



**CYNGOR BWRDEISTREF SIROL  
RHONDDA CYNON TAF  
COUNTY BOROUGH COUNCIL**

**GWŶS I GYFARFOD O'R CYNGOR**

C.Hanagan  
Cyfarwyddwr Gwasanaeth y Gwasanaethau Democrataidd a Chyfathrebu  
Cyngor Bwrdeistref Sirol Rhondda Cynon Taf  
Y Pafiliynau  
Parc Hen Lofa'r Cambrian  
Cwm Clydach CF40 2XX

Dolen gyswllt: Marc Jones - Swyddog Gwasanaethau Democrataidd (07385 401845)

**DYMA WŶS I CHI** i gyfarfod o **PWYLLGOR CRONFA BENSIYNAU** yn cael ei gynnal yn **Rhithwir** on **DYDD GWENER, 28AIN HYDREF, 2022** am **10.00 AM**.

**AGENDA**

**Tudalennau**

**1. DATGAN BUDDIANT**

Derbyn datganiadau o fuddiannau personol gan Aelodau, yn unol â'r Cod Ymddygiad

Nodwch:

1. Mae gofyn i Aelodau ddatgan rhif a phwnc yr agendwm mae eu buddiant yn ymwneud ag ef a mynegi natur y buddiant personol hwnnw; a
2. Lle bo Aelodau'n ymneilltuo o'r cyfarfod o ganlyniad i ddatgelu buddiant sy'n rhagfarnu, rhaid iddyn nhw roi gwybod i'r Cadeirydd pan fyddan nhw'n gadael.

**2. COFNODION**

Derbyn y cofnodion o gyfarfod blaenorol Pwyllgor y Gronfa Bensiwn a gynhaliwyd ar 12 Gorffennaf.

**3. DYSGU A DATBLYGU**

- Cyflwyniad i Fuddsoddiadau'r Gronfa Bensiwn

**4. ADRODDIAD AR SWYDDOGAETHAU DIRPRWYEDIG**

**9 - 32**

**5. COFRESTR RISGIAU'R GRONFA BENSIWN - TROSOLWG O'R GOFRESTR RISGIAU**

**33 - 44**

**6. PARTNERIAETH PENSIYNAU CYMRU - DIWEDDARIAD**

**45 - 46**

**7. MATERION BRYD**

Trafod unrhyw faterion bryd y mae'r Cadeirydd yn eu gweld yn briodol.

**Cyfarwyddwr Gwasanaeth y Gwasanaethau Democrataidd a Chyfathrebu**

**Cylchreliad:-**

Cadeirydd ac Is-gadeirydd:

(Y Cynghorydd M Norris a Y Cynghorydd M Ashford)

Y Cynghorwyr Bwrdeistref Sirol: Y Cynghorydd D Wood and Y Cynghorydd G Jones



## **RHONDDA CYNON TAF COUNCIL PENSION FUND COMMITTEE**

Minutes of the virtual meeting of the Pension Fund Committee held on Tuesday, 12 July 2022 at 2.00 pm.

### **County Borough Councillors - Pension Fund Committee Members in attendance:-**

Councillor M Norris (Chair)

Councillor M Ashford    Councillor M Rees-Jones  
Councillor D Wood

### **Officers in attendance:-**

Mr B Davies, Director of Finance & Digital Services  
Mr I Traylor, Service Director – Pensions, Procurement & Transactional Services  
Mr P Griffiths, Service Director – Finance & Improvement Services  
Ms C Black – Pensions Service Manager  
Mr M Jones – Democratic Services Officer

#### **1        DECLARATION OF INTEREST**

In accordance with the Council's Code of Conduct, there were no declarations made pertaining to the agenda.

#### **2        MINUTES**

It was **RESOLVED** to approve the minutes of the 8<sup>th</sup> March 2022 as an accurate reflection of the meeting.

#### **3        MATTERS ARISING**

The Director of Finance & Digital Services updated Members on the statement made by the Leader of Rhondda Cynon Taf Council at the full Council meeting on 6<sup>th</sup> July 2022 in respect of the Pension Fund and relayed the statement to the Pension Fund Committee – *'The RCT Pension Fund has always invested its assets in a responsible way and engages with companies as part of ensuring an orderly carbon transition. This has already resulted in ongoing reductions in the Council's fossil fuel holdings and the establishment of disinvestment principles. I would now like to announce that as part of our climate change goals I have asked officers to work with the Pension Committee to review options for setting a target for disinvesting our remaining Pension Fund investments away from fossil fuel extraction. Personally I would like to see this by 2030 but recognise that there are responsibilities which we have to the Pension*

*Fund and that we do co-invest with the other Funds across Wales.'*

The Director of Finance and Digital Services then invited feedback from Pension Fund Committee Members. Committee Members fed back that they welcomed the statement and confirmed their support for the way forward.

The Director of Finance and Digital Services went on to indicate that based on the Committee's feedback, an initial briefing and workshop will be arranged for Committee Members to ensure any decisions subsequently made at Committee are wholly and fully informed.

The Committee **RESOLVED** to take forward a review of options for setting a target for disinvesting the remaining Pension Fund investments away from fossil fuel extraction.

#### **4 WORK PROGRAMME**

The Director of Finance & Digital Services presented the report to Members which provided details of the Committee's Terms of Reference and proposed work programme for the 2022/23 Municipal Year. Members were informed of the items scheduled for the year and were reminded that the Work Programme remains flexible to adapt to changing priorities and business requirements, which will be by the agreement of the Chair.

In response to a question in respect of the Committee receiving regular training to enable Members to make effective decisions and be fully aware of their statutory and fiduciary responsibilities and their stewardship role, the Service Director, Pensions, Procurement & Transactional Services fed back that all training requirements are kept under on-going review and a comprehensive and continuous training programme is in place to ensure the Committee effectively fulfils its Terms of Reference.

Following discussion, Members **RESOLVED** to agree the work programme for the 2022/23 Municipal Year.

#### **5 LEARNING AND DEVELOPMENT**

Members received a presentation from the Pensions Service Manager in respect of the Local Government Pension Scheme.

Within the presentation, Members were provided with:

- Key features of the Local Government Pension Scheme including - Employers Contributions; Death Benefits; Annual Benefit Statements; Protections;
- McCloud/Sargeant Judgement Project with an update on the Employer data returned so far and information still required;
- Update on 'What next?' that covered on-going liaising with Employers, Regulations expected October 2023, Review tools provided by Software Provider; and Regular compliance updates to

## Pension Panel and Board.

In response to a question raised regarding what are the main issues for Employers to provide service data in respect of the McCloud/Sargeant judgement, the Service Director Pensions, Procurement & Transactional Services informed Members that this is due to a number of issues which include Employer capacity, changes in Employer Payroll systems and staff turnover resulting in loss of experience and knowledge of previous arrangements / systems in place. The Service Director added that additional guidance is anticipated nationally to be provide more consistency in data collection and application of the remedy.

**RESOLVED: to note the content of the presentation.**

## 6 DELEGATED FUNCTIONS REPORT

The Director of Finance & Digital Services presented the report in respect of the key issues being addressed as delegated functions and as specified in the Pension Fund Governance Policy Statement.

The Director referred members to the performance of the fund detailed at table 4.3 of the report explaining that during the quarter ending 31<sup>st</sup> March 2022, the overall value of the Fund decreased from £4,819 million to £4,510 million.

The Director provided an overview of Fund performance informing Members that the rolling 3-year performance is 9.4% positive as compared to benchmark of 8.3%. For the last quarter (i.e. quarter 1 to 31<sup>st</sup> March 2022), Global Opportunities high alpha equity portfolio, UK Credit, CBRE property, BlackRock Passive Equity and BlackRock Passive UK Gilt all outperformed their benchmarks; Baillie Gifford traditional equity portfolio and the Global Growth high alpha equity portfolio underperformed their benchmarks; and Baillie Gifford traditional equity portfolio (global core) outperformed their rolling 3-year benchmark achieving a return of 11.4% against a benchmark of 9.1%. The Director added that compared to national performance of local authority Pension Funds across the UK, the Rhondda Cynon Taf Pension Fund was in the top quartile of best returning Funds on a rolling 5, 10 and 20 year basis.

The Director also referred Members to the review of Fund Managers' performance reported to the March 2022 Panel meeting, the asset allocation of the Fund as at 31<sup>st</sup> March 2022, progress to date to invest over a number of years in infrastructure and confirmed that the compilation of the Pension Fund draft Statement of Accounts for 2021/22 is nearing completion and the external audit process will then follow.

The Service Director Pensions, Procurement and Transactional Services continued through the report starting at paragraph 5.1 and indicated that the Pensions Regulator (TPR) has published new guidance for trustees on ensuring compliance with the requirements for Pensions Dashboards and a press release issued by the TPR on 22<sup>nd</sup> June 2022 emphasised that schemes should be taking action now and that TPR will "take a dim view of trustees who carelessly fail to prioritise their dashboard responsibilities". At paragraph 5.2 the Service Director informed Members that, as noted in the March 2022 Committee, the Normal Minimum Pension Age (NMPA) will increase

to 57 from 6<sup>th</sup> April 2028.

The Service Director went on to inform Members of the statutory guidance issued on special severance payments by the Department of Levelling Up, Housing and Communities to Best Value authorities in England and noted that the guidance or expectation does not currently apply to Wales. The Service Director added that the planning for the 2022 Valuation exercise is continuing with Terms of Reference and a timetable agreed, with key assumptions and the valuation data quality exercise progressing as planned.

The Service Director also referred Members to the work in conjunction with the Fund's Communication Forum; McCloud Working Group; a Life Certification exercise; the issuing of the annual newsletter to the Fund's Pensioners that amongst other things confirms an annual pension increase of 3.1% effective from April 2022; Member Self-serve; performance of the Additional Voluntary Contribution partner; and the position where the number of 'Internal Dispute Resolution Procedure' appeals in progress continues to be extremely low with no obvious trends or concerns to report.

In response to a question, the Service Director Pensions, Procurement & Transactional Services stated that a graduate and a number of apprentices have been appointed to support medium term workforce plans and the McCloud Project, with further work underway to support the on-going development and retention of staff. The Service Director added that officers are working, 2 days per week in the office and 3 days at home, this enabling teams to meet face-to-face and share learning.

The Service Director Pensions, Procurement & Transactional Services went on to cover Section 6 of the report, Pension Board, and outlined that the Pension Board last met virtually on 30<sup>th</sup> May 2022, and there were no specific items noted for referral back to Committee. The Service Director added that at the May 2022 meeting the Pension Board proposed updates to the Pension Fund Risk Register and these have been incorporated into the Risk Register agenda item for the Committee's consideration at this meeting.

Following discussion, Members **RESOLVED** to note the issues being addressed in the Delegated Functions report.

## **7 PENSION FUND RISK REGISTER - RISK REGISTER OVERVIEW**

The Service Director, Finance & Improvement Services informed Members of the arrangements in place to manage risk within the Pension Fund.

The Service Director advised Members that the Fund maintains a Risk Register which is reviewed and updated on a quarterly basis and referred Members to the Risk Register attached at Appendix 1 for their consideration. Members were informed of the updates to control measures reflected within the Risk Register for the following Risk Categories / Risks: Governance (and the risk 'Introduction of pooling arrangements by central government') and Operational (and the risks 'Loss of key staff / expertise' and 'Delivery of the 2022 Triennial Valuation').

Members fed back that they felt reassured based on the comprehensive control

measures in place to manage risks and the regular monitoring arrangements by the Fund's governance groups.

**RESOLVED: Members noted the contents of the report.**

## **8 WALES PENSION PARTNERSHIP - UPDATE (INCLUDING WPP BUSINESS PLAN 2022 - 2025)**

The Director of Finance & Digital Services presented the report to Members which detailed the work and progress of the Wales Pension Partnership and Joint Governance Committee (JGC). The Director informed Members that the last meeting of the JGC was held on the 8<sup>th</sup> July 2022 where the Host update included the following:

Work continuing to develop in a number of key areas, including:

- Completing the 2021/22 year end closure of the accounts
- New policies and policy reviews
- Private Markets Allocator procurement process
- Officer Working Group sub-groups:
  - Private Markets sub-group.
  - Responsible Investment sub-group.
  - Risk Register sub-group.

Next Steps / Priorities:

- Development of the Private Markets Sub-Funds.
  - March 2022 to December 2022 – Private debt and Infrastructure sub funds to be developed, approved and launched.
  - 21<sup>st</sup> September 2022 – JGC to approve Private Equity Allocator appointment.
- Operator contract procurement process.
  - The existing contract comes to an end in December 2024.
  - Start discussions with Burges Salmon re the legal requirements.
  - Put a timeline in place.
- Formulate the 2021/22 Annual Update and Annual Return.
- Launch of the Active Sustainable Equity Fund.

