



Quarterly Engagement Report

October-December
2019



Arcelor Mittal, National Grid, BHP, Southern Company, National Express, Vale

CLIMATE EMERGENCY



Climate concerns remain centre stage at close of year

The wildfires in Australia (cover), floods in Indonesia (above) and Saudi Arabia and other extreme weather-induced events in the last months of 2019 permeated public consciousness with the real and sometimes deadly impact of climate change. Shareowners engaging with companies continue to push, not only for companies' strategies to further the transition to net zero and their physical resilience, but also for alignment of corporate direct and indirect lobbying activities which can markedly affect national policy making.

Positive Climate Outcomes at Arcelor Mittal, National Grid and Southern Company

ArcelorMittal Commits to Publishing Trade Body Memberships

LAPFF and other Climate Action 100+ investors held a teleconference with company representatives to press on ambitious target setting in 2020 and for the company to publish its review of membership of trade bodies.

In December, Arcelor announced publicly it would publish its trade body memberships in its next Climate Action report, due in 2020.

Setting credible science-based targets for the 2020 to 2030 period is crucial to give investors confidence that the board is managing the required net zero transition. Thyssenkrup, one of the world's largest steel producers and Mahindra-Sanyo, an Indian steel company, have already set science-based targets.

CLIMATE EMERGENCY

National Grid Announces New Zero Carbon Sensitivity Analysis

At a meeting with **National Grid**, LAPFF and other Climate Action 100+ investors sought more granularity on climate targets, including science based targets and operating the grid at zero carbon by 2025. Clarification was also sought on integrating renewables into the grid and on the roll-out of electric vehicle charging points. A final request of the company was to enhance TCFD disclosure for the US business, including methane management.

In November, the chief executive, John Pettigrew, announced a new sensitivity analysis for net zero carbon emissions

“Clean transport offers immediate air quality benefits to our communities and longer term renewables enablement.”

Sir Peter Gershon

by 2050, adding to its recently stated ambition to operate a zero carbon grid in the UK by 2025. In addition, in July the National Grid Electricity System Operator announced it was joining the Powering Past Coal Alliance, a global alliance of governments, businesses and organisations working to progress the transition away from coal power, something specifically requested at the previous Climate Action 100+ meeting with the company.

The above achievements were welcomed. LAPFF would like to see further progress in respect of TCFD disclosure for the US business and on the roll out of electric vehicle charging points. The Chair, Sir Peter Gershon, spoke about National Grid’s Transition to Net Zero at the 2019 LAPFF conference and participated in an animated question and answer session.

Southern Company Drops Membership in ACCCE

LAPFF has been part of a collaborative engagement with **Southern Company** to discuss the company’s progress on its climate targets. At a March 2019 meeting, this investor group requested that Southern commit to identifying who on

the board is responsible for overseeing an economically attractive execution of the net zero carbon transition, developing and publishing a detailed transition plan toward achieving net zero emissions by 2050 in line with a just transition, with clear near-term benchmarks and plans for 2025 and 2030 and meaningfully incorporating transition milestones into executive compensation metrics. Southern representatives were also asked to disclose how political lobbying and trade association activities will support the company’s decarbonisation commitment.

On lobbying activity, Southern has announced that it will not renew its membership in the American Coalition for Clean Coal Electricity (ACCCE) next year. Given the pushback LAPFF and other

investors have received in requesting this type of action in climate lobbying resolutions, this is no small feat. Companies typically respond that they reap other benefits from industry organisation membership and can better achieve their climate objectives while remaining members, but offer no time-bound assessments for progress or criteria for withdrawal.

Company representatives were pushed to respond to a letter sent from the ‘Net Zero by 2050 Investor Coalition’ sent in April as well as to move more quickly on investment in renewables, to prevent stranded assets in natural gas facilities. The company reported on renewables initiatives and responded that it was ‘difficult to go quickly.’



- The Australian extractive sector needs to be proactive in enabling Paris-aligned public policy. LAPFF joined other investors in a public letter, calling on **Australian companies** to do more to direct their trade associations and industry bodies in enabling Paris aligned policy and for companies to contribute constructively to that process.

- **LaFargeHolcim** carbon targets were validated by the Science-Based Targets initiative (SBTi) in December. According to SBTi, the targets are ‘adequate and consistent with the global effort to keep temperatures below 2°C. LAPFF is a member of the Climate Action 100+ collaborating group who have been engaging with the cement and building materials company.

