RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2020-2021

PENSION FUND COMMITTEE **14th DECEMBER 2020** **REPORT OF: THE DIRECTOR OF FINANCE AND DIGITAL SERVICES**	**AGENDA ITEM NO. 5** **DELEGATED FUNCTIONS – UPDATE REPORT**

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1.0 PURPOSE OF REPORT

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

2.0 RECOMMENDATIONS

2.1 It is recommended that the Committee:

2.1.1 Note the issues being addressed; and

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

3.0 BACKGROUND

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

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

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

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

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

- Agreeing Fund business plans and monitoring progress against them.

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

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

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

- Ensuring robust risk management arrangements are in place.

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

- Monitor investment performance.

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

3.3 The Investment and Administration Advisory Panel meets on a quarterly basis, the most recent meeting taking place on the 24th November 2020.

4.0 INVESTMENT PERFORMANCE

4.1 There is a quarterly reporting cycle for pension fund investment performance, with exception reporting agreed with fund managers where there are particular concerns. The most recent panel meeting considered investment performance to the end of September 2020.

4.2 During the quarter ended 30th September 2020, the overall value of the Fund increased from £3,905 million to £4,040 million.

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

Total Portfolio

	2017	**2018**				2019				2020			3yr
Quarter	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
Fund	3.9	-2.0	6.6	2.8	-8.1	7.9	5.0	1.9	2.6	-11.4	16.6	3.5	**9.1**
B'mark	3.9	-3.4	4.9	2.4	-6.2	7.0	4.1	3.1	0.7	-10.6	12.5	1.6	**6.2**
Relative	0.1	1.5	1.6	0.5	-2.0	0.9	0.9	-1.2	1.9	-0.8	4.1	1.9	**2.9**

4.4 As shown, the rolling 3 year performance of the Fund is 9.1% positive as compared to a benchmark of 6.2%. For the last quarter (i.e. quarter 3), the Global Opportunities high alpha equity portfolio, Global Growth high alpha equity portfolio, UK Credit and CBRE property portfolio underperformed their respective benchmarks. BlackRock passive equity portfolio performed in line with benchmark. Baillie Gifford, the traditional equity portfolio, outperformed their benchmark which drove the overall positive relative performance for the quarter.

4.5 The November 2020 Panel included a review of fund managers' performance. Presentations were received from Fidelity Investment Managers, the UK credit manager of the WPP and CBRE, the Fund's property manager on their performance to the end of September quarter.

4.6 As Members will be aware, the March 2018 meeting of the Committee agreed to the revised asset allocation strategy for the Fund and the steps to be taken to move toward the preferred strategy. The following table provides a summary of progress made in this regard to 30th September 2020.

		Proposed Step 1	**Proposed Step 2**	**Proposed Step 3**
Asset Class	**Allocation 30/09/2020**	**Current Benchmark**	**Strategy (1)**	**Strategy (2)**
Total Equities	**69%**	**63%**	**63%**	**58%**
Total Alternatives	**7%**	**10%**	**20%**	**25%**
Absolute Return Bonds			10%*	10%
Infrastructure				5%
Property	7%	10%	10%	10%
Total Bonds & Cash	**24%**	**27%**	**17%**	**17%**
Fixed Interest (UK)	10%	12.5%	7.5%	7.5%
Corporate Bonds (UK)	13%	12.5%	7.5%	7.5%
Cash	1%	2%	2%	2%

Expected return (pa)		5.9%	6.2%	6.3%
Expected volatility (pa)		12.2%	12.2%	11.7%

*The investment into Absolute Return Bonds (ARBs) is to have an initial commitment of 5%

With the current market volatility and the considerable stress in the global economy sub investment grade companies, the initial investment of 5% in ARBs has been delayed. This allocation was invested in the UK Credit Fund sub fund of the WPP.

4.7 Following the recent actuarial valuation Aon have been engaged as strategic investment advisers to assist in considering the current investment strategy, how the Fund should respond given the improvement in the funding position since the last actuarial valuation, whilst taking into account the Fund's focus on ESG, including climate change.

4.8 The asset allocation of the Fund by fund manager and mandate as at 30th September 2020 (which includes cash) is shown in the table below.

Baillie Gifford Traditional	Global Equities	26%
Link – Global Opportunities Fund	Global High Alpha Equities	8%
Link – Global Growth Fund	Global High Alpha Equities	31%
Link – UK Credit Fund	UK Credit	14%
BlackRock	Passive Global Equities	4%
Blackrock	Passive UK Gilts	10%
CBRE	UK Property	7%
Internal	Cash	0%

4.9 Following agreement at the October 2019 Committee to move the investments of the current mandate with Blackrock to the ACS World Low Carbon Equity Tracker Fund, the transition was due to take place during March 2020. This transition was delayed due to market volatility and Covid-19. The transition commenced 24th November 2020 with a completion target date of 8th December 2020.

5.0 ADMINISTRATION UPDATE

5.1 Further to the legislative update provided at the October Pension Committee, the HM Treasury regulations on 'Exit CAP' payments have since come into force on the 4th November 2020, limiting the costs of exits to £95k for organisations in scope. As these regulations currently conflict with the LGPS scheme regulations, changes to the scheme have been proposed by the Ministry of Housing, Communities and Local Government (MHCLG). The Council acting as scheme Administrator and Employer has responded to this consultation which closed on 9th November 2020, raising a number of significant concerns with regards to the proposals.

5.2 Implementation of benefits during this period of regulatory conflict has led to some confusion. Local Government Association guidance has been issued to the Fund Employers and Fund Administrators advising of the approach and process of evidencing any wavier that may be supported by the Welsh Government.