Other Key areas:

- Virtual training sessions continue.
- The website continues to be updated with approved policies, press releases and details of sub-fund launches.

The Director of Finance & Digital Services also referred Members to the WPP Business Plan 2022 – 2025 and sought the Committee's approval of the document.

**RESOLVED: To note the update and Members considered and approved the WPP Business Plan 2022-2025.**

**This meeting closed at 3.35 pm**

**CLLR M. NORRIS  
CHAIR.**





## RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

### MUNICIPAL YEAR 2022-23

**PENSION FUND COMMITTEE**  
**28<sup>th</sup> OCTOBER 2022**

**REPORT OF: THE DIRECTOR OF FINANCE  
AND DIGITAL SERVICES**

<b>AGENDA ITEM NO. 4</b>
<b>DELEGATED FUNCTIONS – UPDATE REPORT</b>

**Author – Barrie Davies, Director of Finance and Digital Services (01443) 424026**

#### **1.0 PURPOSE OF REPORT**

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

#### **2.0 RECOMMENDATIONS**

- 2.1 It is recommended that the Committee:
- 2.1.1 Note the issues being addressed; and
- 2.1.2 Consider whether they wish to receive further detail on any issues.

#### **3.0 BACKGROUND**

- 3.1 The Director of Finance and Digital Services (in their capacity as S151 officer) supported by an Investment and Administration Advisory Panel with appropriate officer, independent advisor and professional support, has delegated responsibility for all day-to-day operational matters.
- 3.2 The Panel advises on all aspects of the Pension Fund. It produces the annual report to Committee and is subject to Audit scrutiny. Areas upon which it gives advice are: -
- Selection, appointment and dismissal of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator and independent professional advisers.

- Making decisions relating to employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.
  - Agreeing the terms and payment of bulk transfers into and out of the Fund.
  - Agreeing Fund business plans and monitoring progress against them.
  - Maintain the Fund's Knowledge and Skills Policy for all Pension Fund Committee Members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.
  - Formulating responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.
  - Ensuring the Fund is managed and pension payments are made in compliance with the extant Local Government Pension Scheme Legislation, Her Majesty's Revenue & Customs requirements for UK registered pension schemes and all other relevant statutory provisions.
  - Ensuring robust risk management arrangements are in place.
  - Ensuring the Council operates with due regard and in the spirit of all relevant statutory and non-statutory best practice guidance in relation to its management of the Fund.
  - Monitor investment performance.
  - Work with the Fund Actuary to determine the level of employer contributions required from each employer within the Fund and ensure such contributions are received.
- 3.3 The Investment and Administration Advisory Panel meets on a quarterly basis, the most recent meeting taking place on the 28<sup>th</sup> September 2022.

#### **4.0 INVESTMENT PERFORMANCE**

- 4.1 There is a quarterly reporting cycle for pension fund investment performance, with exception reporting agreed with fund managers where there are particular concerns. The most recent Panel Meeting considered investment performance to the end of June 2022.
- 4.2 During the quarter ended 30<sup>th</sup> June 2022, the overall value of the Fund decreased from £4,510 million to £4,108 million.

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

### Total Portfolio

	2019		2020				2021				2022		3yr
Quarter	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
Fund	1.9	2.6	-11.4	16.6	3.5	9.5	1.6	5.4	0.3	1.6	-6.5	-8.9	<b>4.3</b>
B'mark	3.1	0.7	-10.6	12.5	1.6	6.5	1.1	5.1	0.7	4.2	-3.2	-6.8	<b>4.4</b>
Relative	-1.2	1.9	-0.8	4.1	1.9	3.0	0.5	0.3	-0.4	-2.6	-3.3	-2.1	<b>-0.1</b>

- 4.4 As shown, the rolling 3-year performance of the Fund is 4.3% positive as compared to benchmark of 4.4%. For the last quarter (i.e. quarter 2), Global Growth high alpha equity portfolio and Global Opportunities high alpha equity outperformed their benchmarks; Baillie Gifford traditional equity portfolio, UK Credit, CBRE Property and BlackRock passive equity underperformed their benchmarks; and BlackRock passive UK gilts performed in line with their benchmark.
- 4.5 The June 2022 Panel included a review of fund managers' performance. Presentations were received from Baillie Gifford, the traditional equity manager, Pzena, one of the Global Growth managers. An update was provided from Mercer Performance Services who are employed by the Fund to measure the performance of the Fund as a whole and the performance of the fund managers against agreed benchmarks.
- 4.6 The asset allocation of the Fund by fund manager and mandate as at 30<sup>th</sup> June 2022 (which includes cash) is shown in the table below.

Baillie Gifford Traditional	Global Equities	18%
Link – Global Opportunities Fund	Global High Alpha Equities	9%
Link – Global Growth Fund	Global High Alpha Equities	34%
Link – UK Credit Fund	UK Credit	13%
BlackRock	Passive Global Equities	5%
Blackrock	Passive UK Gilts	12%
CBRE	UK Property	8%
Internal	Cash	1%

- 4.7 As Members will be aware the March 2021 meeting of the Committee agreed to the revised asset allocation strategy for the Fund and the steps to be taken to move towards the preferred strategy together with the current allocation as show in the table below.

Asset Class	Current Allocation	Step 1	Step 2	Step 3
Total Equities	66%	64%	59%	54%
Infrastructure	0	0	5%	10%
Property	8%	7%	7%	7%
Government Bonds (UK)	12%	12%	12%	12%
Corporate Bonds (UK)	13%	15%	15%	15%
Cash	1%	2%	2%	2%
Absolute Return (10 years pa)		5.3%	5.5%	5.6%
Volatility (10 years pa)		13.3%	12.7%	12.3%

- 4.8 With regard to infrastructure, the approach is for the Fund to invest over a number of years in order to secure and optimise opportunities across the different time periods (and vintage years).
- 4.9 Baillie Gifford's global core mandate has been reduced by £180 million which has been transitioned to UK government bonds, with a further £45 million reduction transferred to UK corporate bonds.
- 4.10 The Pension Fund is progressing the investment into Blackrock GIS 4 Infrastructure Fund. Capital contributions to date total £18.609 million.
- 4.11 The compilation of the Pension Fund draft Statement of Accounts for 2021/22 has been completed and the external audit process is progressing.

## **5.0 ADMINISTRATION UPDATE**

- 5.1 Annual Benefit Statements were published on the 22<sup>nd</sup> August, prior to the statutory deadline date of 31<sup>st</sup> August (for active and deferred scheme members), and work is underway to compile the Annual Pension Fund Report 2021/22.
- 5.2 Further to the publication of the Government 2020 consultation response, it is anticipated that the Scheme Advisory Board will resume their McCloud implementation groups (including representatives of different LGPS stakeholders). Alongside the response, an updated version of the draft regulations implementing the McCloud remedy will be published reflecting the new powers the statutory underpin, as well as technical feedback and any changes in policy. To ensure the updated draft regulations are accurate in light of the changes made, they will be subject to a further period of consultation early in 2023, and regulations will be made later in 2023 and will come into force on 1<sup>st</sup> October 2023.

- 5.3 The Scheme Advisory Board no longer require scheme 'death statistics', however the Fund will continue to collate up to the Valuation date. The Fund's statistics are shown in the table below:

Comparison of Number of Fund Deaths

Month	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
January	94	83	61	-
February	37	98	52	-
March	82	64	60	-
April	50	50	129	39
May	55	41	66	51
June	49	35	66	46
July	52	41	65	43
August	57	39	38	46
September		56	54	55
October		48	59	84
November		62	66	61
December		56	55	43

- 5.4 The 2022 valuation exercise is progressing in accordance with the agreed timetable. Officers have met with the Fund Actuary on a number of occasions to discuss and agree appropriate key assumptions for the diverse range of Employers that participate in the RCT Pension Fund. Employer results will be provided to the Fund Employers at the earliest opportunity to support their budgetary arrangements.
- 5.5 With regard to communication with Fund members, letters have been issued to members signposting that Annual Benefit Statements have been published on the Member Self-Serve (MSS) web-site and promoting digital take-up. In parallel, a new targeted survey of membership experience is underway asking recent retirees about their Service experience; based on feedback received for August 2022, the average score for service was 4.3 out of 5. This information will inform on-going work in this area taking into account comments and suggestions fed back by Fund members.
- 5.6 The McCloud Working Group is making good progress on data collection through on-going engagement and data validation with employers.
- 5.7 A Life Certification exercise is progressing to provide assurance on the details / status of Members that live abroad, and work is on-going between officers from the Pension Service and the Council's Information Management team around the due diligence requirements.
- 5.8 Member Self-Serve (MSS) continues to be promoted and registrations of Active, Deferred, Pensioner and Dependant members are shown below (as at August 2022).

	<b>Member Numbers</b>	<b>MSS Registrations</b>	<b>Current Percentage Take-up</b>	<b>Percentage Reported Previously</b>
Active	24,256	11,006	45.37%	44.68%
Deferred	29,157	10,033	34.41%	33.65%
Pensioners	18,541	5,278	28.47%	27.20%
Dependents	2,970	169	5.69%	5.61%

- 5.9 In respect of the Fund's Additional Voluntary Contributions partner, improvement in turnaround times are continuing as the provider's resolution action plan is implemented, this being in line with the position reported to the July Pension Fund Committee, and performance will continue to be monitored by the Scheme Advisory Board and locally by the Fund.
- 5.10 The Service's eight 'Key Performance Service Standards' are regularly monitored by the Panel and Pension Board. In general, performance and service volumes remain positive and close on-going monitoring and support is in place as part of performance management and team development arrangements.
- 5.11 The number of 'Internal Dispute Resolution Procedure' Appeals in progress continues to be extremely low, with no obvious trends or concerns to report

## **6.0 PENSION BOARD**

- 6.1 The Pension Board last met virtually on 11<sup>th</sup> July 2022. There were no items noted for referral back to Committee.
- 6.2 The next Pension Board meeting will be held on a hybrid basis and is scheduled to take place on the 17<sup>th</sup> October 2022.
- 6.3 Pension Board Members have continued to support their skills and knowledge requirement, through their attendance at relevant events.

## **7.0 OTHER ISSUES**

- 7.1 The Panel reviewed the skills and knowledge framework and noted the updates.
- 7.2 The Risk Register was considered, and updates noted. A review of the Risk Register is being dealt with elsewhere in this agenda.
- 7.3 Attached at Appendix 1 is the latest LAPFF quarterly engagement report for the period April to June 2022

## 8.0 **CONCLUSION**

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

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**Quarterly  
Engagement  
Report**

April-June  
2022



**Climate Voting  
Alerts, Banking,  
Electric Vehicles,  
Mining, Jet Zero,  
Sainsbury's**

## HUMAN RIGHTS



Bento Rodrigues district which was covered with mud after a dam owned by Vale SA and BHP burst in Mariana, Brazil

# New LAPFF climate and human rights initiatives

**Objective:** LAPFF announced two major initiatives this quarter, one related to climate change and one related to human rights. The climate change initiative is linked to LAPFF's work on 'Say on Climate'. LAPFF aims to issue up to 50 voting alerts to members on company climate plans over the course of the next twelve months. The goal of this initiative is to drive home the importance of ensuring investors weigh in meaningfully on corporate climate strategies and initiatives.

The human rights initiative is a visit by LAPFF Chair, Cllr Doug McMurdo, to communities affected by the Mariana and Brumadinho tailings dam collapses in Minas Gerais, Brazil. LAPFF announced

this visit a couple of years ago, but it was postponed by Covid.

**Achieved:** LAPFF has already issued a number of climate-related voting alerts. While LAPFF is pleased to see an increasing number of company resolutions seeking investor support for corporate climate plans, the goal is not to rubber stamp these plans. The resolutions will be assessed on their merits, not merely on the basis that plans have been put to a vote.

LAPFF has recommended votes in favour of shareholder resolutions, at **Caterpillar**, **Monster Beverages**, **J-Power**, **Sumitomo Mitsui Financial Group** and **Dollar Tree Inc**. The recom-

mendations supported disclosure of interim and long-term greenhouse gas (GHG) targets aligned with the Paris Agreement's aim to keep the global temperature rise to 1.5°C, company reporting on plans to reduce GHG emissions and annual reporting on progress.

In relation to Brazil, the urgency of LAPFF's visit is driven home by the findings of a major [report on mining and human rights](#) issued by LAPFF at the beginning of the quarter. This report covers concerns that there has not been nearly enough progress on housing reparations, among other issues, following the Mariana tailings dam collapse.

The report covers more than the Brazilian tailings dam collapses. It also covers

## MINING

mining impacts by Anglo American, BHP, Glencore, Rio Tinto, and Vale in Australia, Colombia, Papua New Guinea, Madagascar, Mongolia, and the US. This report has been issued alongside a new human rights strategy for LAPFF that is focused on ensuring corporate impacts that lead to improved human rights outcomes.

