target of carbon neutrality. Suzano has a forest base of approximately 2.2 million hectares and therefore the degree to which carbon can be sequestered naturally is significant. The company recognises the contribution its natural asset base can make to global net-zero efforts which is reflected in its carbon-negative ambition. In terms of disclosure, the company submitted a response to the CA100+ global benchmark during January 2021. After the data has been collated, LAPFF will be able to identify areas of the Suzano's carbon reduction strategy in which it is excelling as well as those areas improvements are required.

**In Progress:** LAPFF will continue to focus on the company's carbon reduction strategy with a focus on setting more ambitious scope 1 & 2 emission reduction targets. It is important that Suzano's natural offsetting capability is not used as a distraction from reducing its operational emissions. There is a finite carbon budget available all of which will be required to support industry in sectors that are harder to abate.

### Tesco and Nutrition

**Objective:** During January 2021, LAPFF met with Tesco to discuss the company's long-term strategy relating to health and nutrition. Part of the objective of this engagement was to encourage the company to disclose metrics relating to the proportion of healthy versus unhealthy produce available to customers and to set relevant targets to improve the availability of healthy items. This engagement aligns with the Healthy Markets initiative being coordinated by ShareAction.

**Achieved:** Tesco outlined that it already collected data relating to health and nutrition. Since the engagement took place, ShareAction has announced the filing of a resolution at the upcoming Tesco AGM requesting that the company disclose the share of total food and

## COMPANY ENGAGEMENT

non-alcoholic drink annual sales by volume made up of healthier products and publish a target to significantly increase that share by 2030.

**In Progress:** LAPFF is monitoring the company response to the shareholder resolution and will issue guidance to members in due course.

### Volkswagen and General Motors on Electric Vehicles and Climate Change

**Objective:** Vehicle emissions are a major contributor to carbon emissions. As a result, carmakers are facing tightening regulatory environments. Rapidly changing emissions standards present financial risks to those carmakers not seeking to move to electric vehicle production. LAPFF has sought to engage with the auto industry to ascertain how car makers will be approaching the challenges of electrifying their fleets, to push for net zero commitments, and to ensure that plans would support a just transition to net zero.

**Achieved:** The Forum met with General Motors (GM) and Volkswagen (VW). Both companies outlined their commitments to investing in and scaling up electric vehicle production. VW stated that it was committed to achieving net zero by 2050 and highlighted the reputational damage to the company caused by the emissions scandal.

GM stated that it was aiming for an all-electric future, was aiming for carbon neutrality, and was working with the Science-Based Taskforce Initiative on this aim. Two weeks after the engagement GM formally announced its plans for carbon neutrality by 2040 in products and operations and its aspiration to eliminate tailpipe emission for light-duty vehicles by 2035. The meeting also covered the level of investment in carbon reduction methods relative to other carmakers in electric vehicles and when price parity between electric and internal combustion engine vehicles would be achieved.

At both meetings, the just transition to net zero was discussed. This discussion included assurances from both companies about how they were seeking to support their workforce and ensure high standards within their supply chain, including the human rights of miners in the Congo.

**In Progress:** LAPFF hopes that manufacturers that haven't already set



Lithium Ion Battery for Chevrolet Volt Electric Car

science-based targets for their scope 3 emissions will do so imminently and also expects investee companies to ensure that they are sufficiently capable of electrifying their fleets. The Forum intends to continue engagements with carmakers to ensure that they are meeting their targets and that short-term emission reductions are being achieved. This goal is especially important given the rise in the sales of larger vehicles which in some cases is offsetting gains from greater fuel efficiency and increased electric vehicle sales.

### AngloAmerican on Climate

**Objective:** LAPFF wrote to AngloAmerican in November 2020 as part of a collaborative initiative coordinated by Sarasin and Partners, underscoring the vital role of accounting and audit in driving the net-zero transition. An Investor Expectation document provided guidance for ensuring material climate risks associated with the transition to a 2050 net zero pathway are fully incorporated into the financial statements. The letter asked that the guide be shared with all members of the Audit Committee as well as the auditor, from whom independent assurance on Paris-alignment is also being sought.