5.3 Having concluded the support for those Employers with a March year end accounting period, the team are currently supporting those remaining Employers through their year end periods. The 2019/20 Pension Savings Statements have been issued to those scheme members exceeding the 'Annual Allowance' and 'scheme pay' arrangements are being agreed where appropriate.

5.4 Following receipt of the Government Actuary Department (GAD) membership 'data collection' request in respect of scheme cost valuation, the information request was completed by the 23rd November 2020.

5.5 The Fund's first virtual Annual General Meeting was held on 16th November 2020. Positive feedback has been received from a number of attendees following the meeting.

5.6 All Wales Practitioner Group meetings are held to discuss and feedback issues into the National LGPS Advisory Group. Statistics around member deaths are still being collated throughout the pandemic. The Fund specific comparison is provided in the table below:

Month	**2020**	**2019**
April	129	39
May	66	51
June	66	46
July	65	43
August	38	46
September	54	55
October	59	84

5.7 Following the conclusion of the Pension Fund Accounts, in accordance with regulation 57 of the LGPS Regulations 2013, the Pension Fund Annual Report has been finalised and published by the relevant date. A copy has been provided to the Scheme Advisory Board as required.
http://www.rctpensions.org.uk/En/RelatedDocuments/AnnualReport/PensionFundAnnualReport2020English.pdf

5.8 In preparation for the McCloud remedies, the Fund has requested relevant historic service data from Employers in order to undertake the necessary re-calculation and comparison for those members impacted.

5.9 Data quality and compliance remains a key priority for the Pension Fund as reflected in our further improvement in the Fund's annual data score. At the request of Pension Committee, those Employers yet to implement I-Connect monthly data transfer, have been requested to conclude the exercise by 31st March 2021.

5.10 Member Self Serve (MSS) continues to be promoted and registrations of Active, Deferred, Pensioner and Dependant members are shown below (as at 31st October 2020).

	Member Numbers	**MSS Registrations**	**Current Percentage Take-up**	**Percentage Reported Previously**
Actives	23657	9015	38.11%	37.83%
Deferred	27817	7636	27.46%	27.07%
Pensioners	17652	3836	21.73%	21.22%
Dependants	2749	125	4.55%	4.23%

5.11 Eight 'Key Performance Service Standards' are monitored by the Panel. It was noted that in respect of performance during October 2020, two Performance Service Standards were behind target.

- % Refund of Contributions processed within 10 days (72% for October against a target of 95%). This measure does relate to a payment. 29 Cases were completed of which 8 exceed the 10 days target.
- % Transfers Out processed within 10 day (all 8 completed during October were behind target). There was no impact on the payment of member benefits

5.12 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 3rd November 2020. There were no items noted for referral back to Committee.

6.2 The next Pension Board virtual meeting is scheduled for the 20th January 2021, and the joint meeting with the Pension Committee scheduled for March 2021.

6.3 Pension Board Members have continued to support their skills and knowledge requirement, through their attendance at relevant online 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 July to September 2020.

8.0 CONCLUSION

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

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Quarterly Engagement Report

July-September 2020

Local Authority Pension Fund Forum

Rio Tinto

BHP, Tesco, Sainsbury, ArcelorMittal, National Grid

CLIMATE EMERGENCY

Puutu Kunti Kurrama and Pinikura Aboriginal Corporation

Rio Tinto under pressure from investors over Juukan Gorge

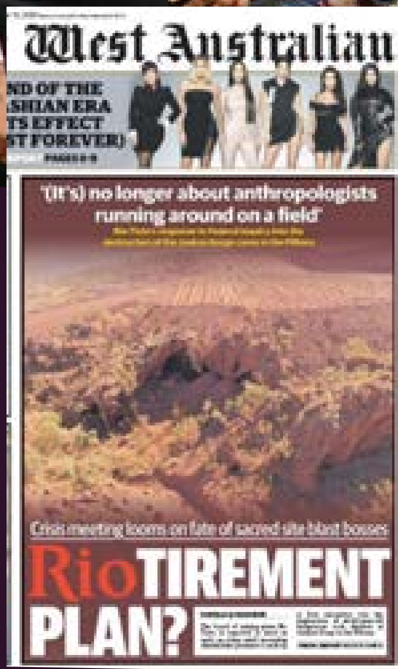
As LAPFF has been learning more about **Rio Tinto**'s involvement in the destruction of the historically significant caves at Juukan Gorge in Western Australia, there have been increasing concerns about the company's corporate governance practices. Consequently, the Forum – along with other investor groups, most prominently the Australasian Centre for Corporate Responsibility (ACCR) - has been pushing the company to review its corporate governance arrangements.

One of the main strategies in this engagement has been to issue press releases citing LAPFF's concerns as various details of Rio Tinto's practices were revealed through a range of investigations. There has been an internal investigation led by a non-executive director on Rio Tinto's board, which resulted in the elimination of short-term bonuses for three senior executive members, including the CEO. Subsequently, the CEO and two other senior executives resigned.

The Forum received significant press coverage for its support of this measure. LAPFF also issued press releases responding to information issued by Australian Parliamentary inquiries into this matter. There appears to be increasing evidence of corporate governance failures, particularly in relation to engaging properly with indigenous communities, emanating from these inquiries.