- LAPFF has signed the PRI-coordinated investor statement on **airlines and aerospace companies**. The purpose of this is to publicly signal investor support for actions airlines and aerospace companies can take to manage climate risks and opportunities inherent in their business. It is also intended to inform investor engagement with relevant companies by providing a high-level, unified set of expectations on climate change.

COMPANY ENGAGEMENT



National Express improves relations with Unions

LAPFF has been engaging with **National Express** since 2010 over allegations of anti-union activity in the company's US operations. The Forum has met with the both management and employees and their representatives on numerous occasions. However, for many years, the engagement had been amongst the most challenging LAPFF had experienced.

Then something changed. At its 2017 AGM, National Express announced that Matthew Ashley would replace David Duke as head of its North American division. There were hopes on the union side that this change might signal the start of improved relations, and public acrimony markedly reduced. LAPFF took this as a good sign that the company and unions were starting to build a productive relationship. We now understand that



Matthew Ashley, Executive Director, National Express

antagonistic conduct in union elections has fallen significantly and relations are substantially improved.

The late LAPFF Chair, Cllr Kieran Quinn, had stated after the last meeting with National Express Chair, Sir John Armitt, that he wished this engagement could be over and done with. At long last, it seems that it might be.

OTHER NOTABLE ENGAGEMENTS

Boeing commits to independent review of governance

When LAPFF began engagement with **Boeing**, the initial objective was to find out more about the company's operations in relation to the war in Yemen. However, this engagement took place not long after two Boeing aircraft crashed in Indonesia and Ethiopia, killing over 300 people, so the Forum also followed up on these incidents. This line of inquiry has ramped up over the past few months with now former CEO, Dennis Muilenburg, testifying before Congress about deficiencies in Boeing's risk management system that allegedly contributed to the crashes. Mr. Muilenburg was ousted just before Christmas and was replaced by David Calhoun, who Boeing had appointed as interim chair. Boeing has kept the Chair and CEO roles separate in appointing

COMPANY ENGAGEMENT



Lawrence Kellner as the new Chair. There has been further news in early January 2020 about production of the Boeing 737 MAX being suspended pending further regulatory review, including concerns about additional problems with the aircraft.

LAPFF Chair, Cllr Doug McMurdo, spoke with Boeing representatives in August 2019. One of the suggestions he made was that Boeing undertake an independent review of its governance arrangements in the wake of the Indonesian and Ethiopian crashes. Not only has Boeing separated its Chair and CEO roles, but a subsequent article reported that the company has committed to an independent assessment of its governance.

It is hard to know whether these changes and commitments will lead to an improved safety culture, especially in light of the recent news of the aircraft's production being suspended and possible additional problems with the 737 MAX. There was also another crash of a Boeing aircraft on 7 January 2020, with no survivors. Press reports suggest that part of the problem for Boeing has been reduced safety oversight by the US Federal Aviation Administration, and this seems unlikely to change imminently, although European regulators are now reportedly getting involved. However, these two changes are positive steps, and the Forum will continue engagement both on safety and the company's role in the war in Yemen.

LAPFF Members Co-file a Range of Shareholder Resolutions

Board directors at US companies are notoriously difficult to engage, and with new proposed rules on filing shareholder resolutions, such engagement looks set to become even more difficult. However, this context is not deterring shareholders

who, while they can, continue to file shareholder resolutions with a plethora of US companies across a range of topics.

LAPFF members are among these shareholders, filing resolutions at **Chevron, Amazon, Alphabet, Eli Lilly, Citigroup and Honeywell** over the quarter. It is hoped that these resolutions will put pressure on companies to improve their strategies on climate resilience. This appears to have been the case at **AngloAmerican** where investors have been able to withdraw their climate lobbying resolution after indications of investor support and sufficient movement from the company. Anglo has now agreed to lobbying in line with the Paris Agreement.

Filing shareholder resolutions in the US is an engagement tactic that frequently yields results, with up to one-third of resolutions being withdrawn and appropriate company representatives agreeing to meet. It remains to be seen what level of support these new resolutions achieve, but the board members in question will no doubt be taking note of the heightened participation by UK investors in co-filing shareholder resolutions.

BHP Stakeholder Seminar: Community – Investor Dialogue

In October, LAPFF and the London Mining Network held an event for investors to meet with community members in

South America affected by BHP's mining operations. The aim was two-fold: to allow community members to share their human rights and environmental concerns with investors, and to provide investors with additional information to feed into their investment processes.