**Achieved:** One of the best responses received to date to a total of 36 letters sent to European companies in the

energy, transportation and materials sectors was from the Audit Committee Chair who clearly understands what was asked for and addresses it directly. He stated that the company has undertaken a review of climate risks in its financial statements and will publish the results in the forthcoming Annual Report and Accounts. The committee chair referred to specific risk areas including valuation of assets (i.e. impairment testing) where the committee considers carbon pricing and the impacts for assets and to asset exposure to physical risks – specifically the Chile copper mines to water scarcity – all of which feeds into the viability statement analysis.

**In Progress:** The audit committee chair has asked that, due to clear parallels, issues raised in this engagement be aligned with CA100+ engagement. LAPFF is also a member of the CA100+ collaborative investor group for Anglo-American.

### LAPFF Socio-Economic Diversity Engagement Kicks Off

**Objective:** LAPFF seeks to enhance the diversity of both boards and the workforce at investee companies. Ensuring diversity across a range of characteristics within boards helps to tackle group think while improving diversity in the workplace helps ensure that all talent

## ENGAGEMENT

available to companies is utilised.

**Achieved:** HM Treasury and BEIS have commissioned an independent taskforce to improve socio-economic diversity at senior levels in financial and professional services across the UK. The taskforce is being run by City of London Corporation with support from Deloitte. LAPFF met with a representative from Deloitte to discuss the taskforce and highlight the role of investors. Alongside this meeting, the Forum also attended the latest meeting of 30% Club investor group.

**In Progress:** Over the next quarter the Forum will be meeting with companies from the financial services sector, which has a wide gender pay gap, to push for greater diversity. The Forum intends to stay in contact with the socio-economic diversity taskforce.

### COLLABORATIVE ENGAGEMENTS



#### Asset Manager Engagements

LAPFF Chair, Cllr Doug McMurdo, has met with a range of large global asset managers to discuss their approaches to responsible investment. Topics have covered climate change, human rights, and audit, among others. The goal of these engagements is to ensure that asset managers are engaging on behalf of LAPFF members in a way that facilitates LAPFF's responsible investment policies and objectives. There is some indication that asset managers are starting to take LAPFF's input on board and engage more meaningfully on areas like climate and human rights in the wake of these meetings, but it appears there is a long way to go.

#### CCLA and Rathbones Modern Slavery Engagements

LAPFF has signed up to CCLA's 'Find It, Fix It, Prevent It' engagement and has re-joined the Rathbones modern slavery engagement. Both initiatives pair LAPFF with other responsible investment partners to improve employment standards in companies' supply chains. Rathbones is re-running its vote against slavery engagement in 2021 with 69 FTSE350 companies after success in 2020 in getting target companies to comply with the UK Modern Slavery Act.

# WEBINAR

**Webinar on securities lending and responsible investment**

**Webinar with Colombian Community Representatives Affected by Cerrejon**

**The burning of wood by Drax. Is it net zero, sustainable, and replicable?**

**Addressing Rio Tinto's legacy on Bougainville: ongoing environmental and human rights impacts of the Panguna mine**

**“We continue to hear from community members affected by mining companies how little the companies engage with them, if at all. The companies then tell us they are engaging with communities and cherry pick people to extol the companies' virtues. This goes across the industry. Such a massive failure of communication is astounding to me. How do the companies begin to assess their social and environmental risks if they are so selective in their engagements that they don't speak to the people they are impacting the most?”**

Cllr Doug McMurdo, LAPFF Chair

#### IIGCC Shareholder Resolutions Sub-Group meeting

LAPFF has been participating nearly weekly in the IIGCC shareholder resolutions sub-group meeting regarding climate resolutions expected to arise over the course of 2021.