LAPFF is continuing to ask questions of the Rio Tinto board about its response to the mounting information on corporate governance failures. The Forum currently has requested LAPFF Chair, Cllr Doug McMurdo, meet with the Chair of Rio Tinto, Simon Thompson, about the

> "My interaction with Mr. Thompson, in his roles as Chair of both Rio Tinto and 3i, has been positive thus far. However, I sense that investors are losing confidence in his leadership and in his board at Rio Tinto. It will be a long road back for the company."
>
> Cllr Doug McMurdo



What happened at Juukan Gorge?

In May, Rio Tinto destroyed 46,000-year-old Aboriginal caves in the Juukan Gorge region of Western Australia. The explosions were part of a government sanctioned mining exploration in the region. The caves are of cultural significance to the Puutu Kunti Kurrama and Pinikura (PKKP) people who claim Rio Tinto did not engage with them adequately before the disaster.

Rio Tinto has since apologised, and senior executives have resigned. However, an Australian parliamentary enquiry is continuing and may yet reveal further corporate governance failings.

CLIMATE EMERGENCY

Juukan Gorge incident. In the meantime, LAPFF is participating in a collaborative investor group led by Adam Matthews at Church of England to discuss a way forward not only for Rio Tinto, but the mining industry more broadly. LAPFF has also engaged with Rio Tinto in relation to the company's progress on scopes 1 and 2 carbon emission targets; progress on partnerships; and review of trade association memberships.

BHP Next Investor Target on Indigenous Peoples Engagement

With BHP's AGM coming up, investors are keen to ensure the company avoids another Juukan Gorge-type situation. A repeat is of particular concern in relation to its proposed Resolution Copper mine in Arizona, USA. BHP is in a joint venture with Rio Tinto to scope out the possibility of operating the mine, with BHP as the non-operating partner. Given the company's partnership with Rio Tinto and its joint venture with Vale in the Samarco dam which collapsed in Brazil, there are concerns about how BHP engages with environmental, social and governance issues in joint ventures where it is the non-operating partner.

In the wake of the Juukan Gorge disaster, BHP announced that it will not damage 40 cultural heritage sites in Western Australia without extensively consulting Traditional Owners. The Forum has engaged at length with BHP this quarter ahead of the AGM to understand more about the company's plans and its approach to community engagement.

A LAPFF representative attended a shareholder meeting in July to hear BHP's cultural heritage team discuss its operation. Cllr McMurdo then met with both BHP Chair Ken MacKenzie and Vice President of Governance, Geof Stapledon to ask about joint ventures and community engagement. Cllr McMurdo took some comfort in the fact that BHP has two safety checks on cultural heritage, including measures Rio Tinto does not have. First, BHP re-engages with affected communities if it has not undertaken work within 12 months of approval from the communities on a given site. Second, the community engagement department at BHP is located within the site-level function rather than the corporate headquarters.

Still, investor confidence in the mining sector has been shaken, which has, in part, led to the Australasian Centre for Corporate Responsibility (ACCR) filing three shareholder resolutions with BHP, one of which is on cultural heritage. The cultural heritage resolution is in three parts and calls for:

(a) a moratorium on the destruction of cultural heritage sites until better laws are enacted in Australia to protect Indigenous communities in the context of mining projects;

(b) non-enforcement of contractual provisions essentially imposing a 'gag order' on communities to allow them to speak about concerns regarding mining projects on their land;

(c) disclosure of the approach to cultural heritage held by the industry associations to which BHP belongs.

The other two resolutions cover a constitutional amendment to allow for advisory shareholder resolutions to be filed and the Covid-climate link. LAPFF will issue a voting alert on these resolutions shortly.

NET ZERO BENCHMARK

The Forum is proud to be a member of Climate Action 100+, a collaboration with 518 investor groups with $47tn in assets. From 2021, the CA100+ net zero benchmark will help its members assess a company's alignment to net zero emissions. Using 30 indicators, the benchmark will provide comprehensive analysis on which companies are leading the transition to net-zero emissions, alongside a range of other indicators used by investors to inform investment and corporate engagement strategies. LAPFF's involvement with CA100+ has helped in successful engagements this quarter and we expect the benchmark will encourage more companies to reduce carbon emissions and demonstrate high ambition to align with the Paris Agreement goals.

THE ARCELORMITTAL CLIMATE CHALLENGE

Steelmaking accounts for 7-9% of global carbon emissions today, and as the largest steelmaker in the world ArcelorMittal is responsible for a significant share. The majority of carbon emissions come from the process of iron ore reduction. The carbon challenge for the industry in the coming decades must be to transform the way in which iron ore is turned into steel.

Over the period of engagement, ArcelorMittal has been responsive and LAPFF and other lead investors have had notable success with the company separately identifying carbon-neutral hydrogen technology as central to its longer term zero-carbon transition.

Most recently ArcelorMittal has set an objective for the whole group to be carbon neutral by 2050 in addition to its shorter term target in Europe to reduce CO2 emissions by 30% by 2030.

Such targets are encouraging but it is active shareholders that must continue to hold the company – and others like it – to their targets. Our engagements continue.

COMPANY ENGAGEMENT

ArcelorMittal and National Grid CA100+ Engagements Continue

Engagement to date with ArcelorMittal has led to a 30% carbon emission reduction target for its European operations by 2030, and for carbon neutrality for 2050. A follow-up meeting at the beginning of July sought commitments to global targets for 2030 and 2050. At the National Grid meeting, the Forum's objectives were for greater clarity on when the company will set scope 3 targets, and a commitment to report on climate lobbying and alignment with trade industry positions.