The event was well-attended and well-received with both investors and community members finding the opportunity to interact extremely useful. A similar response was received following presentations by community members from two Brazilian communities affected by **BHP** and **Vale** at the LAPFF Annual Conference in December. The community members at the October event were not comfortable with the idea of having BHP present, so LAPFF informed a company representative that the seminar was taking place and met with him subsequently to discuss a right-of-reply for the company. LAPFF provided BHP with a summary of the community concerns, and was told that this information will be used as a basis for a company response.

The unwillingness of the community representatives to have representation from BHP at the October event demonstrates the current lack of trust between the communities and the company. This lack of trust is evident in relationships with a number of companies, not just BHP. Through seminars such as these and in subsequent company engagement, the aim is for LAPFF and other investors to facilitate a more trusting relationship, but there is a long way to go.



COMPANY ENGAGEMENT



Sainsbury's to release sustainability strategy in early 2020

LAPFF Vice-Chair Cllr Rob Chapman met with Sainsbury's chair, Martin Scicluna and Judith Batchelar, Director of Sainsbury's Brands, to understand better the board's strategy for resilient and sustainable business practices, including plastic reduction, as well as a commitment to work toward a zero carbon business using a just transition approach.

The climatic and environmental risks facing companies with supply chains as diverse and complex as Sainsbury's are significant. These risks range from disruption to supply chains caused by changing weather patterns to increased legislation around plastic packaging. Therefore, the company needs to progress on improving its supply chain sustainability.

However, the company did detail the steps it had recently taken toward mitigating its environmental impact, including announcing the target of cutting single use plastic by 50% by 2025 and reporting in line with the Taskforce on Climate-related Financial Disclosure (TCFD) in the 2020 annual report.

The Company is planning to release a formal strategy in early 2020, which will provide more details on what it would take to reach net-zero by 2050 and associated shorter term targets.

BP strategy and Paris Agreement goals

LAPFF, along with other Climate Action 100+ investors, met with BP CEO-elect Bernard Looney in November to discuss the company's strategy relating to the Paris Goals as well as investor expectations of oil and gas companies more broadly. The Forum also asked the company about its governance of and practices relating to corporate climate lobbying, requesting that BP undertake and report on an industry association mapping exercise.

After the successful passage of a resolution requesting that BP evaluate and disclose the consistency of each new capex investment (co-filed by ten LAPFF member funds) this meeting provided company representatives the opportunity to outline the progress made in developing a sufficient process for assessing and disclosing the alignment of capex with Paris goals.

The Forum would like to see BP disclose a clear methodology to assess the carbon intensity of each material capex and how this analysis informs the company's scenario analyses using multiple IPCC scenarios and varying commodity price assumptions.

POLICY ENGAGEMENT

The fourth fringe meeting to discuss changes to secure investment in the Just Transition took place at the October SNP conference in Aberdeen. Organised by the Smith Institute, the meeting provided a platform for LAPFF to set out what these changes should be.

The meeting was chaired by Scottish Just Transition Commissioner Richard Hardy, who spoke about low carbon opportunities supporting rural economies. Cllr Alasdair Rankin, representing LAPFF, recognised the work of the Scottish Just Transition Commission and noted LAPFF's recommendation for the UK government to establish a Just Transition Commission, along the lines of the Scottish Commission, to bring the public and private sectors together.

Hazel Gulliver, Head of Scotland and EU policy, Scottish Power, noted that Scotland was 'leading the charge' in terms of climate targets and on delivering infrastructure for new renewables and electric vehicle charging. Paul Wheelhouse, MSP for Energy, Connectivity and the Islands, concurred that Scotland's climate targets of 75% emission reductions by 2030 were driving strategy, further highlighting the 'Just Transition' element in terms of impacts on workers.

COMPANY ENGAGEMENT

The fringe meeting speakers addressed the question ‘Investing in a Just Transition for a net zero carbon economy – what needs to change?’ In response to the employment challenges and potential job cuts faced by industries in flux, Paul Wheelhouse MSP stated

‘We cannot do to the oil and gas industry what we did to coal’



LAPFF has responded to the New Zealand Government consultation on mandating companies to report in a consistent and defined manner how climate change impacts their business and investments. LAPFF supports new mandatory reporting requirements to be widespread and implemented on a comply or explain basis. LAPFF considers the Taskforce on Climate-related Financial Disclosure (TCFD) Framework is currently best practice for climate related decisions and that adoption of climate related reporting will improve decision making within companies and make it easier for investors to accurately quantify long term value of the companies in which they invest.