**In Progress:** Both the climate and human rights initiatives are means for LAPFF to escalate its engagement in areas deemed highly important by LAPFF members. The ‘Say on Climate’ initiative will be assessed for its role in encouraging companies to take climate measures in line with the Paris Agreement. The trip to Brazil will be assessed for its role in speeding up reparations for affected communities.

### Vale

**Objective:** LAPFF Chair, Cllr McMurdo, was able to meet with Vale Chair, José Penido, in person when he came to London in early April as part of his investor road show. The objective of the meeting was to discuss further what Vale could do to improve its response to the Mariana tailings dam collapse and to discuss LAPFF’s visit to Brazil.

**Achieved:** Mr Penido was very open to LAPFF’s input, discussing with Cllr McMurdo his time at Samarco – operator of the dam that collapsed at Mariana – prior to the dam collapse. LAPFF also conveyed a concern that Vale’s investor presentations focus too heavily on technical aspects of the company’s response to tailings dam safety.

While these aspects are important, LAPFF is keen to see evidence that Vale is also consulting affected communities effectively as an additional early warning measure, and to ensure that community needs are being met. For example, although Vale has stated that it has erected additional safety walls at high-risk dams, affected communities have conveyed to LAPFF that these walls would trap them in if there were to be a dam collapse at any of these sites. It is therefore critical that the company and communities have good communication to ensure adequate and appropriate safety measures are taken.

**In Progress:** LAPFF will meet with Mr

Penido and other Vale staff, as well as affected community members, during the visit to Brazil to understand better the obstacles to progress. Afterwards, a further assessment will be made about how to progress in a more effective manner.

### Rio Tinto

**Objective:** For the first time in two years, Rio Tinto was able to hold its AGM in person, while also making provisions for investors to attend online. LAPFF Chair, Cllr Doug McMurdo, attended in person, both to ask a question and to speak with Rio Tinto representatives.

**Achieved:** Cllr McMurdo asked whether Rio Tinto would be willing to review its processes for undertaking social and environmental impact assessments. This question stemmed from a concern in the LAPFF mining and human rights report that Rio Tinto’s current processes of this nature are missing major environmental, social, and governance (ESG) risks. Cllr McMurdo then had follow-up conversations with Rio Tinto CEO, Jakob Stausholm, the incoming Chair, Dominic Barton, and outgoing Chair, Simon Thompson.

This concern about impact assessments surfaced in part from LAPFF’s conversations with affected community groups, two of which LAPFF met at the AGM. Cllr McMurdo met with Yvonne Orenge of the Andrew Lees Trust, which advocates for communities affected by Rio Tinto’s QMM mine in Madagascar. He also met with Roger Featherstone and Henry C Munoz, of the Arizona Mining Reform Coalition, who are concerned about the impact of Rio Tinto and BHP’s joint venture, Resolution Copper, on surrounding Indigenous and settled communities.

Later in the quarter, Cllr McMurdo met Rio Tinto executives at an investor event in London. Among other topics discussed were block cave mining and the financial materiality of social and environmental impacts by companies.

**In Progress:** Rio Tinto extended further invitations for engagement to Cllr McMurdo and LAPFF, and LAPFF will seek to discuss the topic of impact assessments further with company representatives at the highest level of decision-making.

## Mining Voting Alerts

**Objective:** Each year, LAPFF issues a select number of voting alerts for companies where it is deemed necessary to escalate an engagement or highlight a particular problem with ESG practices. One problem in this is that companies, by and large, are not putting their climate plans to a vote every year. They are merely putting their disclosure on progress to a vote. It is LAPFF’s view that the scale of the climate crisis is such that there should be annual votes on company plans and strategies to reflect the rapidly hardening scientific position and narrowing window for effective action in this area.

**Achieved:** Amongst the global miners, LAPFF alerts for Rio Tinto, Vale, and Glencore have been issued to date.

In relation to Rio Tinto, LAPFF recommended a vote against the annual report and accounts on three grounds. First, there was concern that a fair and just transition was not adequately addressed. Second, LAPFF found the company’s description of the risks related to its Resolution Copper joint venture project with BHP in Arizona deficient. Third, it was not clear to LAPFF that the company’s auditors had accounted for climate-related financial risks. LAPFF also recommended a vote to oppose Rio Tinto’s climate plan. While the company’s plan is better than its past plans and those of a number of its competitors, there remain many concerns about its real-world impacts.

In relation to Glencore, LAPFF opposed the annual report and the company’s climate progress report. LAPFF has engaged with Glencore for nearly five years on the company’s internal controls, requesting an independent assessment in response to a range of bribery and corruption charges the company has been facing around the world. In reviewing company developments presented in the annual report, LAPFF was dismayed to see what appeared to be a superficial and insular approach to the topic. Therefore, a recommendation to oppose the annual report and accounts was issued. This recommendation was followed a few

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weeks later by Glencore pleading guilty to bribery charges under the US Foreign Corrupt Practices Act, along with paying over \$1.1 billion in fines. The company pleaded guilty to corruption charges in the UK later in the quarter. LAPFF also issued a recommendation to oppose the company's climate progress plan, in part because it appears to rely too heavily on unproven technologies such as direct air capture and carbon capture and storage, as well as too little focus on Scope 3 emissions.

For Vale, LAPFF recommended votes to oppose the chairs of the sustainability committee and the people, compensation and governance committee. These recommendations were based on the continued slow response to reparations after the Mariana tailings dam collapse in 2015. Through research for the LAPFF mining and human rights report, concerns also surfaced about an inadequate response to the Brumadinho tailings dam collapse of 2019. Consequently, LAPFF also recommended votes to oppose the compensation resolutions on the grounds that Vale's approach to compensation failed to establish adequate accountability of its executive team for the impacts of the two dam collapses.

**In Progress:** LAPFF has written to Glencore for a meeting to discuss governance, climate, and human rights and is continuing to engage with all three companies on these issues and others.

### Technology Voting Alerts

**Objective:** Amazon, Meta Platforms, and Alphabet all faced a slew of shareholder resolutions this year. Similarly for mining companies, these technology firms were selected for LAPFF voting alerts to highlight particular ESG concerns. The topics of the resolutions covered a range of issues, including lobbying, climate, and board accountability. However, the overwhelming number of resolutions covered human rights, including labour rights. These resolutions mostly aligned with LAPFF's policies in all the areas mentioned.

**Achieved:** LAPFF issued voting alerts for all three companies and covered all but one or two shareholder resolutions.

For Amazon, 11 resolutions addressing human rights due diligence, worker



Amazon faced resolutions addressing human rights due diligence, worker safety and working conditions, including freedom of association, and tax reporting

safety and working conditions, including freedom of association, and tax reporting were among those receiving recommendations of support from LAPFF. These recommendations stemmed in part from participation in a webinar with Amazon warehouse staff in the US and Spain who voiced concerns about working conditions, including a massive anti-union campaign by the company. LAPFF is therefore keen to see more reporting from the company on how it addresses these issues.

Meta Platforms, formerly Facebook, also faced multiple shareholder resolutions, with LAPFF supporting resolutions on corporate governance, misinformation reporting, and human rights impact assessments, among others. It was noted that the company has not escaped scrutiny for its governance and human rights practices through its name change.

Alphabet, of which Google is now just one company, faced the longest list of shareholder resolutions, with LAPFF supporting 16 of them. LAPFF supported shareholder concerns about Alphabet's climate practices, human rights (including racial equity) and privacy, and board diversity.

**In Progress:** LAPFF's overriding concerns with all three companies were their insular approach to addressing shareholder concerns in their responses to each resolution and their failure to address their companies' impacts on society and the environment. The

insularity issue stems in part from the fact that the shareholding structures are skewed heavily toward the interests of the three founder directors at each company. The lack of focus on their impacts was evidenced by the companies' emphasis on their commitments, policies, and practices, without assessing how these stances and activities affected their wider stakeholder bases. LAPFF is seeking to make progress with the companies in each of these two areas.

### Oil and Gas Voting Alerts

**Objective:** LAPFF issued voting alerts for both BP and Shell, opposing the companies' climate plans and supporting the 'Follow This' shareholder resolutions. The plans of the oil and gas majors are of particular importance for a society-wide fair and just transition, with LAPFF keen to escalate concerns through voting alerts and recommendations against their plans.

**Achieved:** We made our vote recommendation for BP in the context of our view that the company is ahead of other extractive companies, including Shell, and that BP expresses the issue of decarbonisation in clear terms; there is a limited carbon budget.

LAPFF met both the Chair and CEO of BP and was encouraged that the company welcomed our positive engagement, whilst being extremely disappointed with

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The Shell Oil refinery in Pernis, the Netherlands

our voting alert. However, they acknowledge our position, and are pleased we are willing to be a “critical friend” and work with them over the coming months to gain a better understanding of our respective positions – it is definitely a company willing to talk, discuss and improve.

Shell’s investor relations team responded to the LAPFF voting alert by requesting that LAPFF acknowledge 89% of investors voting at last year’s AGM supported the company’s climate plan. In LAPFF’s view, this outcome is more a poor reflection on the majority of investors than it is a vote of support for Shell’s plans, especially since a Dutch court effectively endorsed LAPFF’s condemnation of the company’s plan the week after last year’s AGM. Shell’s intransigence is also a particular concern given reports on the effect of ‘carbon bomb’ projects in the oil and gas sector.

**In Progress:** LAPFF will continue to engage with the oil and gas majors, to highlight the need for Paris-aligned transition plans. From LAPFF’s perspective, the industry often resembles a race to the bottom, with the worst-performing companies dragging down progress of the more promising ones. LAPFF will raise issues around just transition plans, explore what actions shareholders can take, coordinate with other stakeholders and impress upon oil and gas companies the need for viable decarbonisation plans.

## Bank Meetings and Voting Alerts

**Objectives:** In April, LAPFF had a useful meeting with the Standard Chartered Chair, José Viñals, to determine how the company was progressing its work with clients on carbon emission reductions and aligning them with its approach to the energy transition. A meeting with Barclays representatives sought to better understand progress made on the company’s climate change strategy, as well as how the company was addressing identified gaps. A meeting was also held with HSBC representatives to determine progress on climate transition planning, given the commitment to publish a bank-wide plan in 2023.

**Achieved:** On the debate of absolute versus intensity targets, Standard Chartered considered that having absolute emissions targets may restrict helping clients reduce emissions in the long run. A voting alert was issued to members on the ‘pathway to net zero by 2050’ resolution. LAPFF advised members not to support due to the lack of targets in place to demonstrate the transition is fully aligned with a 1.5°C scenario.

At Barclays, progress was welcomed on setting some financed emission targets and provision of a timeline for setting others. There was also support for the company climate strategy focussing on

net zero operations and supply chain pathways. A voting alert was issued recognising this, but due to concerns of intensity emission reduction targets rather than absolute targets, members were advised to oppose the resolution to approve the 2022 Climate Strategy.

The HSBC meeting focussed on client transition plans and how investments can help drive their climate agendas.

**In Progress:** For all the banks, targets have been set for some sectors and plans are in place to set them for remaining sectors. A focus of engagement remains, particularly around the new financing for the oil and gas sector given that the International Energy Agency has said that no new oil and natural gas fields are needed in the net zero pathway.

## Occupied Palestinian Territories (OPT)

**Objective:** LAPFF reached out to several companies this quarter, continuing to push for them to undertake human rights impact assessments with regards to the Occupied Palestinian Territories (OPT) and for those that do to publish them.

**Achieved:** LAPFF first met with Booking Holdings in 2021 with a follow up meeting held this quarter. LAPFF spoke with the company about publishing a human rights statement which it has now subsequently done. It would appear that the company recognises it has a way to go in developing its human rights strategy across all conflict zones but is continuing to apply due diligence on its operations. LAPFF continued to emphasise its position, insisting that companies undertake independent, third-party human rights impact assessments.

General Mills reached out in May to announce that it had sold its stake in a joint venture in East Jerusalem, leaving it with no further business operations in Israel.

**In Progress:** LAPFF’s position remains that companies undertaking human rights impact assessments is the best way for investors to understand the risks associated with their investments in the region.

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### Electric Vehicles

**Objective:** LAPFF has previously engaged with automotive manufacturers on their approach to a net zero economy, but an essential part of this transition is ensuring that it is done so in a 'fair and just' manner. LAPFF reached out to several car manufacturers to discuss their approaches to raw material sourcing and how companies ensure that this is done in a responsible manner.

**Achieved:** LAPFF met with two manufacturers so far, speaking to Investor Relations representatives from both BMW and Mercedes-Benz, who recently split from Daimler AG, separating the car and truck arms of the business. Mercedes provided a brief overview of its approach to decarbonising its vehicles alongside some information on its due diligence but did not provide in-depth details on how it was ensuring minerals were responsibly sourced.