The meeting with ArcelorMittal resulted in a commitment for a group 2030 carbon emission reduction target to be disclosed in a report released later this year. This had been delayed due to repercussions from the Covid-19 pandemic. At a collaborative meeting with National Grid representatives, Cllr Rob Chapman, LAPFF vice-chair, raised a number of areas, including the provision of electric vehicle charging stations. The company had previously identified this as the most positive area of 'value change' for shareholders, but progress on this has been slow. For setting scope 3 targets, the challenge for the company, which has been proactive in the UK for aiming for a carbon-neutral grid by 2025, in its US gas and electricity distribution operations. Following up on a LAPFF question to the AGM, the company committed to look at disclosing company positions on direct and indirect lobbying.

As joint-lead investor, LAPFF sent letters to the chairs of both companies, providing information on the new Climate Action100+ Net Zero Benchmark which will rank companies from 2021 onwards. The benchmark builds on Taskforce on Climate Related Financial Disclosure (TCFD) recommendations and looks at the most significant aspects of companies' corporate strategy related to climate. The companies were asked to work toward providing disclosures consistent with the framework; align with net zero by 2050 or sooner; and work with companies on action plans. A response was requested for October.

LAPFF joins other investors on anti-deforestation push

The impact of deforestation on climate change is a growing concern. LAPFF has worked with other investors to push the Brazilian government to stem deforestation in the Amazon. At a meeting with Tesco, one objective was for the company to set out how it aimed to achieve its target of fully recyclable packaging by 2025.

The investor coalition drafted and co-signed a letter to the Brazilian government and held a call hosted by Storebrand to encourage better protection of the Amazon.

LAPFF's meeting with **Tesco** discussed how the company's meat supply chain might contribute to deforestation through its supplier, JBS, which received a lot of media attention on this issue. The soy, which is used to feed the cattle eventually purchased by Tesco as meat, is targeted by the campaign. This issue has raised the complicated nature of commodity supply chains and why it is important to conduct effective environmental and human rights due diligence on the entire supply chain, not just first or second tier suppliers.

The Tesco meeting also addressed the problem of plastics in the supply chain. Hygiene requirements resulting from Covid-19 have forced Tesco to re-orient its short-term efforts to reduce packaging. However, the company has retained its long-term strategy and will continue to work on rolling it out.

The investor coalition appears to have helped drive proposed legislation on stemming deforestation in supply chains. LAPFF has drafted a consultation response to DEFRA draft legislation[1] designed to prevent forests and other natural areas from being converted illegally into agricultural land. The legislation would require a number of larger companies to ensure their 'forest risk' commodities have been produced legally.

[1] https://consult.defra.gov.uk/eu/due-diligence-on-forest-risk-commodities/

COMPANY ENGAGEMENT

LAPFF engages further on climate finance

For much of this year, LAPFF has engaged with major asset managers and insurers on their climate change activities. The goal is to ensure they gain awareness of the impact the insurance side of their businesses does - and can - have on climate change.

So far, the Forum has engaged with eight of the eleven companies contacted. This quarter, LAPFF engaged with **HSBC** and **Allianz**.

Overwhelmingly, engaged companies see the investment aspect of their businesses as more relevant to tackling climate change, with little or no thought given to the role their insurance sides can play. That said, those companies offering property and casualty insurance agree this business is vulnerable to climate change, more so than the health and life insurance lines. However, one company noted that health and life insurance might be equivalently - or even more - affected in future. Only one company representative recognised and spoke about the companies' impact on climate change rather than just the impact of climate change on their business.

LAPFF will work to set up meetings with the remaining three companies: Lloyds Banking Group, Aviva Group, and Berkshire Hathaway. When this initial round of engagements has been completed, the meeting information will be assessed to determine new objectives to take this work forward.

Tailings Dam engagement reaches milestone

Since February 2019, LAPFF has joined in the investor initiative on tailings dam safety to ensure that collapses - such as those in Mariana and Brumadinho, Brazil - do not occur again.

There have been various sub-initiatives stemming from the over-arching project established by Adam Matthews from the Church of England Pensions Board and John Howchin from the Swedish Council of Ethics to the AP Funds. One such initiative was a tripartite relationship between Principles for Responsible Investment (PRI), UN Environmental Programme (UNEP), and International Council on Mining and Metals (ICMM) to establish a Global Tailings Standard. The Standard was launched on 5 August with over 1,200 webinar participants.

While affected communities were consulted in the drafting of the Standard, they were concerned that their input was not incorporated adequately. A number of investors also raised concerns about the lack of an independent body to monitor its implementation. These points will likely continue to be areas of focus as the Standard is rolled out.

LAPFF ramps up engagement on supply chain due diligence

Between the Boohoo scandal in Leicester, the supply chain component of the Modern Slavery Act, and the proposed deforestation in the supply chain law, UK investors face supply chain challenges from several quarters. LAPFF has engaged with a number of other investors to explore initiatives that address supply chain concerns.

During the quarter, LAPFF representatives joined a supply chain due diligence workshop hosted by the newly independent Workforce Disclosure Initiative. Attendees discussed what companies and investors can do to improve workplace standards at supplier facilities. LAPFF also met with Andrew Adams at CCLA to discuss joining an investor coalition to promote compliance with the Modern Slavery Act. This would be in addition to the Forum's participation in Rathbone's engagement with companies that fail to adhere to Modern Slavery Act requirements. LAPFF is also working with other investors to stem deforestation in company supply chains, as mentioned above.

The details of the CCLA engagement are to be decided, and the LAPFF consultation response on the proposed law on deforestation in the supply will be shared when complete. The Forum also held a

Garment workers overcrowded into the back of a truck, commuting home after work, Phnom Penh, Cambodia

COMPANY ENGAGEMENT

webinar on environmental and human rights due diligence which covered all the issues above.

