



## Draft LAPFF Workplan 2023/2024

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### Summary

- LAPFF begins 2023 with a membership body of 86 member funds and six pool companies. This draft LAPFF workplan sets out a range of current and anticipated company and policy engagement areas for the coming year.
- The aim of providing the workplan for comment is to ensure that members are content with LAPFF's areas of focus, and that they have the opportunity to provide comment so that LAPFF's engagements align with these areas of focus.
- In presenting each element of the workplan, overall objectives are set, the method by which engagement or activity is to be progressed is explained, and an indication of longer-term objectives is provided. For thematic engagements, engagement success is reviewed annually, and a decision is made regarding whether it is beneficial for LAPFF to continue these engagements.
- Where members consider extra work should be done for the workplan throughout the year, or where new areas of focus arise outside the existing work plan, scoping papers will be produced providing background research alongside an assessment of the amount of work and other resources that might be needed to undertake these engagements.

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### Recommendation

- That LAPFF members review and approve the draft work plan.
- That LAPFF members feed back any thoughts on the draft work plan by 28 February 2023.

## 1. Responsible Investment

### 1.1. Climate and Strategic Resilience, Environmental Protection, and Fair and Just Transition (ECE)

LAPFF members have indicated that climate change, and in particular carbon emissions reduction at investee companies in line with science-based targets, remains a top priority for them. This issue is increasingly pressing as it becomes clear that the 1.5 degree Celsius threshold for global warming is effectively no longer within reach. This development means that strategic resilience more than ever must cover both mitigation and adaptation to climate impacts and consequent business and investment risks. It is also clear that climate is inter-dependent on a range of other environmental and social issues, including biodiversity, water conservation, and human rights. Therefore, LAPFF's positions and work on climate, environment, and a just transition reflect these developments and inter-connections.

#### 1.1.1. *LAPFF Position on Preferred Transition Pathway*

**Objective:** LAPFF aims to provide clear, evidence-based decarbonisation pathways. From prior years' research into potential decarbonisation pathways, LAPFF has been able to form a view on the credibility of particular decarbonisation pathways and those that are less credible which has included:

- oil and gas companies in respect of trees (so-called 'natural solutions') and carbon capture and storage (CCS)
- carbon capture and storage in steel making
- biomass in power generation (principally Drax Group plc)

LAPFF has seen notable examples of this greenwashing at Drax and Shell in recent years.

The myths surrounding these pathways have included research papers on technologies such as CCS, hydrogen, nuclear power, steel, direct air capture and tree planting.

It is clear that:

- LAPFF's thinking is ahead of some other investors.
- Greenwash is occurring by some industries and companies making claims about less than credible pathways, essentially with an agenda of keeping carbon in the system.
- It is also clear that following the war in Ukraine, the avoidance of dependency on hydrocarbons is highly relevant from a strategic security perspective as well as net zero perspective.

**Method:** LAPFF will continue to research and engage, with a sceptical mind, in particular looking for other sources of evidence relevant to a complete and consistent picture. For example, the claim that CCS has a role in steel making has been discredited by statements from steel makers in the UK in December 2022 that they do not need the coal from the proposed new mine in Cumbria because they intend to invest in steel making from “green” hydrogen (obtained from electrolysis from renewables).

A good example of an inappropriate route is the decades old “Sky Scenario” from Shell, which envisages extensive use of hydrocarbons well beyond 2100. As well as being less than credible from a technology, economic, and environmental perspective, it is now lacking credibility from a security of supply perspective.

It will therefore be necessary to ensure that a fulsome, evidence-based analysis drives LAPFF’s work and in particular in any collaborative engagements where some parties have a propensity to be taken in. This analysis and engagement will include ensuring that company TCFD reporting provides information that allows LAPFF members to make useful investment decisions related to climate and investment.

**Longer term objective:** LAPFF should continue to undertake work and produce materials that deal directly with and debunk misinformation and disinformation. This analysis includes the incentives and vested interests behind some industries continuing with unsustainable practices and business models. The insurance industry might be one area for focus.

*SDGs: Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all; Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation; Goal 12. Ensure sustainable consumption and production patterns; Goal 13. Take urgent action to combat climate change and its impacts; Goal 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.*

### **1.1.2. Climate and Paris Aligned Accounts**

**Objectives:** LAPFF’s aim is to ensure that investors have access to accurate company accounts that allow for sound investment decision-making. LAPFF originated the concept of “Paris Aligned accounts” with Sarasin & Partners given a preponderance of initiatives treating the climate change crisis as a “disclosure” issue rather than an crisis requiring action with balance sheet and investment implications. These implications mean it is important to seek clarity on:

- the stranded asset risk of existing assets
- the stranded assets risk from new capital expenditure
- decommissioning and rectification liabilities.