LAPFF's conversation with BMW provided some insight into the company's processes and how it is managing a just transition. BMW sources minerals directly for its battery producers, which it sees as a positive step in shortening the supply chain and maintaining better transparency. It was positive to hear that although the company does not source materials from the Democratic Republic of the Congo (DRC), it was actively working with NGO's and bodies on the ground to attempt to rectify a range of human rights

and environmental issues that are ongoing in the region.

**In Progress:** LAPFF is currently waiting for further materials to be released by Mercedes and will likely seek further meetings with both BMW and Mercedes. Several companies have not responded to meeting requests which are currently being followed up. A meeting with Ford is planned for Q3.

### J Sainsbury plc

**Objective:** LAPFF met with Sainsbury's to discuss a resolution filed at its upcoming AGM in relation to the company becoming accredited by the Living Wage Foundation.

**Achieved:** Following a collaborative engagement earlier in the year, Sainsbury's subsequently matched rates for the living wage in Outer London to the wages paid in Inner London. LAPFF met with the company to discuss its position on the resolution and what the company was doing to support its employees.

**In Progress:** LAPFF maintains a rapport with Sainsbury's on a wide range of issues and is monitoring the company's approach to pay.

### Nestlé

**Objective:** As You Sow hosted a collaborative call with Nestle to discuss the company's approach to plastic packaging

and how it was working to reduce the environmental impacts that plastics have.

**Achieved:** The company spoke to initiatives around moving towards a circular economy, noting several located in developing countries aimed at recycling as much plastic as was produced in those regions, even if the plastic did not come from the company's own production. Nestle representatives talked about the move towards making more single use plastics, such as sachets, more recyclable in the future, and the potential for more sustainable alternatives. However it was not made clear what such alternatives would be.

**In Progress:** A circular economy for plastics relies on a lot of factors other than just being able to recycle the plastic itself. LAPFF is supportive of the notion that companies should be looking at alternatives to plastic where they can, to ensure that the environmental damage currently caused can be curtailed.

### Suzano

**Objective:** Suzano is one of the Climate Action 100+ (CA100+) focus companies for which LAPFF is a co-lead. The other co-lead for this engagement is Portuguese Investment Bank BPI. Suzano is assessed on a range of climate indicators which is reviewed annually to track progress. Concerns were raised over the ambition associated with the company's emissions reduction targets as well as disclosures relating to its climate policy engagement.

**Achieved:** LAPFF met with the company to discuss progress in its carbon mitigation strategy. The company's existing carbon reduction targets include an ambition to reduce the GHG emissions intensity of Scopes 1 and 2 by 15% by 2030. Also included is an ambition to remove up to 40 million tonnes of carbon by 2025, this being associated with carbon sequestration from the operation of its plantations. LAPFF asked the extent to which these targets could be considered ambitious given the Scopes 1 and 2 target equates to a 1.5% annual reduction on an intensity basis. Also, company reporting highlights that 25 million tons of carbon was removed during 2020 and 2021, which would leave three years to achieve equivalent sequestration. The company

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highlighted that it already operated from one of the lowest carbon intensity bases when compared to peers, meaning that the easier to abate emissions had been addressed, making additional reductions more challenging.

During 2021 Suzano joined the Business Ambition for 1.5°C and Race to Zero initiatives and signed the commitment to the Science-Based Target Initiative (SBTi). Participation in the latter had been raised by LAPFF in prior engagements with the company. Suzano elaborated that it will launch, within the deadline established by the initiative, a decarbonisation target in alignment with the 1.5°C ambition, considering all the technical and scientific criteria of SBTi.

Suzano has also become a member of the CDP Supply Chain on Climate Change looking to addressing emissions throughout the value chain. This marks real progress for the company, focussing on supply chain-based emissions has been an issue LAPFF has consistently raised with Suzano.

**In Progress:** The company highlighted that it had brought forward the 40 million tonnes of carbon reduction target forward from 2030 to 2025 but did not anticipate amending the target further. Further questions were raised on disclosures around trade association membership and escalation strategies if member organisations did not align with the company's own approach to addressing climate change. The SBTi is scheduled to release relevant sector guidance during Q3 2022.

### National Grid

**Objective:** Having secured a 'Say on Climate' resolution at the AGM, LAPFF and other lead CA100+ investors had two meetings to assess progress in the company's climate transition plan.

**Achieved:** The first meeting with National Grid representatives was timed one day after the company issued its annual report, its Responsible Business report and notice of meeting for the AGM. It was evident that significant progress had been made, notably in disclosing a science-based medium-term Scope 3 emissions target, as well as a long-term Scope 3 target for 2050. The company has made a 'strategic pivot' to electricity

in the UK, selling its majority stake in the gas transmission business and its Rhode Island Business. However, there are still challenges in New York state and Massachusetts in addressing the decarbonisation of heat. These concerns were also discussed at a later meeting with the chair, Paula Rosput Reynolds, in June.

**In Progress:** A voting alert has been issued for the company AGM which will take place in mid-July.

### London Stock Exchange Group

**Objective:** A meeting with the Head of Sustainability sought to gain a better perspective of how the company can shape and promote the adoption of best practice Climate Transition Plans and to provide challenge on targets for 'real zero' for the group and for companies in its influence. This was a follow-up to the 'Say on Climate' collaborative letter sent to all listed UK companies last year asking them to put their transition plan to the vote.

**Achieved:** The importance of the quality of data supplied through company disclosure was identified. As an active member of the UN Sustainable Stock Exchange, the group has created its own disclosure guidance for London-listed firms, as well as providing educational resources around climate; sharing 'scorings' privately with companies and providing guidance on reporting to encourage and engage companies. The challenge for 'real zero' has in part been recognised through the group moving its own net zero targets from 2050 to 2040.

**In Progress:** It was considered it would be useful to progress a meeting with the senior independent director.

### Anglo American

**Objective:** Alongside LAPFF's engagement with Anglo American on mining and human rights, LAPFF engages the company on its approach to carbon emissions. This includes participating in CA100+ engagements. These engagements focus on CA100+ expectations, including targets, capital expenditure and lobbying.

**Achieved:** As the engagement is part of a long-standing series of meetings, the discussion focused on the detail of how the company was seeking to reduce emissions. It was useful to hear how they were working with their customers to seek to reduce Scope 3 emissions and how they were approaching reducing their own emissions through renewables. Anglo American has started to hold ESG updates twice a year for investors. LAPFF was interested and pleased to see that there was a heavy emphasis on water issues by the company, especially since water was a major concern raised by affected communities in LAPFF's research for its mining and human rights report. LAPFF also appreciated Anglo American's active engagement with the mining and human rights report and the concerns it raised about the company

**In Progress:** Engagement will continue with the company, including around making a commitment to 1.5°C scenario across Scopes 1 to 3.

### Arcelor Mittal

**Objective:** LAPFF attended the ArcelorMittal AGM, in its role as joint-lead investor with CA100+, to ask about company ambitions for a carbon emissions reduction target aligned with a 1.5°C scenario, for a commitment to a short-term reduction target, and to put the zero-carbon strategy to shareholders for approval at the 2023 AGM.

**Achieved:** Aditya Mittal, the CEO, responded to the questions. He considered incorrect to conclude that the target was not 1.5°C-aligned, and believed the company was at the cutting edge and making significant progress. On shorter-term progress, he detailed various projects that exemplified progression on decarbonisation in Canada, Spain, France and Belgium, the Canadian project being the most advanced by using hydrogen in a direct-reduced iron process. He further indicated that progress would accelerate towards the end of the next decade.

**In Progress:** On the request for putting the transition plan to shareholder for approval at the next AGM, Mr Mittal noted that shareholder engagement on this question would be monitored before deciding for next year's AGM.

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## Novartis

**Objective:** LAPFF has been engaging with pharmaceutical companies to understand if and how the Covid pandemic has changed their business strategies and models. The engagement with Novartis during the quarter was part of this series. The company's approach to the war in Ukraine was also discussed.

**Achieved:** LAPFF noted that while Novartis does not have a vaccines unit, the company produced a large quantity of the Pfizer vaccine to help with the Covid response. It also appeared that the company has a fairly detailed plan to respond to future pandemics. However, LAPFF found the company's response on its approach to the war in Ukraine less convincing and therefore encouraged Novartis to undertake a human rights impact assessment in relation to the war.

**In Progress:** LAPFF will seek an engagement with GSK on this issue and will seek further engagement with Sanofi, which to date has issued a written response but has not agreed to a meeting.

## LyondellBasell

**Objective:** A follow-up meeting was held with LyondellBasell representatives as part of CA100+ collaborative engagement. This meeting sought to clarify action on the company's short-term carbon reduction goals as well as its more strategic positioning.

**Achieved:** LAPFF pressed on the rapidly falling cost-curve for renewable hydrogen, as well as the potential for partnerships in developing this market. On actions for reduction of virgin plastics production, the company considered a tipping point had already been reached.

**In Progress:** The issue of influencing trade associations was raised with a follow-up meeting being sought around the issue of lobbying.

## Total

**Objective:** Total has recently announced it will divest from Myanmar and has faced significant scrutiny for its investments in Russia. LAPFF Executive member, John Anzani, was keen to discuss the

company's approach to operating in and divesting from conflict zones with a company representative.

**Achieved:** Total has been subject to scrutiny in this area for many years, not least in relation to litigation about its Yadana pipeline project in Myanmar. However, the company has only recently decided to divest from Myanmar, so it was helpful for LAPFF to understand the complex nature of the decision-making that went into this decision. Total's representative described the human rights due diligence process undertaken to reach this decision, as well the process used to decide to remain invested in its Russian operations, in consideration of existing EU sanctions.

**In Progress:** LAPFF will continue to monitor sanctions legislation pertaining to Russia, Ukraine, and other conflict areas and will engage again with Total on this issue if deemed necessary.

## Reliable Accounts

**Objective:** As reported in the Times, the UK Endorsement Board (UKEB), the body responsible for endorsing International Accounting Standards for the UK post-Brexit, has taken a controversial approach to seeking legal advice.

**Achieved:** LAPFF pointed out that given that Martin Moore QC had advised both the Institute of Chartered Accountant in England and Wales (ICAEW) – the regulated party – as well as the Financial

Reporting Council (FRC) – the regulator – that LAPFF would expect the UKEB to seek legal advice on its statutory duties from elsewhere. Two legal opinions from George Bompas QC for LAPFF took issue with Mr Moore's conclusion. The Times reported that emails had become public whereby a UKEB board member who is a lawyer had said "I have spoken to Martin Moore [QC] and he is fine with supporting Michael Todd [QC] behind the scenes and understands the conflicts issue which prevents us from instructing him."

**In Progress:** As the FRC is responsible for funding the UKEB and overseeing its due process, the LAPFF Chair wrote to the Chief Executive of the FRC to state how that approach was unacceptable. As a result, meetings have been held with BEIS officials. Fuller reports will be given in due course. Meanwhile, Baroness Bowles has asked a number of questions in Parliament on this subject, that you can view [here](#).

## Water Utilities

**Objective:** Water utility companies have faced significant scrutiny for their environmental performance, specifically the release of raw sewage into rivers to safeguard against flooding. LAPFF has therefore started to engage water companies on having credible plans to minimise the release of raw sewage as well as how companies are seeking to reach net zero given the sector contributes 1% to the UK's total emissions.



Water utility companies have faced significant scrutiny for their environmental performance, including safeguarding against flooding



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**Achieved:** Over the quarter LAPFF met with the chairs of both Severn Trent and United Utilities.

Severn Trent outlined its commitment to reducing pollution and the release of sewage into waterways. It was useful to hear details about the company's plans to ensure that by 2030 their operations will not lead to the harm of rivers. LAPFF recognised that the company performs well in its Environmental Performance Assessment (EPA), even if there is room for improvement. In the meeting, the company outlined their net zero commitments. Whilst insightful, there is less information about how they are seeking to reduce Scope 3 emissions.

The meeting with United Utilities focused on the company's plans and on the challenges of reducing storm overflows. This discussion covered Victorian infrastructure, combined sewers, which collect storm overflow rain runoff as well as sewage, and the costs associated with tackling the issue. Like the meeting with Severn Trent, LAPFF recognised that the company performed well in its EPA and also discussed the challenges around data collection and wider causes of river pollution.

**In Progress:** LAPFF is seeking to engage with other companies within the sector and will monitor environmental performances.



A farmer works in front of a coking factory in Xiaoyi Shanxi China

## COLLABORATIVE ENGAGEMENTS

### Rathbones Votes Against Slavery

**Objective:** LAPFF supports Rathbones Votes Against Slavery engagement, which targets FTSE 350 companies that fail to comply with Section 54 of the Modern Slavery Act.