Cybersecurity Engagements Underway

The LAPFF membership increasingly recognises the variety of business risks that can stem from companies' cyber-security failures. In response members expressed interest in engaging further on this issue. Consequently, LAPFF has begun a round of engagements with transport and logistics companies, which can be particularly vulnerable to cyberattacks, to assess their cyber resilience.

Letters have been sent to Bunzl Plc, AP Moller-Maersk, Wincanton Plc, Expeditors International of Washington Inc. and C.H. Robinson Worldwide Inc. Meetings have been conducted with Clipper Logistics Plc and Royal Mail Plc.

Subsequent engagements with other companies will take place over the coming months.

LAPFF signs onto ICCR Covid-19 letters to pharmaceutical companies

There has been concern that some pharmaceutical companies might take advantage of the Covid-19 pandemic by implementing unfair distribution or pricing practices. The Interfaith Centre on Corporate Responsibility (ICCR) organised a collaborative engagement between investors and a number of pharmaceutical companies to ensure they are adhering to fair practices in the context of the virus.

Letters to most of the seventeen companies have been sent, with responses received from Sanofi – which is working on a coronavirus vaccine – and Biogen, which is not. AstraZeneca also sent a letter reassuring investors about the company's approach to developing a vaccine. A major focus for the company seems to be reducing the body's overblown immune response to Covid-19, and it is looking both to a vaccine and existing drugs to help deal with this problem. The company is insistent upon following

appropriate clinical trial protocols and ensuring access to the vaccine once it is available.

Lead investors are following up with other companies for either first responses or clarifications to responses. There have also been discussions about engaging with company audit committees to understand how they are addressing coronavirus within their company risk frameworks.

AGMs & VOTING ALERTS

Although the summer period was quieter with regard to AGMs and voting alerts, there were a couple of notable engagements. Engagements with **SSE** and **National Grid** – both held virtually due to coronavirus - focused on climate practices. LAPFF has engaged with both companies for many years now and for SSE was seeking to continue the long-lasting relationship.

The Forum also issued voting alerts for Homeserve, Experian, and Ryanair. The Homeserve and Experian voting alerts addressed remuneration concerns. This followed on from other LAPFF remuneration alerts this year which coincided with the remuneration policy resolutions up for vote in 2020 at many UK companies. The Ryanair voting alert raised concerns about the company's response to the Covid-19 pandemic.

In preparation for the SSE AGM, Cllr Rob Chapman met with SSE Chief Sustainability Officer, Rachel McEwen, who thanked LAPFF for its helpful engagement over the years. LAPFF then asked a question about carbon capture and storage at the SSE AGM. The Forum's question was both posted on SSE's website, and CEO Alistair Phillips-Davies mentioned the Forum by name in responding to LAPFF's question in a video.

Questions submitted for the National Grid AGM asked the company to commit to disclosing consistency or otherwise between corporate climate change policies and the positions taken by trade associations to which the company belongs. The company was also pushed on its delayed setting of scope 3 carbon emission reduction targets. The company response was published on its website, indicating that it would provide information on scope 3 targets in October and a commitment to look at lobbying disclosure would follow in a subsequent meeting.

Ms McEwan also sits on the Scottish Just Transition Commission, so Cllr Chapman asked her if she would be willing to talk about her participation in this Commission with LAPFF. Given the Covid pandemic, it is not clear when or how this communication will happen, but she has agreed to speak to LAPFF on the just transition. For National Grid, the next 'call in' point will be its October ESG day.

POLICY ENGAGEMENT AND CONSULTATION RESPONSES

SUBSTANTIAL IMPROVEMENTS

ArcelorMittal issued a press release at the end of September announcing a group-wide target to be carbon neutral by 2050. Testing of technology to reach this goal will include a direct reduced iron – electric arc facility for carbon-free steelmaking to be up and running in Hamburg by 2023.

A meeting with Martin Scicluna, the chair of **JS Sainsbury** provided detail underpinning the company's net zero by 2040 target, announced since the last meeting with LAPFF. The discussion covered aspects of scope 3 emissions such as incentivising the use of electric vehicle for deliveries and by customers. The meeting also covered the response to the pandemic including doubling the companies' on-line sales and a focus on employee engagement. Progress towards the plastic reduction goal of 50% by 2025 was explored in addition to management of deforestation within cattle and soy supply chains.

POLICY ENGAGEMENT

IIGCC meeting

A LAPFF representative participated in an Institutional Investors' Group on Climate Change (IIGCC) webinar on the proposed EU Carbon Border Adjustment mechanism. LAPFF has not taken a formal position, but was able to explain how this has been a central element of engagement with ArcelorMittal to date, particularly with the strong and long-held support the chair, Lakshmi Mittal, has voiced for such a mechanism. Discussions with CA100+ co-lead investors for utility companies and IIGCC have continued over the past couple of weeks, around a potential response to Ofgem on its 'RIIO-2 draft determinations'. These determinations set out Ofgem's 'approach to ensuring energy transmission network companies have sufficient revenue to run an efficient network'. The original intention was for a short note of concern from investors about risks if investments into the grid are insufficient for companies to fulfil their net zero commitments. However, to ensure a balanced approach, not favouring either the company or regulator's position, the response will contain a more general call on Ofgem to ask the companies to set out net zero plans.

CONSULTATION RESPONSES

LAPFF has submitted a number of consultation responses during the quarter. One was a consultation on the future of audit. Of note is that Baroness Sharon Bowles appears to have run with LAPFF's IFRS engagement, submitting a long list of Parliamentary questions on audit company practice, at least one of which has yet to be answered.