The desire to follow a substantive numbers-based approach has led to the objective of seeking engagement with and action from the major accounting firms. With attention on the right transition issues and risk, the scope to call out bad practice and encourage the good, is increased.

**Method:** The work has been highly collaborative requiring co-signing of letters to companies and the major audit firms, which are actions that should continue at pace. LAPFF also recommended a vote in favour of a shareholder resolution at BHP's AGM during 2022 calling for Paris-aligned accounts. LAPFF will seek opportunities to support similar viable company resolutions in the coming year, as well as supporting continued engagement with accounting firms on this issue.

**Longer term objective:** The work is essential to credible numbers as drivers of credible transition pathways. This is an area where the cross referencing of good practice by the large audit firms makes the behaviour of lagging companies more visible with audit risk to them.

*SDGs: Goal 13. Take urgent action to combat climate change and its impacts; Goal 16: Build effective, accountable and inclusive institutions at all levels; Goal 17. Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development*

### **1.1.3. Strategic Resilience**

**Objective:** LAPFF's aim is to bring together a sustainable environmental and economic basis for company development as set out above with strategic factors such as energy security.

**Method:** The work is inherently high level, which fits well with LAPFF executive led engagement and challenge. LAPFF is continuing to support the 'Say on Climate' initiative and is writing to the FTSE AllShare (minus investment trusts) to encourage companies to table an annual vote on their net zero strategies. The work is also dependent on rational policy making frameworks. LAPFF will continue to engage with banks, possibly including Barclays and HSBC, on aligning business practices with the Paris Agreement, including a number of Asian-based financial institutions, undertaken through a collaborative engagement with Asia Research Engagement (ARE). Continued engagement with oil and gas companies, including Shell and BP, will take place as appropriate. LAPFF continues to engage with a range of companies through CA100+, and these engagements will continue to be monitored for effectiveness.

**Longer-term objective:** This work is consistent with initiatives to eliminate disinformation in the form of greenwash given that advanced forms of greenwash may attempt to affect policy making outcomes. LAPFF's strategic objective is for companies to implement a climate action transition plan that is reviewed yearly and is put to shareholders for approval. Where LAPFF has engagement history

with companies on climate, it will consider voting alerts for members at AGMs as well as potential shareholder resolutions where required.

#### **1.1.4. Electric Vehicles**

**Objectives:** As a major contributor to carbon emissions, carmakers face considerable climate risks. These risks include higher regulatory standards on emissions and growing consumer expectations. LAPFF will seek to ensure carmakers are reducing emissions in the short term and have transition plans based on electric vehicle production implied by heightened government intervention. At present few carmakers, bar new entrants, have plans and production levels aligned with a 1.5 degree scenario. Moving to production of electric vehicles will not only require capital investment in making EVs themselves but also charging infrastructure itself. LAPFF will therefore seek assurances around how new infrastructure is being delivered to support existing drivers and encourage increased sales. As significant changes are required to decarbonise the industry and the vehicles the sector produces, LAPFF will seek to ensure the shift is being undertaken in a just way, both for the manufacture of vehicles and in supply chains and the sourcing of raw minerals.

**Method:** LAPFF will engage the largest carmakers on their transition plans and investment in electric vehicles and charging infrastructure. It will continue to participate in collaborative engagements through CA100+ with US companies, as appropriate, including their work regarding US regulations and lobbying activity of carmakers. It will also undertake specific engagements on responsible mineral sourcing. LAPFF has engaged and will continue to engage EV manufacturers on the importance of due diligence in sourcing materials, encouraging companies to have more transparency and greater reporting around the issue.

**Long term objective:** The Forum will seek to ensure that carmakers have clear net zero commitments and that these commitments are being met.

*SDGs: Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation; Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable; Goal 12. Ensure sustainable consumption and production patterns; Goal 13. Take urgent action to combat climate change and its impacts*

#### **1.1.5. Sustainable Commodities and Deforestation, Biodiversity, Plastics, Public Health**

**Objectives:** LAPFF aims to engage with companies to promote positive environmental impacts. First, it seeks to work with companies to mitigate their supply chain risks due to commodities associated with illegal deforestation, ensuring that they are undertaking appropriate due diligence to mitigate their risks. It also seeks to address the harmful environmental impacts of plastic packaging and microfibres. Finally, LAPFF seeks to ensure that retailers and

suppliers recognise public health risks they are creating, and that they take appropriate action to encourage healthy living.