### IOPA ENGAGEMENT MEETINGS

LAPFF has participated in the monthly IOPA meetings around after signing on to a number of letters last year calling for better governance at big pharmaceutical companies around employee safety and bonus structures in light of the current pandemic. There have been multiple resolutions filed through IOPA, one of which recently saw investors revolt against a 'Say on Pay' vote at AmerisourceBergen with 48% of all investors voting against the pay which was made up of 72% non-insiders.

### CONSULTATION RESPONSES

#### LAPFF Just Transition Inquiry

LAPFF has now held two inquiry sessions on the just transition through the All Party Parliamentary Group on local government. In the first session, attendees heard from Rachel McEwen, SSE PLC & Scottish Just Transition Commission, Katrina Szwarc, Grantham Research Institute on Climate Change, Tom Harrington, GMPE, and Alison Tate, International Trade Union Confederation. Lord Deben (Chair, Committee on Climate Change) and Polly Billington (Chief Executive, UK100) spoke at the next evidence session in mid-March. This inquiry will span the whole of 2021 and interim findings are reported at quarterly LAPFF Business Meetings. A final report will be made at the end of the year. A video of the launch on 20th January is [available here](#).

#### EU Human Rights and Environmental Due Diligence Consultation

LAPFF submitted a response to the European Union's consultation on whether to implement a legal framework on human rights and environmental due diligence. This consultation prompted over 100,000 responses, according to Didier Reynerds of the EU. The EU's consultation comes after passage of and referenda on such laws in EU countries including France and Germany. Switzerland also narrowly rejected a

# ENGAGEMENT

human rights and environmental due diligence law, although the proposal received the majority of the popular vote.

LAPFF supported the proposal for an EU legal framework on human rights and environmental due diligence. This position is rooted in LAPFF’s engagement work which suggests that there are real financial benefits linked to good social and environmental conduct by investee companies. LAPFF’s consultation response pointed to LAPFF engagements on climate and human rights to demonstrate how these issues are financially material. On climate, LAPFF has seen the fear of stranded assets come into full focus during the Covid pandemic with companies like Shell failing to offer cogent and convincing climate transition plans. On human rights, LAPFF’s work with community members affected by mining projects has highlighted the importance of companies’ social licenses to operate as a means of producing sustainable financial returns for investors.

It remains to be seen whether the EU decides to enact such legislation. All indications are that it will. However, there was a lot of debate about what the law might look like, including the role of director duties in this legislation, so we will have to see what form the draft law ultimately takes.

## MEDIA COVERAGE

<https://www.ipe.com/news/lapff-backed-parliamentary-group-launches-just-transition-inquiry/10050135.article>

<https://www.reuters.com/article/resolution-copper-lapff/uk-local-government-pension-group-raises-concerns-over-rio-bhp-arizona-mine-idUSL1N2JJ1XN>

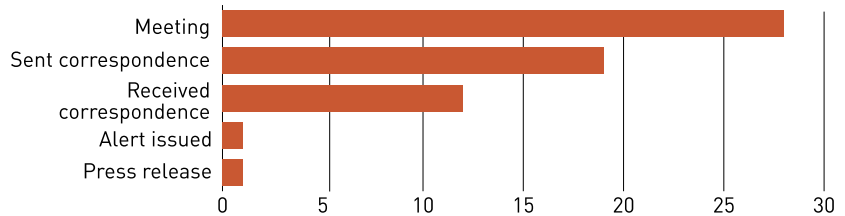
<https://www.ft.com/content/30d2fc62-aa44-11e9-984c-fac8325aaa04>

<https://www.newsroom.co.nz/2019/08/20/762606/nz-super-fund-corrals-15tn-for-livestreaming-action>