The Forum also responded to a Department of Transport consultation on the phasing out of vehicles powered by fossil fuels. A third submission went to the House of Commons Select Committee Inquiry on Decarbonisation and Green Finance.

BEIS Select Committee

LAPFF responded to the BEIS Select Committee Inquiry following up on its 2019 Future of Audit Inquiry. The Committee addressed progress on implementing the findings of

- the Kingman Review into replacing the Financial Reporting Council and
- the Competition and Markets Authority Review of the audit market.

The LAPFF response was both favourable to those reviews and concerned at the slow progress in their implementation.

On the subject of the Brydon Review, LAPFF commented that *"The Brydon Review is disappointing and confuses and distracts from the sound recommendations of the BEIS Committee report"* and *"LAPFF believes that the best driver of audit quality is implementing existing law properly which the Committee concluded the large accounting firms have been avoiding. Brydon has ended up in the same muddle on the same issues that the large accounting firms were muddled over in giving evidence to the Committee."*

LAPFF concluded the only change to the law should be to implement the structural reforms of the Financial Reporting Council (FRC) from the Kingman Review.

On the Committee's question whether *"audit reform [can] help track progress made by companies in meeting the UK's Sustainable Development Goal commitments and in particular Net Zero"*, LAPFF flagged this as an area where 'greenwash' can already be seen. Some companies and sectors give the appearance of progress towards net zero because such a target provides scope to exaggerate deducted elements to achieve the 'net'. This includes loose commitments to plant trees or capture carbon at some time in the future.

LAPFF also expressed concern that the longstanding problems with the auditing profession, mean auditors would have a negative effect on getting reliable financial information. In the case of Wirecard, NMC Healthcare (the FTSE 100 company now in administration) and Patisserie Valerie, it is clear that the auditors could not properly verify cash in the bank.

CONSULTATION RESPONSES

The Financial Reporting Council's response to International Accounting Standard 1 ('IAS 1') consultation

Further to the UK's exit from the European Union, all new international accounting standards will have to be endorsed by the Secretary of State and then Parliament. The International Accounting Standards Board (IASB) consulted on a revision to the key standard IAS 1 to which the FRC drafted a response giving the UK's position, which is itself open for comment.

The proposed standard is wrong in several respects. The words describing the numbers required are incorrect. The purpose of the accounts is wrong, which in UK law is for shareholder and creditor protection. It misses the interrelationship between profits, capital and going concern. It also puts the emphasis on management intent deciding whether a company is a going concern or not. The actual driver is whether the company is and can be funded by cash flow generated or by new or replacement external sources of funding. The LAPFF response to the FRC points out these issues and focuses on the BEIS Select Committee Inquiry into the Future of Audit which had already concluded in the correct way.

The LAPFF response has been copied to the Secretary of State, the Law Commission and the BEIS Select Committee.

A key problem is the IASB has accommodated the false construct of an 'expectations gap' regarding the quality of accounts; thus giving auditors an excuse to not look for fraud. As frauds may impinge profits, capital and going concern, a standards system which seeks to obfuscate or avoid the issue of fraud will also have to obfuscate the very elements it affects; profits, capital and going concern.

The recent High Court case against Grant Thornton has been upheld by the Court of Appeal. That makes the auditor duty in respect of profits, capital and going concern unequivocal where there is fraud.

'Decarbonisation and Green Finance' The Treasury Select Committee call for evidence

LAPFF made a submission to the Committee drawing heavily on the fact that renewables have become cheaper than fossil fuel sources.

There was a premise that the transition to a lower carbon economy would be costly. But with the cost of renewables below the cost of currently low fossil fuel prices, there is an economic incentive to invest in greener energy sources, with not only the low carbon benefit but also less volatility and other problems associated with carbon and methane emissions in the distribution of fossil fuels.

A second premise was that a move to renewables would be at the pace of the fossil fuel companies transitioning their businesses. The International Energy Authority's models have tended to be influenced by such thinking. However, the pace of investment in solar power, offshore and onshore wind as well as storage by batteries and electrolysis for hydrogen production have led the way, with some fossil fuel assets becoming stranded earlier than anticipated.

It therefore appears that the negative cost of transition will not be the cost of the new energy system but the demise of the old one, stranded assets, and stranded debt and equity funding in the fossil fuel sector.

The US coal mining industry is a case in point. Peabody Energy, the USA's largest coal mining company, which had a market capitalization in excess of $20bn, now has debt of $10bn and a market capitalization of $250m having had two Chapter 11 bankruptcies to get there. Exxon, formerly the largest US listed company, has recently fallen out of the Dow Jones Index.

A transition that will benefit market entrants with new technologies and affect existing operators negatively, needs to be handled in a rational and balanced way.

A risk therefore is backdoor ways that maintain the fossil fuel industry via grants and other assistance. LAPFF cited that state support for carbon capture and storage (CCS) for the power sector. This model has seen CCS used to keep coal power plants open rather than close and replace them with renewables.