MEDIA COVERAGE

Pension fund group ‘brings mining community voice’ to investors, IPE, 23 October 2019

McDonald’s Under Fire for Steve Easterbrook’s Exit Deal,

Restaurant Business, 26 November, 2019
LGPS urged to put the ‘social’ back into ESG,

Room151, 10 December 2019

The rant before Christmas: five people on Mike Ashley’s naughty list, The Telegraph, 16 December 2019

Mike Ashley blocks Labour councillor from Sports Direct board meetings after Corbyn row, Telegraph, 1 November 2019



VOTING ALERTS

LAPFF issued voting alerts for both the **BHP** and **ANZ** AGMs during the quarter. Both alerts addressed climate lobbying, an aspect of company behaviour that is increasingly surfacing in shareholder resolutions. For both companies, the Forum recommended votes in favour of two resolutions, one procedural resolution to change company articles of association to allow for the second, substantive, resolution on company membership of trade associations with poor policies and records on tackling climate change. LAPFF has had word from the lead filer of the resolutions to ANZ, the Australasian Centre for Corporate Responsibility (ACCR) that the company chair has committed to producing a formal review of its industry associations to be published prior to 30 June 2020.

NETWORKS AND EVENTS

In keeping with LAPFF’s objective of obtaining the best information possible for members, LAPFF engaged with networks and attended events with other investors, with affected stakeholders (including community representatives and workers) non-governmental organisations (NGOs) asset managers and politicians and policy makers over the quarter.

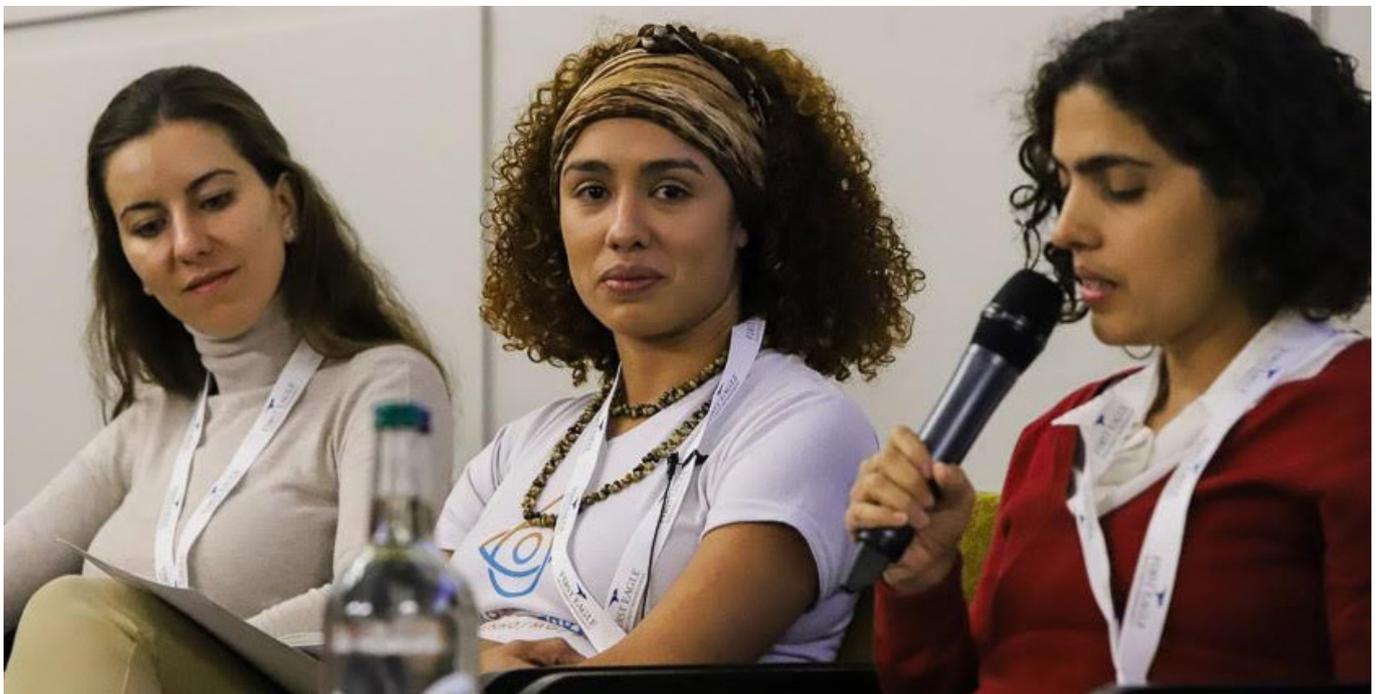
Participation in investor collaborations included meetings on co-filing possibilities at **AngloAmerican**, **Alphabet**, **Amazon** and topic-based engagements including a Mining and Tailings Dam Safety Summit and the just transition. The Forum also met with a Japanese corporate governance expert, Megumi Terayama, to compare notes on developments in the UK and Japanese markets.