**Achieved:** The engagement has had a range of successes, with many companies now compliant with Section 54. LAPFF joined two calls with Segro and Synthomer to discuss the companies' approach to modern slavery and reporting, with both companies appearing to take onboard the need for more transparent reporting, particularly in regards remediation processes.

**In Progress:** Across engagements where modern slavery is concerned, LAPFF continues to stress the point that if and when instances of modern slavery are found, the company should transparently report on these alongside the remediation processes.

### Asia Research and Engagement

**Objective:** As part of the Asian Transition Plan collaborative initiative, LAPFF supports company engagement in Asia's financial markets, focussing on carbon and coal risks at financial institutions, as well as coal-exposed power companies.

**Achieved:** Statements were made at the annual meetings of Huaneng Power International, Huadian Power, Industrial and Commercial Bank China, and Bank of China. The power company statements requested commitments to stop coal power capacity addition and to phase out existing coal power capacity. The bank statements asked for commitments to net zero financed emissions in line with China's targets, sector specific pathways in line with national policies, and sustainable finance targets.

**In Progress:** Regular meetings continue with the coordinating group to progress company engagement meetings.

### Global Standard on Climate Lobbying

LAPFF joined founding investor networks in support of a new Global Standard

on Responsible Climate Lobbying. This provides a framework to ensure companies' lobbying and political engagement activities are in line with the goal of restricting global temperature rise to 1.5°C above pre-industrial levels. It calls on companies to formally commit to responsible climate lobbying, disclose funding and other support they provide to trade associations involved in climate change-related lobbying, and act if lobbying activity runs counter to the goals of the Paris Agreement. Linked to this, LAPFF was a signatory to correspondence to CA100+ European companies that had not disclosed information on their climate-related lobbying. This aimed to reinforce disclosure as an industry norm and to provide guidance by pointing the company towards the Global Standard.

### Human Rights Collaborations

**Objective:** PRI has noted that human rights is an area that could use collective action to leverage investor support. LAPFF agrees and has undertaken several collective engagement actions on human rights with various stakeholders during the quarter.

#### Achieved:

##### *Investor Collaborations*

**PRI Advance:** The first collective engagement is to engage with PRI on its new Advance human rights initiative to see how best LAPFF can play a role. LAPFF attended an investor webinar on the initiative and then met one-on-one with PRI staff to clarify how LAPFF's work on human rights could support and complement the PRI initiative. Discussions are still underway about the best approach.

#### Conflict Minerals in the Semi-Conductor Supply Chain Sign-On Letter:

Stewart Investors coordinated a collaborative investor letter calling a range of companies in the semiconductor supply chain to report on their human rights due diligence processes and provide assurances about their human rights impacts.

#### Wells Fargo Human Rights Impact

**Assessment Sign-On Letter:** Wells Fargo received criticism about its loan process in relation to the financial crisis of 2008-2009. Concerns remain about its lending practices, so US investors coordinated a collaborative investor letter requesting

## COLLABORATIVE ENGAGEMENTS

that the bank undertake a human rights due diligence process in relation to its lending practices.

### *Affected Worker and Community Collaborations*

**LAPFF Webinar with Community Members Affected by Anglo American, Glencore, and Vale** – LAPFF, with the help of London Mining Network, hosted a webinar with community members affected by Anglo American, Glencore, and Vale projects at Minas Rio, Cerrejón, and Brumadinho, the former and the last in Brazil and Cerrejón in Colombia. The community members spoke about lack of drinking water for communities, in part due to contamination, along with other types of pollution and lack of electricity that they attributed to mining practices.

**IndustriALL Social Protection Webinar** – IndustriALL, with LAPFF supporting, hosted a webinar with two Thai workers to highlight the often-ignored social protection gap in many workplaces. There was mention of how poor social protection can compromise health and safety. The workers spoke about particular challenges in this area during Covid and how they had to push their employer and others to obtain the social protection they were owed, in part because it is often not clear what balance of accountability states and employers have in offering this protection.

**Glencore in Espinar, Peru** – Community members from Espinar, Peru joined a webinar chaired by LAPFF Chair Cllr Doug McMurdo to discuss Glencore's impacts on their communities. Of major concern to the communities is the impact of Glencore's mine in the area, Antapaccay, on the drinking water for local communities. Although Glencore maintains that the local water sources are naturally undrinkable, the communities are concerned that it is the impacts of mining rendering the water unsafe. There are a number of other human rights and environmental issues of concern in this case too.

### **In Progress:**

LAPFF will continue to engage with both other investors and affected workers and communities for two purposes. First, LAPFF members want to be sure that their investments are not leading to

negative human rights or environmental impacts. Second, these stakeholders provide useful sources of information for LAPFF members to understand their investments better.

### **CA100+ Transport Group**

**Objective:** LAPFF is a member of the CA100+ Transport Group. The group aims to engage major automakers on their plans to decarbonise their operations and shift to zero emission vehicles.

**Achieved:** There have been concerns about Toyota's approach to zero emission vehicles. Although the company has been a large producer of hybrid vehicles, plans and capital expenditure on battery electric and other zero emission vehicles have been less developed than some of their peers. This creates potential risks to investors considering the rapid increase in the sale of electric vehicles. During the quarter lead investors met the company. The investor group also met amongst itself to discuss wider developments within the transport sector, including decarbonisation of heavy-duty vehicles. As part of this work, LAPFF signed onto a letter to US regulators regarding heavy duty vehicle emissions standards.

**In Progress:** LAPFF will continue to engage with the largest automakers on their plans to decarbonise their fleets.

## COLLABORATIVE INVESTOR MEETINGS

### **Institutional Investor Group on Climate Change (IIGCC)**

**Objective:** Participation in weekly meetings coordinated by IIGCC provided useful updates on company progress against the CA100+ benchmark, which assesses the world's largest greenhouse gas emitters on their net zero transitions.

**Achieved:** The benchmark scoring for these companies will formally be published in September 2022 in time for focussed engagement prior to the next proxy season.

**In Progress:** Most recently, LAPFF has been participating in the Global Sector Strategies work to help identify policy

actions that will have a significant impact on companies' abilities to enhance and deliver on their climate transition plans.

### **IOPA**

**Objective:** The Investor Initiative for Opioid Accountability seeks transparency from pharmaceutical companies and aims to mitigate further risk across the industry. Members of the coalition have met with a number of companies and have proceeded to file multiple resolutions for 2022 company AGMs across a wide range of issues.

**Achieved:** Shareholder resolutions organised by the coalition have seen varying levels of support across the quarter but have seen growing numbers of support compared to previous years.

**In Progress:** LAPFF continues to attend monthly meetings hosted by IOPA and monitors the engagements being held by investors in the coalition.

### **Investor Initiative for Responsible Care**

**Objective:** The Covid pandemic placed the spotlight on care quality and employment standards within care home sector. In response to these concerns, LAPFF was a founding member of the Investor Initiative for Responsible Care organised by UNI Global. The coalition includes 130 institutional investors with \$3.8 trillion in assets and aims to improve employment and care standards to protect shareholder value.

**Achieved:** Over the quarter, LAPFF, alongside other lead investors, has contacted Real Estate Investment Trusts (REITs) working within the nursing home sector. LAPFF also signed onto a letter regarding EU Care Strategy.

**In Progress:** Through the initiative LAPFF will continue to engage REITs and care home providers on employment and care standards.

## COLLABORATIVE ENGAGEMENTS

### CONSULTATION RESPONSES

#### Transportation consultation responses

**Objective:** In responding to the UK Department for Transport (DfT) consultations, LAPFF's aim has been to press for legislation that recognises the remaining global carbon budget, and the opportunities as well as constraints this poses for investors.

**Achieved:** Consultation responses included one on ending the sale of new, non-zero emission buses, coaches, and minibuses and another response to the 'Further Technical Consultation on Jet Zero' to inform the government's strategy for net zero aviation. For the former, it was good to see the earliest date range for the phase-out of non-zero emission buses being proposed as 2025, aligning with the earlier LAPFF submission on the phase out of the sale of new non-zero emission heavy goods vehicles (HGVs).

The government response and outcome to the DfT HGV consultation is now available. In the 'Jet Zero' response, LAPFF set out its views that measures to promote net zero aviation should be considered within the context of overall provision of reliable and affordable transport including surface transport. There was support for the government pushing for domestic flights to be replaced by train journeys and for any remaining domestic flights to be provided by electric aircraft. This is in line with measures being taken by Austria, France, the Netherlands and Spain.

**In Progress:** LAPFF continues to participate in events to inform such submissions, the most recent being a workshop on the electrification of flight held at Cranfield University.

#### US National Action Plan on Responsible Business Conduct

**Objective:** The US last issued a national action plan (NAP) on responsible business conduct (RBC) in 2016. Given the number of developments in this area,

not least a range of mandatory human rights due diligence initiatives – including in the US – the country has decided to update its 2016 NAP. Therefore, LAPFF responded to a consultation on the US NAP for RBC to provide thoughts and insights gained through its extensive engagement with companies on this topic.

**Achieved:** LAPFF's consultation response encouraged the US to review the many human rights due diligence laws being proposed, and in some cases adopted, around the world. LAPFF had issued a consultation response in support of the EU's initiative in this area – the EU Directive on Sustainable Corporate Governance – and encouraged the US to look to the EU initiative for ideas. The 2016 NAP also treated climate and environment as tangential to other areas of RBC. LAPFF pointed to the major developments on both climate and environment, including the recognition of a human right to a clean and healthy environment, as evidence that both climate and environment need to be treated as integral components of RBC.

**In Progress:** LAPFF will now wait to see what the next version of the US NAP on RBC looks like.

### CHAIR'S QUOTE

It has been interesting to note – both through voting alerts and engagements – that for all types of companies there is often a failure to report on social and environmental impacts. We hear a lot about what commitments, policies, and practices these companies have, but do their promises and activities work?

I suspect I know the answer to that question. It seems to me that a lot of shareholder money is being wasted on poor initiatives that could be improved through proper engagement with affected stakeholders.”

Local  
Authority  
Pension  
Fund  
Forum

### MEDIA COVERAGE

#### Mining and Human Rights

Pensions Age: [LAPFF report on mining and human rights calls for greater investor engagement](#)

Environmental Finance: [“LAPFF reveals ‘litany’ of ESG risks at mining companies](#)

New Internationalist: [‘Stop the poison’](#)

#### Accounts

Pensions Expert: [TPR to review Stewardship Code with watchdogs and government](#)

Insurance ERM: [IFRS 17 “ripe for judicial review”, says UK peer](#)

#### Climate

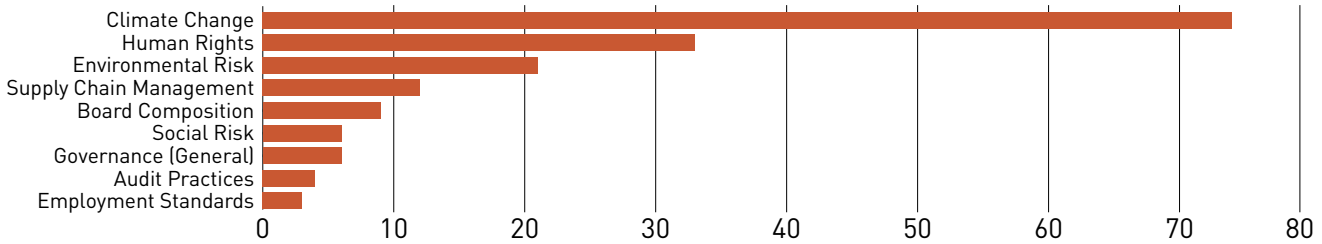
IPE: [LAPFF wants more recognition of electric flight progress](#)

Reuters: [Advisory firm PIRC opposes Shell climate plan for lacking ambition](#)

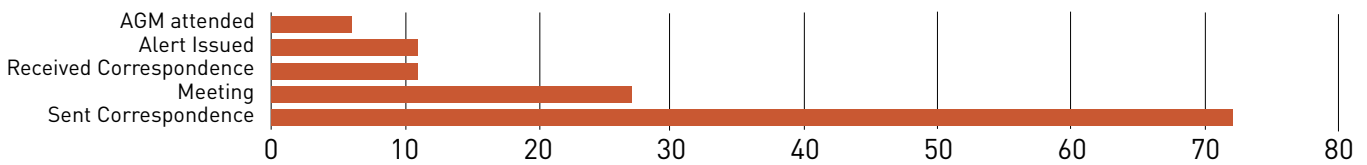
Reuters story also in Canada's [Globe and Mail](#)