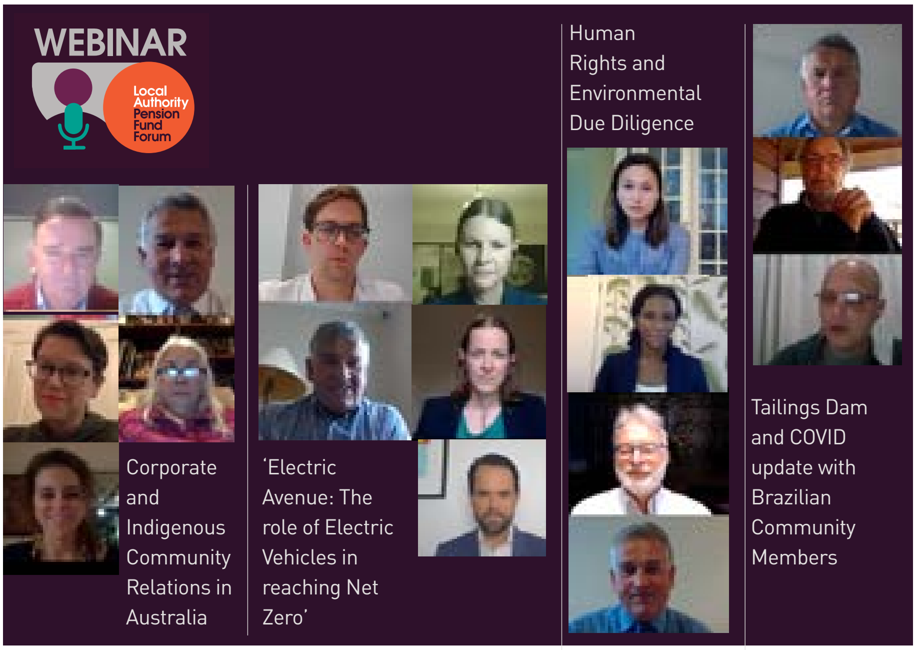
Response to the FCA consultation on proposals to enhance climate-related disclosures by listed issuers

LAPFF responded to the FCA's consultation on climate-related disclosures. The FCA proposed introducing a new rule for UK premium listed companies, requiring them to state whether they comply with the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) and to explain any non-compliance.

The Forum strongly supports the introduction of mandatory carbon emissions and risk reporting. The Forum also supports the recommendations of the TCFD and has long promoted mandatory climate risk reporting.

The Forum's response therefore welcomed the proposed rule as greater disclosure would help investors fulfil their stewardship duties and also enable more informed decisions about capital allocation. LAPFF did note some concerns about the effectively voluntary nature of the rule. While companies do face challenges in being TCFD compliant, the potential scale of the value at risk and urgency of the climate emergency demand a mandatory approach. The Forum would therefore suggest if the rule is to be brought in on a 'comply or explain' basis, that the FCA also announce its intention to make the rule

WEBINARS AND MEDIA COVERAGE



mandatory after a set date (e.g. in three years' time). This would provide a clear signal to the market and give all listed companies time to be compliant. It would also ensure that the benefits and objectives clearly outlined in the consultation document are not limited to one segment of the market.

Response to IIGCC Paris aligned investment initiative: Net zero investment framework for consultation

The IIGCC have drafted a net zero investment framework for consultation. The Forum congratulated the IIGCC on producing the document, which is likely to be extremely helpful to many LAPFF members.

The Forum made a few general comments aimed at strengthening the framework. For example improving the focus on how asset owners can better ensure their managers are meeting their climate priorities, having more of a focus on the just transition and emphasising the need to be cautious of company claims around carbon capture and storage.

MEDIA COVERAGE

The Forum received a range of coverage on its press releases related to Rio Tinto and Juukan Gorge. You can find these press releases and others on the press section of the new LAPFF website, along with related press articles about LAPFF's involvement in the Juukan Gorge engagement.

LAPFF was also referred to in this article on Tesla and this article on the Forum's participation in CCLA's collaborative engagement on the Modern Slavery Act.

The Forum made it into Reuters and the India Times with its call to ban new petrol, diesel and hybrid cars by 2025.

IPE cited LAPFF's concern about International Accounting Standard (IAS) 1.

NETWORKS AND EVENTS

LAPFF webinars

During the Covid pandemic, the Forum offered a series of webinars on topical responsible investment issues. LAPFF held successful webinars on electric vehicles; developments on Covid-19; and updates on tailings dams, hearing from affected community members from Brazil, and environmental and human rights due diligence, among others.

The webinar on electric vehicles saw a vigorous discussion on the contribution of this technology to the UK's net zero commitment. Speakers contributed from the USA west coast, Berlin and London. Speakers included Jakob Thomä, co-founder of the 2 degree investing initiative from Berlin; Katie Fehrenbacher, Senior Writer, Transportation, GreenBiz Group from the USA west coast and Sandra Roling, Head of EV100 and Colin McKerracher of Bloomberg, from London.

LAPFF has established a productive working relationship with the Australasian Centre for Corporate Responsibility (ACCR) in working on the Rio Tinto Juukan Gorge engagement. The Forum has also been liaising with representatives of Brazilian communities to establish a more consistent and two-way engagement framework with community members.

In respect of both relationships, LAPFF hosted webinars to highlight issues of concern. The Forum and ACCR co-developed a webinar featuring prominent aboriginal community leader, Marcia Langton, and another well-respected community leader, Karrina Nolan. Both Marcia and Karrina shared their thoughts and concerns on the Rio Tinto Juukan Gorge disaster. LAPFF also contributed to the drafting of shareholder resolutions filed by ACCR with BHP in respect of its approach to engagement with indigenous peoples, and in relation to Covid-19 and climate.

LAPFF then hosted a webinar with Brazilian community members, Vagner Diniz and Nicolson Resende, who described their challenges in engaging Vale over reparations for tailings dam collapses, tailings dam safety, and company Covid-19 practices. Both Vagner and Nicolson set out a list of asks for investors which LAPFF will review and speak with community members to determine how best to proceed.