Stakeholder engagement focused on meeting community members affected by dam collapses at Samarco and Brumadinho in relation to **BHP** and **Vale** operations. It also included engaging with the BALPA and ITF unions about industrial relations at **Ryanair**. LAPFF also had meetings with NGOs including CERES and ShareAction in relation to coordinated engagements.

Asset managers are an important stakeholder for both LAPFF member funds and pools, and LAPFF engaged with both Baillie Gifford and LGIM over the quarter. On the policy and politics front, LAPFF spoke about the just transition at a SNP Fringe Meeting at the SNP Party Conference, as well as attending an event at which the four major political parties presented on net zero emissions and a healthier environment. The Forum also attended a Public Sector Green Finance Summit in October.

LAPFF funds are increasingly requesting presentations on a range of issues. During 2019 these have often focussed on the investment implications of climate change. Member funds addressed over the quarter include Bedfordshire Employers AGM, Camden, Merseyside, Barnet, Lancashire, and Warwickshire.

2019 LAPFF ANNUAL CONFERENCE



The 2019 LAPFF Annual Conference took place in Bournemouth from 4 – 6 December in its second year at the Hilton Bournemouth

Speakers ranged from Brazilian representatives of communities affected by the Samarco and Brumadinho dam collapses to Sir Peter Gershon, Chair of National Grid, to Kenneth Clarke and John Bercow, who offered their thoughts on Parliament and Brexit proceedings.

The conference started with an update on the investor tailings dam initiative led by Adam Matthews from the Church of England Pensions Board and John Howchin from the Swedish Council of

Ethics to the AP Funds. Brazilian community members also gave a devastating account of their experiences with tailings dams. This was followed by sessions on food waste and plastic and a LAPFF engagement round up. On the second morning, delegates heard from Sir Peter Gershon, chair of National Grid, on the Transition to net zero, followed by a discussion of the just transition initiative led by Nick Robins at LSE and other speakers providing a range of views and perspectives on the energy transition. Martin Gilbert of Aberdeen Standard then provided his experiences on employees on boards. Other sessions addressed cybersecurity and social media abuse, media standards, how to spot failing companies, management remuneration,

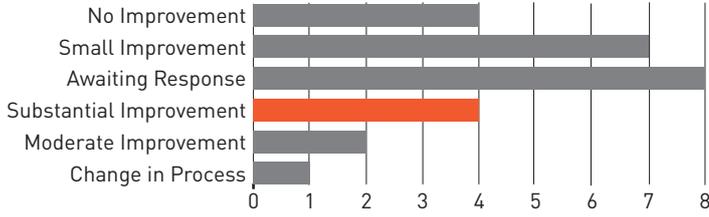
Above: Brazilian representatives of communities affected by the Samarco and Brumadinho dam collapses

the future for UK financial regulation, and climate change accounting. Ken Clarke addressed the delegates prior to the evening's dinner.

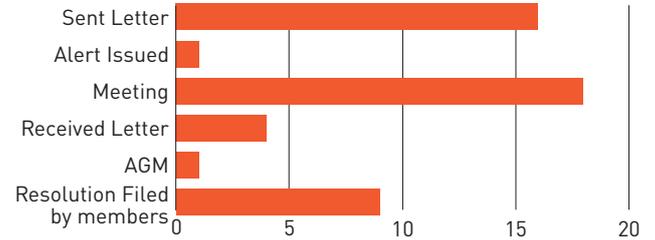
The final morning of the conference covered gender diversity and ArcelorMittal's 'journey toward carbon neutrality'. The conference concluded with a lively speech by John Bercow, former Speaker of the House of Commons, who made a plea for reasoned parliamentary and societal debate and who is apparently an avid fan of tennis, and of Roger Federer in particular.