# ENGAGEMENT DATA

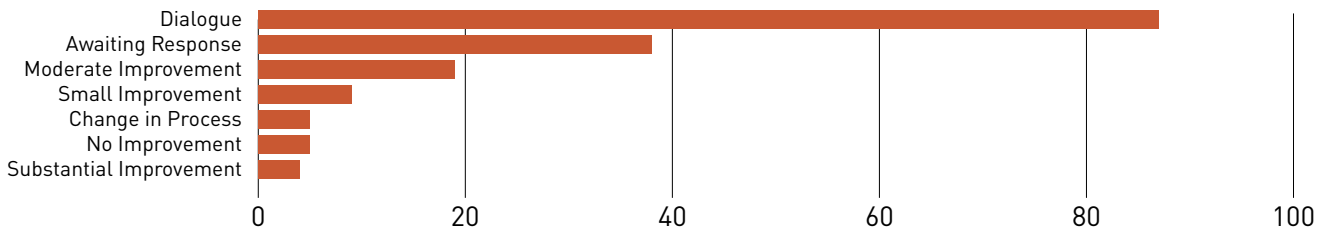
## ENGAGEMENT TOPICS



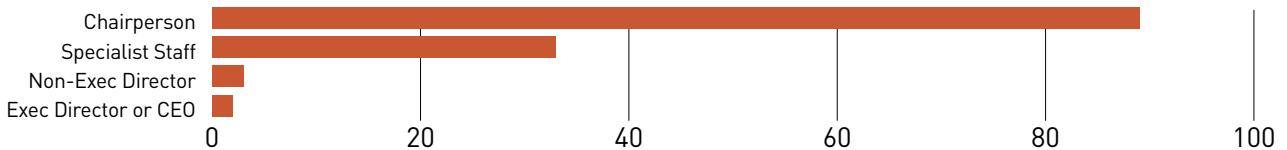
## ACTIVITY



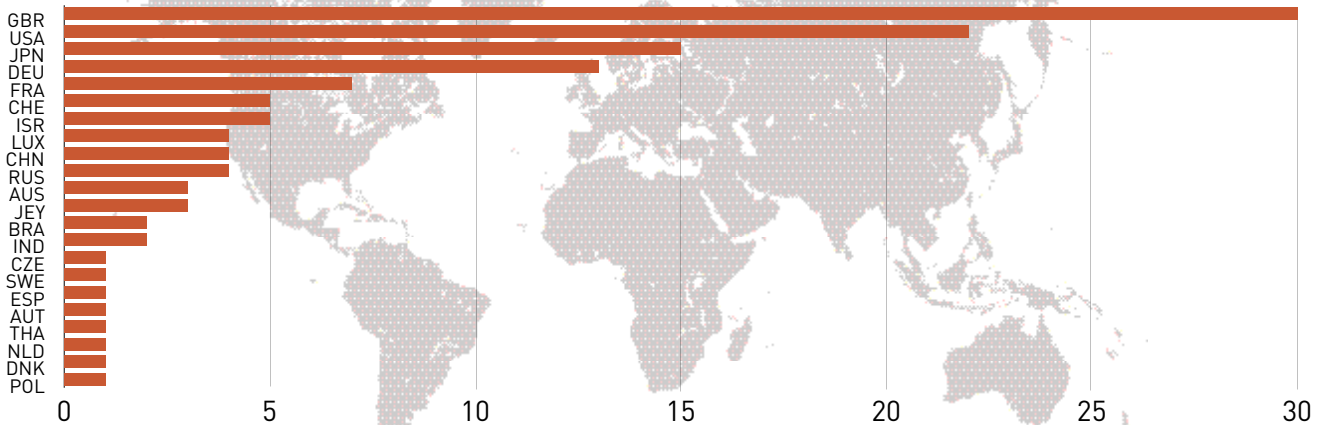
## MEETING ENGAGEMENT OUTCOMES



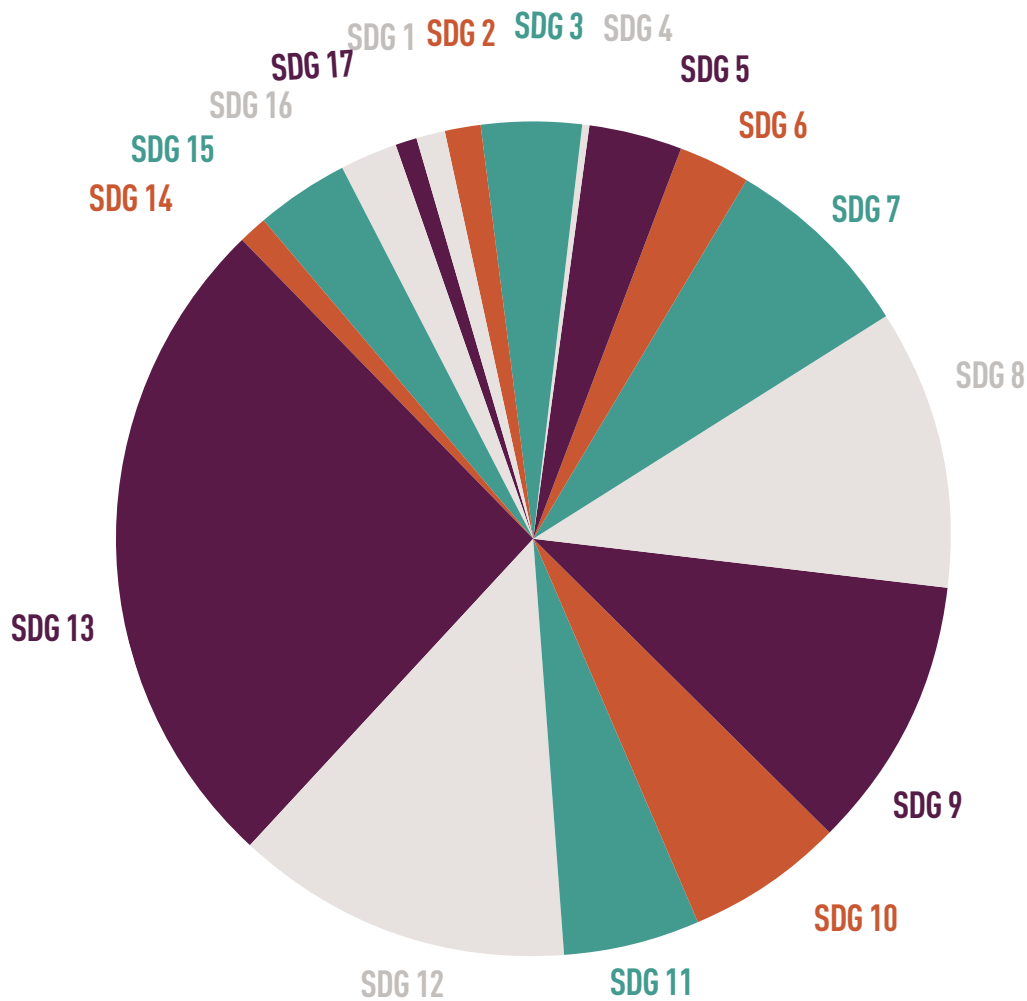
## POSITION ENGAGED



## COMPANY DOMICILES



# ENGAGEMENT DATA



## LAPFF SDG ENGAGEMENTS

SDG 1: No Poverty	4
SDG 2: Zero Hunger	5
SDG 3: Good Health and Well-Being	13
SDG 4: Quality Education	1
SDG 5: Gender Equality	12
SDG 6: Clean Water and Sanitation	10
SDG 7: Affordable and Clean Energy	25
SDG 8: Decent Work and Economic Growth	37
SDG 9: Industry, Innovation, and Infrastructure	36
SDG 10: Reduced Inequalities	21
SDG 11: Sustainable Cities and Communities	18
SDG 12: Responsible Production and Consumption	44
SDG 13: Climate Action	88
SDG 14: Life Below Water	4
SDG 15: Life on Land	12
SDG 16: Peace, Justice, and Strong Institutions	8
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	2

# COMPANY PROGRESS REPORT

90 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	Received Correspondence	Climate Change	Moderate Improvement
AIRBNB INC	Sent Correspondence	Human Rights	Awaiting Response
ALPHABET INC	Alert Issued	Human Rights	Dialogue
AMAZON.COM INC.	Alert Issued	Employment Standards	Dialogue
ANGLO AMERICAN PLC	Received Correspondence	Climate Change	Moderate Improvement
AP MOLLER - MAERSK AS	Sent Correspondence	Climate Change	Dialogue
ARCELORMITTAL SA	AGM	Climate Change	Small Improvement
BANDAI NAMCO HOLDINGS INC	Sent Correspondence	Board Composition	Awaiting Response
BANK HAPOLIM B M	Sent Correspondence	Human Rights	Awaiting Response
BANK LEUMI LE-ISRAEL BM	Sent Correspondence	Human Rights	Awaiting Response
BANK OF CHINA LTD	AGM	Climate Change	Dialogue
BARCLAYS BANK PLC	Meeting	Climate Change	Moderate Improvement
BARCLAYS PLC	Alert Issued	Climate Change	Moderate Improvement
BAYERISCHE MOTOREN WERKE AG	Meeting	Environmental Risk	Moderate Improvement
BEZEQ THE ISRAELI TELECOMMUNICATION CORP LTD	Sent Correspondence	Human Rights	Dialogue
BHP GROUP LIMITED (AUS)	Sent Correspondence	Governance (General)	No Improvement
BOOKING HOLDINGS INC.	Meeting	Human Rights	Awaiting Response
BRIDGESTONE CORP	Sent Correspondence	Board Composition	Dialogue
BRITVIC PLC	Meeting	Social Risk	Substantial Improvement
CATERPILLAR INC.	Alert Issued	Environmental Risk	Dialogue
CENTRICA PLC	Sent Correspondence	Climate Change	Dialogue
CEZ AS	Sent Correspondence	Climate Change	Dialogue
CISCO SYSTEMS INC.	Sent Correspondence	Human Rights	Dialogue
DANONE	Sent Correspondence	Social Risk	Dialogue
DOLLAR TREE INC	Alert Issued	Climate Change	Dialogue
E.ON SE	Sent Correspondence	Climate Change	Dialogue
ELECTRIC POWER DEVELOPMENT CO	Alert Issued	Climate Change	Dialogue
EXPEDIA GROUP INC	Sent Correspondence	Audit Practices	Awaiting Response
FUJIFILM HLDGS CORP	Sent Correspondence	Board Composition	Awaiting Response
GAZPROM OAO	Sent Correspondence	Climate Change	Dialogue
GENERAL MILLS INC	Received Correspondence	Human Rights	Substantial Improvement
GENERAL MOTORS COMPANY	Sent Correspondence	Human Rights	Awaiting Response
GLENORE PLC	Alert Issued	Climate Change	Dialogue
GSK PLC	Sent Correspondence	Climate Change	Awaiting Response
HOLCIM LTD	Sent Correspondence	Climate Change	Dialogue
HONEYWELL INTERNATIONAL INC.	Sent Correspondence	Environmental Risk	Awaiting Response
HSBC HOLDINGS PLC	Meeting	Climate Change	Moderate Improvement
HUADIAN POWER INTL CORP LTD	AGM	Climate Change	Dialogue
HUANENG POWER INTERNATIONAL	AGM	Climate Change	Dialogue
IBERDROLA SA	Sent Correspondence	Climate Change	Dialogue
INDORAMA VENTURES PCL	Sent Correspondence	Human Rights	Awaiting Response
INDUSTRIAL & COMMERCIAL BANK CHINA	AGM	Climate Change	Dialogue
ISRAEL DISCOUNT BANK LTD	Sent Correspondence	Human Rights	Awaiting Response
JPMORGAN CHASE & CO.	Sent Correspondence	Climate Change	Awaiting Response
KAMIGUMI CO LTD	Sent Correspondence	Board Composition	Awaiting Response
KUBOTA CORP	Meeting	Board Composition	Small Improvement
LONDON STOCK EXCHANGE GROUP PLC	Meeting	Climate Change	Moderate Improvement
LUKOIL OAO	Sent Correspondence	Climate Change	Dialogue
LYONDELLBASELL INDUSTRIES N.V.	Meeting	Climate Change	Small Improvement
LYONDELLBASELL INDUSTRIES N.V.	Sent Correspondence	Climate Change	Dialogue
MARKEL CORPORATION	Sent Correspondence	Climate Change	Awaiting Response
MARUBENI CORP	Sent Correspondence	Board Composition	Awaiting Response
MERCEDES-BENZ GROUP AG	Meeting	Human Rights	Dialogue
META PLATFORMS INC	Alert Issued	Governance (General)	Dialogue
MIZRAHI TEFAHOT BANK LTD	Sent Correspondence	Human Rights	Awaiting Response
NATIONAL GRID PLC	Meeting	Climate Change	Substantial Improvement
NESTLE SA	Meeting	Social Risk	Small Improvement
NEXTERA ENERGY INC	Received Correspondence	Climate Change	No Improvement
NINTENDO CO LTD	Sent Correspondence	Environmental Risk	Awaiting Response