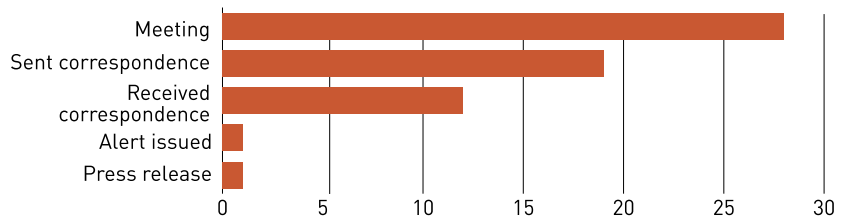
<https://www.itv.com/news/2021-03-25/will-deliveroo-stumble-on-its-stock-market-debut>

# ENGAGEMENT DATA

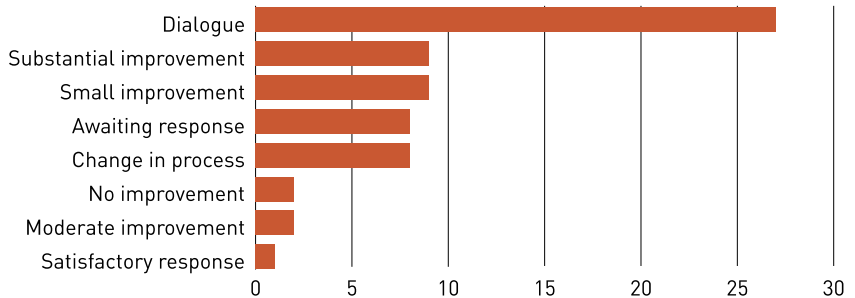
## ENGAGEMENT TOPICS



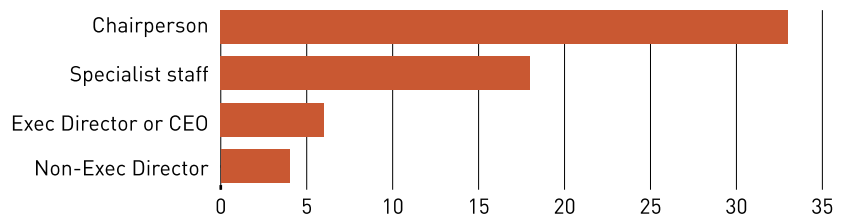
## ACTIVITY



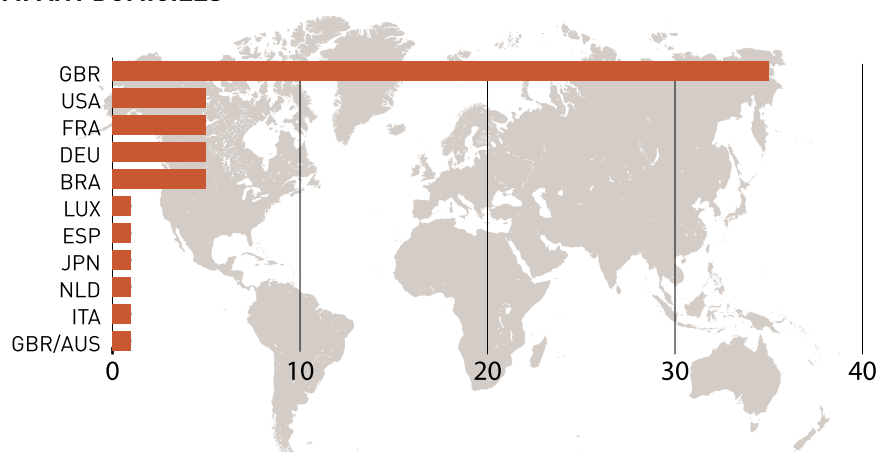
## MEETING ENGAGEMENT OUTCOMES



## POSITION ENGAGED



## COMPANY DOMICILES



# COMPANY PROGRESS REPORT

38 Companies engaged over the quarter

\*The table below is a consolidated representation of engagements so reflects the number of companies engaged, not the number of engagements