**Method:** LAPFF supports a number of collaborative engagements relating to deforestation and sustainable commodities. These engagements include the Finance Sector Deforestation Action Initiative, which is taking measures to eliminate agricultural commodity-driven deforestation from portfolios by 2025. The Investor Policy Dialogue on Deforestation is another initiative in which LAPFF participates. This initiative engages with public agencies and industry associations in selected countries on the issue of deforestation. LAPFF is also mindful that the PRI had intended to launch its 'Sustainable Commodities' initiative and will monitor the progress of that programme during the year.

LAPFF continues to engage major plastic producers, including brands such as Nestlé and supermarkets such as Sainsburys and Tesco. LAPFF continues to be a member of As You Sow's Plastic Solutions Investor Alliance and will join collaborative engagements through this initiative on a holdings basis throughout the year.

On public health, LAPFF is part of two collaborative engagements with ShareAction (Long Term Investor's in People's Health (LIPH)) and the Access to Nutrition Index (ATNI), where LAPFF co-leads with Kellogg's. LIPH seeks to elevate health as a systemic risk, and ATNI seeks suppliers and retailers to address healthier living in their food offerings.

**Longer-term objectives:** LAPFF aims to encourage companies to better recognise risk in their supply chains to mitigate deforestation and the use of plastics. LAPFF also seeks to ensure that companies recognise the risk associated with healthy living and public health and that they will report regularly regarding health and nutrition. This reporting will supply investors with appropriate tools to assess company progress in this area. Biodiversity is a rising area of concern for investors, so LAPFF will explore engagement opportunities in this area.

*SDGs: Goal 2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture; Goal 12. Ensure sustainable consumption and production patterns; Goal 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss; Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels*

#### **1.1.6. Water Security**

**Objectives:** LAPFF is a founding member and co-chair of the Valuing Water Task Force, a group of global asset owners and financial institutions focused on catalysing systemic change in how water is valued by multinational corporations.



The objective is for investee companies to improve water management practices through the adoption of water stewardship best practice.

**Method:** The taskforce has now developed a set of corporate expectations relating to water stewardship best practice. The expectations have been informed by The Valuing Water Global Assessment of Private-Sector Water Impacts study, facilitated by CERES, which has highlighted the scientific evidence of the most critical externalities to water resources linked to industries and companies. The expectations are focussed on water quality, water quantity, ecosystem protection, access to water, governance, and public policy engagement. In December 2022, the engagement phase of the initiative commenced with LAPFF nominated as lead investor for Constellation Brands.

**Longer-term objectives:** LAPFF's ultimate objective is for investee companies to achieve sustainable water management practices. In addition, the initiative is also seeking to contribute to more water-risk informed portfolio and investment decision-making. Water pollution globally has surfaced in particular through LAPFF's mining and human rights engagements, so this issue is addressed further in the human rights section of the work plan.

*SDGs: Goal 6. Ensure availability and sustainable management of water and sanitation for all; Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development*

### **1.1.7. Water Companies and Sewage**

**Objectives:** LAPFF aims to ensure plans are in place and progress is being made in reducing the amount of sewage being released into waterways and to reduce the investment risks (reputational, regulatory and legal) of not doing so. LAPFF further aims to ensure that plans for reducing greenhouse emissions are adequate and to ensure companies are meeting regulatory requirements on leaks.

**Method:** LAPFF will engage water and sewage utility companies on their plans and the progress being made. LAPFF will seek assurances that progress and targets are ambitious to reduce negative water impacts and understand how these can be achieved (including adequate capital investment) given the economic regulation that companies face on charges. LAPFF will engage companies on their climate transition plans.

**Longer-term objectives:** LAPFF seeks to ensure company commitments to reducing pollution in waterways are being met by tracking progress. Further engagements on valuing water – as covered at the 2022 LAPFF Conference – will be explored as these opportunities present themselves.

*SDGs: Goal 6. Ensure availability and sustainable management of water and sanitation for all; Goal 11. Make cities and human settlements inclusive, safe,*

*resilient and sustainable; Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development*

### **1.1.8. Housebuilders**

**Objectives:** LAPFF's aim is to reduce the climate risks related to investment in the housebuilding industry given that housing is a major contributor to greenhouse gas emissions. LAPFF will also seek to ensure that concerns from consumers and policymakers around leasehold arrangements and build quality are being addressed.

**Method:** LAPFF will engage the largest UK housebuilders. The engagements will seek to ensure plans are in place to move to net zero homes, have Paris-aligned transition plans, and meet regulatory standards on emissions. The meetings will also engage companies on wider issues facing the sector, including around quality of homes and leaseholder issues.