## COMPANY PROGRESS REPORT Continued

NISSAN MOTOR CO LTD	Sent Correspondence	Human Rights	Awaiting Response
NOVARTIS AG	Meeting	Governance (General)	Change in Process
OMV AG	Sent Correspondence	Climate Change	Dialogue
OTSUKA CORPORATION	Sent Correspondence	Board Composition	Awaiting Response
PHILLIPS 66	Sent Correspondence	Climate Change	Dialogue
POLSKA GRUPA ENERGETYCZNA SA	Sent Correspondence	Climate Change	Dialogue
RENAULT SA	Sent Correspondence	Climate Change	Dialogue
RIO TINTO GROUP (AUS)	AGM	Human Rights	No Improvement
RIO TINTO GROUP (AUS)	Meeting	Governance (General)	Dialogue
ROLLS-ROYCE HOLDINGS PLC	Sent Correspondence	Climate Change	Small Improvement
ROSNEFT OIL COMPANY	Sent Correspondence	Climate Change	Dialogue
SAINSBURY (J) PLC	Meeting	Employment Standards	Dialogue
SAINT-GOBAIN SEKURIT INDIA	Sent Correspondence	Climate Change	Dialogue
SEGRO PLC	Meeting	Human Rights	Moderate Improvement
SEVERN TRENT PLC	Meeting	Environmental Risk	Moderate Improvement
SEVERSTAL OAO	Sent Correspondence	Climate Change	Dialogue
SIEMENS AG	Sent Correspondence	Climate Change	Dialogue
SSAB (SVENSKT STAL AB)	Sent Correspondence	Climate Change	Dialogue
STANDARD CHARTERED PLC	Alert Issued	Climate Change	Moderate Improvement
STELLANTIS N.V.	Sent Correspondence	Climate Change	Dialogue
SUMITOMO MITSUI FINANCIAL GROUP	Alert Issued	Climate Change	Dialogue
SUZANO SA	Meeting	Climate Change	Small Improvement
TESLA INC	Sent Correspondence	Human Rights	Awaiting Response
THYSSENKRUPP AG	Sent Correspondence	Climate Change	Dialogue
TOYOTA MOTOR CORP	Meeting	Environmental Risk	Dialogue
UNILEVER PLC	Meeting	Social Risk	Moderate Improvement
UNIPER SE	Sent Correspondence	Climate Change	Dialogue
UNITED UTILITIES GROUP PLC	Meeting	Environmental Risk	Moderate Improvement
VALE SA	Meeting	Human Rights	Dialogue
VEDANTA LTD	Sent Correspondence	Climate Change	Dialogue
VOLKSWAGEN AG	Received Correspondence	Human Rights	Small Improvement
WELLS FARGO & COMPANY	Sent Correspondence	Human Rights	Dialogue

## 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)  
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  
Hounslow Pension Fund  
Islington Pension Fund  
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  
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**  
Border to Coast Pensions Partnership  
LGPS Central  
Local Pensions Partnership  
London CIV  
Northern LGPS  
Wales Pension Partnership

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## RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

### MUNICIPAL YEAR 2022-23

#### **PENSION FUND COMMITTEE**

**28<sup>th</sup> OCTOBER 2022**

**REPORT OF: THE DIRECTOR OF  
FINANCE AND DIGITAL SERVICES**

<b>AGENDA ITEM NO. 5</b>
<b>PENSION FUND RISK REGISTER – RISK REGISTER OVERVIEW</b>

**Author – Barrie Davies, Director of Finance and Digital Services (01443)  
424026**

#### **1.0 PURPOSE OF REPORT**

1.1 To provide the Committee with details of the arrangements in place to manage risk within the Pension Fund.

#### **2.0 RECOMMENDATIONS**

2.1 It is recommended that the Committee:

2.1.1 Note the arrangements in place for the management of risk within the Fund; and

2.1.2 Review the Risk Register (Appendix 1) and consider whether they wish to receive further detail on any issues.

#### **3.0 BACKGROUND**

3.1 The terms of reference of the Pension Fund Committee sets out its responsibilities with regard to risk management, namely:

- *To provide independent assurance to members of the Fund of the adequacy of the risk management and associated control environment, responsible for the Fund's financial and non-financial performance.*

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

includes ensuring that robust risk management arrangements are in place.

#### **4.0 RISK MANAGEMENT**

- 4.1 With regard to Risk Management, the Fund maintains a Risk Register which is reviewed and updated, as necessary and appropriate, on a quarterly basis.
- 4.2 The Risk Register is reviewed in detail and operationally by the Pension Fund Working Group, where recommended updates are made to reflect changes in risks. This is then presented to the quarterly meetings of the Investment and Administration Advisory Panel for further review, challenge and agreement.
- 4.3 Following the agreement of the updated register, it is published on the Fund Website.
- 4.4 The register is also reviewed by the Pension Board, as part of their role in supporting the Fund's overall governance arrangements. At their last meeting, the Pensions Board proposed no additional updates.
- 4.5 The Risk Register, dated September 2022, is attached as Appendix 1 for review and consideration by the Committee.

#### **5.0 CONCLUSION**

- 5.1 This report sets out, for the Committee, the arrangements in place for the management of risk by the Pension Fund.

\*\*\*\*\*

**Summary of Pension Fund Risks**

**Introduction**

The purpose of this document is to assess the risk associated with the RCT Pension Fund and to outline the control measures in place.

**Key to scoring**

Likelihood Assessment Matrix:

Factor	Score	Indicators
Almost certain	5	99% likely to happen or has happened on a regular basis over the last 12 months
Very likely	4	75% likely to happen or has happened at least once or twice in the last 12 months
Likely	3	50% likely to happen or has happened once or twice in the last 24 months
Unlikely	2	20% likely to happen or has happened once or twice in the last 5 years
Highly unlikely	1	5% likely to happen or hasn't happened within the last 5 years

Impact Assessment Matrix:

Risk	Score
Major	5
High	4
Moderate	3
Minor	2
Trivial	1

Ascertainment Of Risk Level According To Levels Of Impact And Likelihood:



**Overarching Fund Objective – to ensure Fund assets are sufficient to meet Fund liabilities in the short, medium and long term**

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating September 2022 qtr
Funding	Long term investment strategy unable to meet the objective of funding liabilities.	5	2	10	MR	<ul style="list-style-type: none"> <li>Monitoring of deficit, reporting on the funding levels produced by the actuaries.</li> <li>Monitoring of the adopted asset / liability model.</li> <li>Monitoring the remedies of the McCloud case and ensuring appropriate provision is made against the Fund's liabilities.</li> </ul>	
	Sub-optimal asset allocation throughout the portfolio.	4	2	8	MR	<ul style="list-style-type: none"> <li>The investment strategy is reviewed and adopted by the Pension Fund Committee.</li> <li>Regular review of the asset allocation strategy by the Committee (with advice from the Advisory Panel), covering both the fund strategy and the asset allocation.</li> <li>Post 2019 valuation review completed and implementation in progress.</li> </ul>	
	Actuarial assumptions are not met. e.g. discount rate, life expectancy assumptions.	4	3	12	MR	<ul style="list-style-type: none"> <li>Agree and set prudent assumptions in conjunction with the appointed Fund Actuary, based on past trends, forecasts, longevity modelling.</li> <li>Adhere to triennial valuations.</li> <li>Monitor performance against assumptions, consider Interim Valuations where necessary.</li> <li>Monthly monitoring of Pension Fund investment valuation given the uncertainty in markets due to Covid-19.</li> <li>Receive regular Actuarial Funding updates.</li> </ul>	
	Increases in Employer contributions.	4	2	8	MR	<ul style="list-style-type: none"> <li>Participate in LGPS Scheme design consultation.</li> <li>Engage with Employers during and between Valuation cycles, particularly during times of organisational change e.g. downsizing, outsourcing.</li> <li>Ensure adequate securities / guarantees are in place where possible and that consequential risk is fully communicated to relevant parties.</li> </ul>	
	Potential for 'Cashflow Negativity'	4	2	8	MR	<ul style="list-style-type: none"> <li>Regularly monitor cashflow impact position as contributions reduce.</li> <li>Ensure sufficient income generation/liquid assets are available.</li> <li>Regularly review Asset Strategy and adjust as necessary.</li> </ul>	

	Detrimental changes to the maturity of fund membership. As the scheme matures the ratio of pensioner / deferred pensioner to active employees increases.	4	2	8	MR	<ul style="list-style-type: none"> <li>Monitor carefully through the valuation cycle. Ensure the investment strategy reflects current and forecast Fund maturity.</li> <li>Actively participate in pension consultation, giving due consideration to any proposals that may have a disproportional impact on scheme 'opt out' rates.</li> </ul>	
Investments	Financial Market suppressed by economic climate, national / global austerity measures and Geo-political instability.	5	5	25	HR	<ul style="list-style-type: none"> <li>Long-term funding plan with a diverse range of asset classes and Fund Manager styles.</li> <li>Panel clearly understand the impact of market conditions on asset classes and fund manager performance.</li> <li>Panel monitor and scrutinise performance, market conditions and forecasts.</li> <li>Continue to monitor the potential implications of Brexit.</li> <li>Material economic and financial risk of infectious disease.</li> </ul>	
	Custody arrangements may not be sufficient to safeguard pension fund assets.	4	2	8	MR	<ul style="list-style-type: none"> <li>An agreement is in place between the custodian and Pension Fund.</li> <li>Monthly reconciliations are carried out to check external custodian records.</li> <li>Funds held in the name of the Pension Fund or the WPP, not the Fund Manager nor the Custodian.</li> </ul>	
	Investment returns fail to meet agreed targets.	4	2	8	MR	<ul style="list-style-type: none"> <li>Regular monitoring of investment returns.</li> <li>Advisory Panel review and challenge of fund manager performance against their benchmarks and targets.</li> <li>Use advisors to support the monitoring and challenge of fund managers.</li> <li>Where performance issues arise, put more targeted review and challenge arrangements in place.</li> <li>Monitor individual fund managers performance and address where necessary by closer monitoring and scrutiny</li> </ul>	Closer monitoring and scrutiny of fund manager added
	Adverse impact of the transition of the Pension Fund's assets into the Wales Pension Partnership pooling	4	2	8	MR	<ul style="list-style-type: none"> <li>Effective governance arrangements of the Joint Governance Committee and Officer Working Group.</li> <li>Key role undertaken by the Joint Governance Committee at transition process.</li> <li>Ensure operator establishes a tax efficient UK collective investment vehicle.</li> <li>Ensure the appropriate 'wrappers' for the investments in illiquid assets.</li> </ul>	

	Investments are not carried out by the fund manager in accordance with instructions given by the Pension Fund.	3	2	6	LR	<ul style="list-style-type: none"> <li>Investment assets and transactions are monitored in-house via the Euraplan Shareholder II system.</li> <li>Investment management fees are monitored on a quarterly basis.</li> <li>Investment malpractices are reported to the FCA.</li> </ul>	
	Pension fund investments may not be accurately valued.	4	1	4	LR	<ul style="list-style-type: none"> <li>Investments are valued using correct prices obtained by fund managers from independent third party agencies.</li> </ul>	
	Fund managers may not have the appropriate control framework in place to protect pension fund assets.	4	1	4	LR	<ul style="list-style-type: none"> <li>Agreements are in place between fund managers and the Pension Fund.</li> <li>Portfolios are managed in accordance with the investment objectives.</li> <li>Monthly reconciliations are carried out to check portfolios against administering authority records.</li> <li>Third parties provide the Pension Fund with an annual internal control report, which provides assurance.</li> <li>FCA regulated.</li> <li>Fund managers have robust arrangements in place to manage mandates at difficult and volatile times.</li> </ul>	
	Fund manager mandate restrictions and benchmarks constrain returns.	3	1	3	LR	<ul style="list-style-type: none"> <li>Obtain advice from advisors.</li> <li>Obtain advice from performance measurement company.</li> </ul>	
Governance	WPP Pooling arrangements	5	2	10	MR	<ul style="list-style-type: none"> <li>Joint Governance Committee and Officer Working Group has been formally constituted.</li> <li>Establishment of sub groups of the WPP for specialisation.</li> <li>Wales Pension Partnership's CIV proposal approved by FCA on 24<sup>th</sup> July 2018, further submissions approved to allow for the development of additional sub funds.</li> <li>External 'Operator' appointed by WPP</li> <li>Participation on consultation papers.</li> <li>Engagement with local pension boards.</li> <li>Creation of sub funds continues to be effectively progressed.</li> <li>Pension Board Engagement days held to update Pension Board Chairs and provide feedback.</li> <li>Development of appropriate business plans, policies and procedures.</li> <li>Scheme Member Representative co-opted as a non voting member of the JGC meetings, feeding back to Pension Board Chairs</li> </ul>	Uncertainty on the change of ownership of the WPP 'Operator'