Toward the end of the quarter, LAPFF hosted a webinar with three lawyers – Robert McCorquodale, Arianne Griffith, and Anna Kirkpatrick – to hear their perspectives on the need for mandatory environmental and human rights due diligence. All three speakers noted the increasing number of laws in this area and cited their impacts for investors.

LAPFF also had a representative from Investors for Opioid & Pharmaceutical Accountability (IOPA) participate in a call. A recent call noted that the opioid crisis worsened during the Covid-19 pandemic, with many people thrown by the isolation of lockdown and other restrictions that mean they do not receive the support they need.

The Forum has re-committed to supporting the Access to Nutrition Index. Cllr Caron raised nutrition in the meeting with Tesco because good health and nutrition are deemed to be important factors in stemming the severe impacts of Covid-19.

COMPANY PROGRESS REPORT

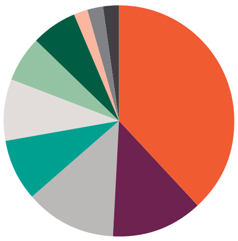
27 companies engaged over the quarter during 38* engagements

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

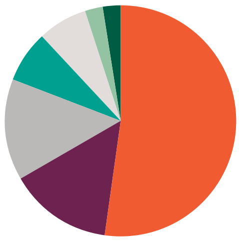
Company	Activity	Topic	Outcome	Position Engaged	Domicile
3i GROUP PLC	Meeting	Remuneration/ Climate Change	No Improvement	Chairperson	GBR
ALLIANZ SE	Meeting	Covid/ Climate Change	Change in Process	Specialist Staff	DEU
ANGLO AMERICAN PLC	Sent Correspondence	Human Rights	Dialogue	Chairperson	GBR
AP MOLLER - MAERSK AS	Sent Correspondence	Other	Dialogue	Chairperson	DNK
ARCELOR MITTAL SA	Meeting	Climate Change	Moderate Improvement	Specialist Staff	LUX
BHP GROUP PLC	Meeting	Governance/ Human Rights	Dialogue	Chairperson	GBR
BLACKROCK INC	Sent Correspondence	Climate Change	Awaiting Response	Exec Director or CEO	USA
BT GROUP PLC	AGM	Climate Change/ Environmental Risk	Awaiting Response/ Moderate Improvement	Exec Director or CEO	GBR
BUNZL PLC	Sent Correspondence	Other	Dialogue	Chairperson	GBR
C.H. ROBINSON WORLDWIDE INC.	Sent Correspondence	Other	Dialogue	Chairperson	USA
CLIPPER LOGISTICS PLC	Meeting	Social Risk/ Covid/ Governance	Dialogue/ Satisfactory Response/ Small Improvement	Chairperson	GBR
DELTA AIR LINES INC	Meeting	Climate Change	Moderate Improvement	Specialist Staff	USA
EXPEDITORS INTERNATIONAL OF WASHINGTON INC.	Sent Correspondence	Other	Dialogue	Chairperson	USA
EXPERIAN PLC	Alert Issued	Remuneration	Dialogue	Chairperson	IRL
HOMESERVE PLC	Alert Issued	Remuneration	Dialogue	Chairperson	GBR
HSBC HOLDINGS PLC	Meeting	Climate Change	Change in Process	Specialist Staff	GBR
NATIONAL GRID PLC	AGM/ Meeting	Climate Change	Small Improvement	Chairperson	GBR
REGIS RESOURCES LTD	Meeting	Climate Change/ Governance	No Improvement	Chairperson	AUS
RIO TINTO GROUP (GBP)	Meeting	Human Rights/ Governance/ Climate Change	Dialogue/ Change in Process/ Small Improvement	Chairperson	GBR
ROYAL MAIL PLC	Meeting	Cybersecurity	Dialogue	Specialist Staff	GBR
SAINSBURY (J) PLC	Meeting	Climate Change/ Environmental Risk	Substantial Improvement	Chairperson	GBR
SSE PLC	Meeting/ AGM	Just Transition/ Climate Change	Change in Process/ Small Improvement	Chairperson	GBR
SUZANO SA	Sent Correspondence	Environmental Risk	Dialogue	Chairperson	BRA
TESCO PLC	Meeting	Environmental Risk/ Governance	Change in Process/ Dialogue	Chairperson	GBR
TULLOW OIL PLC	Meeting	Governance/ Climate Change/ Covid	Change in Process/ Dialogue/ Small Improvement	Chairperson	GBR
VALE SA	Sent Correspondence	Human Rights	Dialogue	Chairperson	BRA
WINCANTON PLC	Sent Correspondence	Other	Dialogue	Chairperson	GBR

ENGAGEMENT DATA

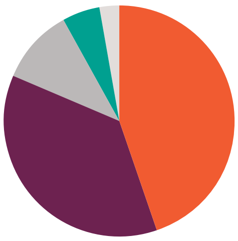
ENGAGEMENT TOPICS



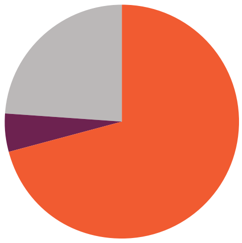
MEETING ENGAGEMENT OUTCOMES



ACTIVITY



POSITION ENGAGED



COMPANY DOMICILES

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

Individual Member Funds
Avon Pension Fund
Barking and Dagenham Pension Fund
Barnet Pension Fund
Bedfordshire Pension Fund
Bexley Pension Fund
Brent Pension Fund
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
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
Brunel Pensions Partnership
LGPS Central
Northern LGPS
London CIV
Wales Pension Partnership