| Company/Index                   | Activity                | Topic                | Outcome                 |
|---------------------------------|-------------------------|----------------------|-------------------------|
| AIR LIQUIDE SA                  | Sent Correspondence     | Climate Change       | Dialogue                |
| AMAZON.COM INC.                 | Sent Correspondence     | Employment Standards | Dialogue                |
| ANGLO AMERICAN PLC              | Received Correspondence | Climate Change       | Substantial Improvement |
| ARCELORMITTAL SA                | Meeting                 | Climate Change       | Dialogue                |
| AVIVA PLC                       | Sent Correspondence     | Board Composition    | Awaiting Response       |
| BARCLAYS PLC                    | Meeting                 | Climate Change       | Small Improvement       |
| BHP GROUP PLC                   | Sent Correspondence     | Human Rights         | Dialogue                |
| BLACKROCK INC                   | Meeting                 | Climate Change       | Satisfactory Response   |
| CAPITA PLC                      | Meeting                 | Employment Standards | Dialogue                |
| CENTRICA PLC                    | Meeting                 | Climate Change       | Change in Process       |
| CITIGROUP INC.                  | Meeting                 | Climate Change       | Small Improvement       |
| COMPAGNIE DE SAINT GOBAIN       | Received Correspondence | Climate Change       | Change in Process       |
| COMPASS GROUP PLC               | Meeting                 | Governance (General) | Small Improvement       |
| DAIMLER AG                      | Received Correspondence | Climate Change       | Dialogue                |
| DIXONS CARPHONE PLC             | Meeting                 | Environmental Risk   | Dialogue                |
| E.ON SE                         | Meeting                 | Climate Change       | Small Improvement       |
| ENDESA SA                       | Received Correspondence | Climate Change       | Substantial Improvement |
| ENEL SPA                        | Received Correspondence | Climate Change       | Substantial Improvement |
| ENGIE SA.                       | Sent Correspondence     | Climate Change       | Dialogue                |
| GENERAL MOTORS COMPANY          | Meeting                 | Climate Change       | Small Improvement       |
| HEIDELBERGCEMENT AG             | Received Correspondence | Climate Change       | Substantial Improvement |
| HSBC HOLDINGS PLC               | Meeting                 | Climate Change       | Moderate Improvement    |
| LLOYDS BANKING GROUP PLC        | Sent Correspondence     | Board Composition    | Awaiting Response       |
| LONDONMETRIC PROPERTY PLC       | Received Correspondence | Governance (General) | Substantial Improvement |
| LYONDELLBASELL INDUSTRIES N.V.  | Sent Correspondence     | Climate Change       | Change in Process       |
| RIO TINTO PLC                   | Meeting                 | Climate Change       | Substantial Improvement |
| ROYAL DUTCH SHELL PLC           | Meeting                 | Climate Change       | No Improvement          |
| SAINSBURY (J) PLC               | Received Correspondence | Environmental Risk   | Dialogue                |
| SERCO GROUP PLC                 | Sent Correspondence     | Employment Standards | Awaiting Response       |
| ST JAMES'S PLACE PLC            | Sent Correspondence     | Audit Practices      | Awaiting Response       |
| STANDARD LIFE ABERDEEN PLC      | Received Correspondence | Board Composition    | Dialogue                |
| SUMITOMO MITSUI FINANCIAL GROUP | Meeting                 | Board Composition    | Change in Process       |
| SUZANO SA                       | Meeting                 | Climate Change       | Small Improvement       |
| TELEPERFORMANCE SE              | Sent Correspondence     | Employment Standards | Awaiting Response       |
| TESCO PLC                       | Meeting                 | Other                | Dialogue                |
| TOTAL SE                        | Sent Correspondence     | Climate Change       | Moderate Improvement    |
| VALE SA                         | Meeting                 | Governance (General) | Dialogue                |
| VOLKSWAGEN AG                   | Meeting                 | Climate Change       | Change in Process       |

# LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

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