Failure to comply with LGPS Governance Regulation / Pension Regulator Code of Practice.	5	1	5	LR	<ul style="list-style-type: none"> <li>• Fund Governance Compliance Statement is reviewed and published annually.</li> <li>• The Fund's 'Pension Board' became effective from 1st April 2015.</li> <li>• The Fund has a breaches policy.</li> <li>• Review the Investment Strategy Statement annually in accordance with MHCLG (now Department for Levelling Up, Housing and Communities) guidance.</li> <li>• Benchmark against regulator on code of practice.</li> <li>• Submit Annual Pension Scheme Regulator Return on time.</li> <li>• Good governance review currently being considered by MHCLG (now Department for Levelling Up, Housing and Communities).</li> <li>• Participation on consultation papers.</li> </ul>	Participation on consultation papers added
Members, officers and advisors do not have the right knowledge or skills.	4	1	4	LR	<ul style="list-style-type: none"> <li>• The Pension Fund has adopted the CIPFA knowledge and skills framework.</li> <li>• The Pension Fund Skills and Knowledge framework is reviewed at each Investment and Administration Panel, Pension Committee and Pension Board.</li> <li>• The Pension Fund subscribes to relevant professional bodies, e.g. LAPFF.</li> </ul>	
Loss of reputation.	2	2	4	LR	<ul style="list-style-type: none"> <li>• The Fund holds Annual General Meetings, Communication Forums, seminars and training.</li> <li>• The Fund has a dynamic website responding to stakeholder requirements.</li> <li>• Knowledgeable and professional staff.</li> <li>• Meetings are held regularly with the Fund's employer authorities.</li> <li>• Benefit statements are sent out annually to members by 31<sup>st</sup> August.</li> <li>• Monitoring the policy on voting decisions and the impact should UK shareholder lose voting rights in EU companies.</li> <li>• Annual reports are produced by 1<sup>st</sup> December.</li> <li>• The Fund's Responsible Investment Policy is contained within the Investment Strategy Statement and available on the Pension Fund website <a href="http://www.rctpensions.org.uk/En/GovernanceandInvestments/Investments">http://www.rctpensions.org.uk/En/GovernanceandInvestments/Investments</a></li> <li>• The Pension Fund's passive equities are invested in a low carbon product.</li> <li>• External Audit and Governance and Audit Committee.</li> </ul>	
Conflicts of Interest arise.	3	1	3	LR	<ul style="list-style-type: none"> <li>• Declarations to be made by Advisory Panel Members, Pension Board Members and Pension Committee Members.</li> <li>• Director of Legal Services maintains a Register of Interests.</li> <li>• Fund Governance Policy.</li> <li>• Employer / Member Engagement – Communication Policy.</li> <li>• Transparency – published audited accounts, Valuation, Annual Report, etc.</li> </ul>	

	Failure to comply with the Myner's Statement of Investment Principles.	2	1	2	LR	<ul style="list-style-type: none"> <li>The Statement is reviewed annually by the Advisory Panel and approved by the Pension Committee.</li> </ul>	
Operational	Loss of key staff / expertise.	4	3	12	MR	<ul style="list-style-type: none"> <li>Job descriptions and person specifications.</li> <li>Dynamic training program.</li> <li>Workforce planning arrangements in place.</li> <li>All staff are currently working on a hybrid basis in line with the needs of the service</li> <li>Training and retaining of specialists in a challenging recruitment market</li> </ul>	Training and retaining of specialist staff added
	Compliance with data quality regulation and best practice.	5	2	10	MR	<ul style="list-style-type: none"> <li>Data Improvement Plan in place.</li> <li>Good relationships / communication with Employers.</li> <li>Ensure timely notification by Fund Employers of new starters, changes and leavers.</li> <li>Issue annual benefit statements to scheme members for review.</li> <li>Breaches policy in place.</li> <li>Mandatory rollout of I-connect, monthly data submissions.</li> <li>Monthly Data Screening.</li> <li>Common and Scheme Specific Data reviews / scoring.</li> <li>Scheme Member Self Serve validation available.</li> <li>Fund participation in the National 'Tell us Once Service'.</li> <li>TPR Annual Scheme Return and data score.</li> <li>Membership data is hosted in the UK.</li> </ul>	
	Inability to implement the 'McCloud' remedies within expected timelines	5	2	10	MR	<ul style="list-style-type: none"> <li>Project Team established.</li> <li>Investment in team resources.</li> <li>Data retrospection solutions discussed and agreed through the Fund's Employer Comms Forum.</li> <li>Monitor and contribute to remedy draft regulations when available.</li> <li>Early engagement with Pensions Software Supplier.</li> <li>Sharing best practice through the various LGPS forums.</li> </ul>	



Cyber security breach of the Fund's pension system and personal data contained.	5	2	10	MR	<ul style="list-style-type: none"> <li>• Third Party supplier – cyber reliance controls.</li> <li>• Controls and environment maintained and regularly reviewed in line with Council's standards. Internal controls include, appropriate password and access conventions, firewalls, virus and malware protection, data encryption requirements.</li> <li>• Annual control review or more frequent depending on environment / service changes.</li> <li>• Designated Information Management Officer, with Security Incident reporting protocol.</li> <li>• Cyber Essential Accreditation.</li> <li>• Public Service Network (PSN) Accreditation.</li> <li>• Information &amp; Security Board.</li> <li>• All Wales Security Forum (WARP).</li> <li>• Cyber Security Principles for Pension Schemes' (Self Assessment).</li> <li>• Cyber Security Risk Assessment undertaken during Covid-19.</li> </ul>	
Confidential / commercially sensitive data is leaked, stolen or misplaced	5	1	5	LR	<ul style="list-style-type: none"> <li>• The Pension Fund will clearly mark any confidential / commercially sensitive data that it shares.</li> </ul>	
Failure to meet Service Standards.	3	3	9	MR	<ul style="list-style-type: none"> <li>• Pension Fund Administration Strategy.</li> <li>• Workforce planning, realign to meet one off demands, skills and training review.</li> <li>• Appropriate systems and technology.</li> <li>• Regular monitoring by Fund governance groups.</li> </ul>	
Failure to implement scheme changes.	4	2	8	MR	<ul style="list-style-type: none"> <li>• Regular updates are received, reviewed and acted upon in a timely manner.</li> <li>• Ensure software is adapted appropriately.</li> <li>• Membership of relevant pensions professional bodies.</li> <li>• Implementation of McCloud remedies</li> </ul>	
Employer ceases to participate in Fund / Admitted bodies go into administration.	3	2	6	LR	<ul style="list-style-type: none"> <li>• Employer covenants or bonds.</li> <li>• Regular review of covenants.</li> </ul>	
Failure to hold and share personal data in accordance with the General Data Protection Regulation (effective 28 <sup>th</sup> May 2018).	5	1	5	LR	<ul style="list-style-type: none"> <li>• Administering Authority Information Management Security policies.</li> <li>• All Scheme Member correspondence securely imaged.</li> <li>• Appropriate Data Protection Registration.</li> <li>• Third Party Data Sharing agreements in place</li> <li>• Fund Privacy Notice published.</li> <li>• Employer Memorandum of Understanding implemented.</li> <li>• Mandatory training undertaken by all staff.</li> <li>• Awareness sessions held with the Fund's Governance groups.</li> </ul>	

Failure to pay pensioners on time.	5	1	5	LR	<ul style="list-style-type: none"> <li>Payroll Timetables maintained.</li> <li>Business Continuity Plan.</li> </ul>	
Delivery of the 2022 Triennial Valuation	5	1	5	LR	<ul style="list-style-type: none"> <li>2021 Data Cleaning exercise.</li> <li>Actuarial 'Employer Covenant' reviews.</li> <li>Employer Engagement : Year End Data Schedules Issued / Timetable / Support</li> <li>Project Terms of Reference / Timetable agreed with Actuary</li> <li>Initial assumption agreed with Actuary</li> <li>Data submitted as per agreed timeline</li> </ul>	Initial assumption agreed with Actuary added and data submitted as per agreed timeline
Qualification of accounts.	4	1	4	LR	<ul style="list-style-type: none"> <li>Financial Information reconciled on a timely basis.</li> <li>Accounts are prepared in accordance with the relevant regulations, guidance and Codes of Practice.</li> <li>Regular dialogue with external auditors.</li> </ul>	
Operational disaster (fire / flood, etc)	4	1	4	LR	<ul style="list-style-type: none"> <li>Business continuity procedures are in place and tested.</li> </ul>	
Compliance with Fund 'Dispute' Regulation.	3	1	3	LR	<ul style="list-style-type: none"> <li>Internal Dispute Procedure in place.</li> </ul>	
Failure by employers to pay contributions into the Fund on time and in accordance with the 2019 'Rates and Adjustments Certificate'.	2	1	2	LR	<ul style="list-style-type: none"> <li>Monitoring of monthly receipts to remittances, with reference to the 2019 'Rates and Adjustment Certificate'.</li> <li>Report any material breaches to Regulator in accordance with the Fund's 'Breach Policy'.</li> </ul>	
Fraud.	2	1	2	LR	<ul style="list-style-type: none"> <li>Strict internal control mechanisms, segregation of duties, etc.</li> <li>Internal and External Audit Review.</li> <li>National Fraud Inspectorate participation.</li> <li>Whistleblowing policy in place.</li> </ul>	

Regulatory	Failure to comply with LGPS regulations and any other new regulations.	4	1	4	LR	<ul style="list-style-type: none"> <li>• There are sufficient fully trained staff.</li> <li>• Regular updates are received and acted upon.</li> <li>• Membership of relevant pensions professional bodies.</li> <li>• Welsh Pension Officer Group participation.</li> <li>• Welsh Pension Fund Treasurers Group participation.</li> <li>• Compliance with MiFID II.</li> <li>• Submit Annual Pension Scheme Regulator Return on time.</li> <li>• MHCLC/LGA guidance issued to Fund Employers around the 'Exit' Regulations (now revoked).</li> </ul>	
	Non compliance of procurement rules	1	2	2	LR	<ul style="list-style-type: none"> <li>• Regular budget monitoring.</li> <li>• Periodic review of suppliers.</li> <li>• Contract Procedure Rules.</li> </ul>	

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**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

**MUNICIPAL YEAR 2022-23**

**PENSION FUND COMMITTEE**

**28<sup>th</sup> OCTOBER 2022**

**REPORT OF: THE DIRECTOR OF  
FINANCE AND DIGITAL SERVICES**

<b>AGENDA ITEM NO. 6</b>
<b>WALES PENSION PARTNERSHIP - UPDATE</b>

**Author – Barrie Davies, Director of Finance and Digital Services (01443)  
424026**

**1.0 PURPOSE OF REPORT**

1.1 This report provides the Committee with an update on the work and progress with regard to the Wales Pension Partnership (WPP) and Joint Governance Committee (JGC).

**2.0 RECOMMENDATIONS**

2.1 It is recommended that the Committee:

2.1.1 Note the update.

**3.0 BACKGROUND**

3.1 As the Committee is aware the UK Government's requirement for all pension funds to pool their investments has been progressing in Wales through the WPP.

3.2 The Partnership governance arrangements include a JGC which meets around 4 times a year. Each pension fund in Wales is represented on the Committee by their Chair (or Vice Chair).

3.3 The latest meeting of the JGC, scheduled to take place on the 21<sup>st</sup> September 2022, was cancelled due to the passing of Her Majesty the Queen and the period of mourning. The next JGC meeting is scheduled for 5<sup>th</sup> December 2022.

3.4 Work continuing to develop in a number of key areas, including:

- New policies and policy reviews, including a Complaints Policy, review of the Rebalancing and Alteration Policy
- Private Markets Allocator procurement process
- Officer Working Group sub-groups:
  - Private Markets sub-group.
  - Responsible Investment sub-group.
  - Risk Register sub-group.

### 3.5 Next Steps / Priorities:

- Development of the Private Markets Sub-Funds.
  - March 2022 to December 2022 – Private debt and Infrastructure sub funds to be developed, approved and launched.
- Operator contract procurement process.
  - The existing contract comes to an end in December 2024.
  - Continuing discussions with Burges Salmon re the legal requirements.
- Launch of the Active Sustainable Equity Fund.
- Annual Stewardship Report to maintain the WPP's signatory status to the UK Stewardship Code.
- Voting Priorities and engagement.

### 3.6 Other Key areas:

- Virtual training sessions continue.
- The website continues to be updated with approved policies, press releases and details of sub-fund launches.

## 4.0 **CONCLUSION**

- 4.1 This report provides the Committee with an update on the work of the Wales Pension Partnership and the Joint Governance Committee.

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