ENGAGEMENT DATA

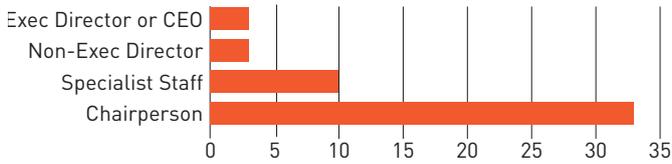
MEETING ENGAGEMENT OUTCOMES



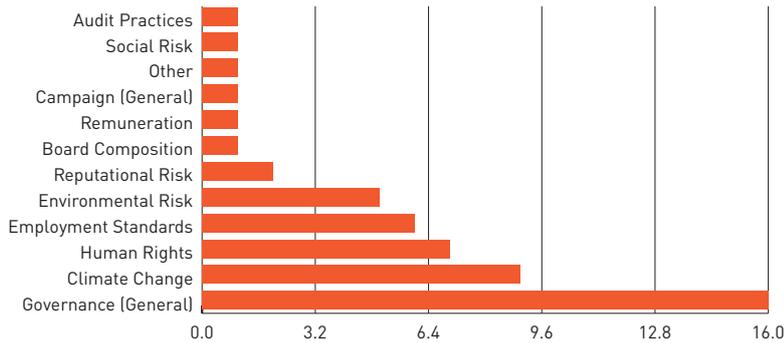
ACTIVITY



POSITIONS ENGAGED



ENGAGEMENT TOPICS



COMPANY DOMICILES



LAPFF has had word from the lead filer of the resolutions to ANZ, the Australasian Centre for Corporate Responsibility (ACCR), that the company chair has committed to producing a formal review of its industry associations to be published prior to 30 June 2020



COMPANY PROGRESS REPORT

35 Companies engaged over the quarter in 50 engagements

Company/Index	Activity	Topic	Outcome
Alphabet	Sent letter	Human Rights	Dialogue
Amazon	Resolutions co-filed by members	Human Rights/ Governance	Dialogue
Anglo American	Meeting	Climate Change/ Governance	Dialogue
ANZ Bank	Meeting	Climate Change/ Governance	Dialogue
ArcelorMittal	Meeting	Climate Change	Substantial Improvement
BHP	Meeting	Human Rights	Dialogue
Boeing	Sent letter	Governance (safety)	No Improvement
BP	Meeting	Governance	Small Improvement
British American Tobacco	Meeting	Social Risk (health)	Small Improvement
Charles Schwab	Meeting	Governance	Awaiting Response
Charter Communications	Resolution co-filed by members	Governance	Dialogue
Chevron	Resolution co-filed by members	Climate Change/ Governance	Dialogue
Chipotle Mexican Grill Inc	Meeting	Environmental Risk	Small Improvement
Citigroup	Resolution co-filed by members	Climate Change/ Governance	Dialogue
Easyjet	Sent letter	Employment Standards	Awaiting Response
Eli Lilly	Resolution co-filed by members	Governance	Dialogue
Honeywell	Resolution co-filed by members	Governance	Dialogue
Marks & Spencer	Sent letter	Employment Standards	Awaiting Response
McDonalds	Sent letter	Remuneration	Dialogue
National Grid	Meeting	Climate Change	Substantial Improvement
Pepsico	Received letter	Environment (plastics)	Moderate Improvement
Philip Morris	Meeting	Governance (tax)	Small Improvement
Reach	Meeting	Reputational Risk	Moderate Improvement
Rio Tinto	Sent letter	Employment Standards	Awaiting Response
Royal Dutch Shell	Sent letter	Audit Practices	Dialogue
Ryanair	Meeting	Governance/ Employment Standards	Small Improvement
Sainsbury	Meeting	Climate Change/ Environment	Small Improvement
Severn Trent	Received letter	Governance	Small Improvement
Smith & Nephew	Sent letter	Employment Standards	Awaiting Response
Southern Company	Received letter	Climate Change	Substantial Improvement
Suzano	Meeting	Climate Change	Small Improvement
Total	Meeting	Governance (corruption)	Dialogue
Vale	Meeting	Human Rights	No Improvement
Vodafone	Sent letter	Employment Standards	Awaiting Response
Walt Disney Company	Resolution Filed	Governance	Dialogue

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

LAPFF DEVELOPMENTS

The Forum welcomed new fund members during the quarter: the Essex Pension Fund, Brent Pension Fund and Bexley Pension Fund

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
Northumberland 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 ITA 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
London CIV
Northern LGPS
Wales Pension Partnership