**Longer-term objectives:** LAPFF seeks to ensure that there are actual emission reductions for operations and occupied homes that meet targets for a 1.5 degree scenario.

*SDGs: Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation; Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable; Goal 13. Take urgent action to combat climate change and its impacts*

### **1.1.9. Policy Engagement and Fair and Just Transition**

**Objective:** LAPFF aims to reduce the investment risks associated with climate change and recognises that this work cannot be achieved by any single actor alone, investors included. Strong regulation is required to ensure the shift to a net zero carbon economy and that the transition is undertaken in a fair and just way. LAPFF therefore wishes to see policies, programmes, and regulations that are reducing the investment risks for LAPFF members.

**Method:** LAPFF will engage policymakers and companies on policies that support a fair and just transition. Last year, LAPFF produced a report for one business meeting analysing the Climate Change Committee's 2022 report to parliament. The report set out potential areas for engaging regulators aligned to topics LAPFF already engages companies on. LAPFF will, where appropriate, engage relevant regulators and government departments on policies necessary to ensure a fair and just transition, including around land use and carbon offsetting, transition plans standards, charging infrastructure, plastics, housebuilding, aviation and transport, and energy.

**Longer-term objective:** LAPFF's long-term aim is that regulations increasingly support a fair and just transition to a decarbonised economy. In particular, LAPFF will seek to engage with policy makers and regulators on infrastructure



developments that enables both innovation in energy solutions and fair social consequences (ie, affordable and clean energy).

*SDGs: All SDGs are relevant for a just transition.*

## 1.2. Human Rights and Employment Practices (EMP)

Investors are gaining and ever-increasing awareness of the financial implications of investee companies' human rights practices. LAPFF members have gained this awareness through non-governmental organisation letters on the Occupied Palestinian Territories (OPT), through engagements with mining companies and communities affected by mining, and through engagements with companies and workers on employment standards and company supply chain practices. Last year, LAPFF established a human rights strategy to help drive and frame an increasing demand for engagement on human rights.

**Objective:** The LAPFF human rights workstream aims to implement the LAPFF human rights strategy as set out below. As well as engagement on human rights in a broad sense, this workstream includes work with investee companies to implement acceptable employment standards and supply chain practices.

**Method:** The LAPFF human rights strategy is based on three components: company engagement, affected stakeholder engagement, and policy engagements. These engagements cover three categories: sovereign-based engagements, sector-based engagements, and issue-based engagements. Collaborative engagements are included under all of these categories. Details of the three engagement categories, LAPFF's collaborative engagement strategy, and the policy component are set out below. A link to a just transition as it relates to human rights is presented in the final section of this topic.

### 1.2.1. Sovereign-Based Engagements

LAPFF maintains engagements on the Occupied Palestinian Territories (OPT), on companies operating in conflict zones – in particular Myanmar and Ukraine - and in the Xinjiang region of China where the Uyghur population is currently being subject to forced labour. All of these engagements are expected to continue or escalate, either through LAPFF alone or collaboratively where deemed appropriate. LAPFF is a member of investor groups on Myanmar and Uyghur issues through the Investor Alliance on Human Rights (IAHR). It is expected that voting alerts will be helpful in relation to some of these engagements over the course of the coming year. The voting alerts will be determined closer to the times of the company AGMs and will be dependent on company and political developments. Motorola is a company about which a few members have asked so will be looked at closely for a voting alert.

### 1.2.2. Sector-Based Engagements

Over the last four years, LAPFF has focused on human rights in the mining sector. During 2022, the LAPFF Chair and support staff visited Brazil to further an engagement in relation to mining after a request to do so from affected communities in Brazil. It is foreseeable that other such visits will be requested by affected communities in other countries. Furthermore, an additional engagement with Grupo Mexico is likely in the coming year. This engagement would follow a similar template to the Brazil engagements with companies and communities. Voting alerts will continue to be issued as necessary in relation to these engagements.

There will also be continued engagement with the apparel sector, including in relation to supply chain working conditions and social insurance. In relation to social insurance in the apparel sector, LAPFF held webinars on a new International Labor Organisation social insurance initiative with IndustriALL and is planning to hold additional webinars in the coming year on this topic. LAPFF engages the technology sector through voting alerts, through a technology working group based in IAHR, and through investor sign-on letters to companies. These engagements are expected to continue or escalate during the coming year.

Other possible sectors for engagement include the care sector, the defence sector, the food and beverage sector, and the solar sector.

### **1.2.3. *Issue-Based Engagements***

Joint ventures remain a major concern for LAPFF in relation to all sectors, but particularly as a result of the mining sector engagement. During the coming year, LAPFF plans to engage a consultant to explore the environmental, social, and governance gaps resulting from joint venture structures, as well as best practices in joint ventures. Discrimination is an umbrella topic for a number of LAPFF engagements covering the 30% Club investor group, which now covers race and gender, and the socio-economic taskforce engagement that LAPFF undertook during the course of the year. On modern slavery, LAPFF is a member of initiatives led by CCLA, Rathbones, and IAHR. It is anticipated that these engagements will continue or escalate over the course of the year. Furthermore, an additional area of engagement – access to resources – is anticipated. This engagement is likely to be prompted by the cost of living crisis, which could exacerbate lack of access to resources such as Covid vaccines, water and natural resources, and energy for vulnerable or low-income populations. These developments could well impact on the resources and profits of investee companies as a result.

### **1.2.4. *Collaborative Engagements***

LAPFF's primary vehicles for collaborative engagements on human rights are the IAHR and the Principles for Responsible Investment (PRI). Through IAHR, LAPFF will continue to participate in the groups on Uyghurs, Myanmar, and technology.

LAPFF will also seek to initiate a group through IAHR to form a global network of investors to undertake effective engagement with affected workers and communities. This year, LAPFF joined the PRI's Advance human rights programme and has been placed in the collaborative investor groups for Anglo American and Vale.

Although LAPFF will continue to look for opportunities to engage collaboratively with other investors, both through these vehicles and through investor sign on letters and other joint initiatives, LAPFF will be more selective about which investors to partner with. The criteria will be whether the standard of engagement through collaborative engagements is more effective in allowing LAPFF to follow through on its objectives than it has been in the past. Where this criterion is not met, LAPFF will either not engage with a collaborative engagement in the first place or will withdraw from existing engagements that have proven ineffective.

As a general note, LAPFF engagements have become more internationally-oriented over the past five years. It will therefore be increasingly important to partner with international investors with local knowledge to ensure that LAPFF's engagements are both culturally-appropriate and effective.

#### **1.2.5. Policy Engagements**

LAPFF's engagement on human rights has escalated exponentially in the last five years, to the point that LAPFF is now seen as a leader in this area. Consequently, LAPFF was invited to join a governmental social taskforce this past year, and participation in this group looks set to continue. There is also a range of new legislation covering human rights and environmental due diligence globally, including the new European Union Corporate Sustainability Due Diligence Directive (CSDDD) that is currently under development and will need to be monitored.

Litigation tracking is another area that LAPFF will need to cover given human rights cases involving BHP, Vale, Anglo American, Glencore, and Shell, among others. LAPFF responded this year to a consultation to update the US National Action Plan to implement the UN Guiding Principles on Business and Human Rights. It is expected that there will be an increasing need to monitor legislative and policy developments on human rights and draft consultation responses in this area.

**Longer-term objectives:** LAPFF would like to see company boards embrace corporate cultures that enable the companies to uphold their responsibilities to respect human rights in line with the UN Guiding Principles on Business and Human Rights. This culture change should help companies to become more sustainable and resilient in respect of a host of environmental, social, and governance issues. These aspects of culture will become more ever more

financially material for companies as new legislation is brought in like Europe's Corporate Sustainability Due Diligence Directive.

It is likely that the cost of living crisis will create challenges for investee companies and people alike. LAPFF will assess whether any engagements beyond those with care companies are needed in this area. LAPFF will also continue to monitor whether more work needs to be done in engaging pharmaceutical companies on Covid or other emerging infectious diseases.

#### **1.2.6. Fair and Just Transition as it relates to Human Rights**

**Objective:** LAPFF would like to see companies move away from creating silos for ESG issues to understanding how all three elements link together. This interconnected understanding of ESG issues is the foundation for a fair and just transition.

**Method:** The climate and environment components of human rights are becoming increasingly important as the scale of the climate crisis increases. More and more human rights engagements are focusing on the link between human rights, climate, and the environment, especially as there is now a new recognised human right to a clean and healthy environment. For example, LAPFF currently has an engagement on responsible mineral sourcing with automobile companies that covers both climate and human rights considerations. Therefore, fair and just transition will become a more prominent engagement topic across all of LAPFF's engagements, human rights and otherwise.

**Longer-term objectives:** LAPFF would like to see a meaningful definition of a fair and just transition developed and espoused by both companies and investors. Until this definition is developed and acted on, the term will continue to be abstract and hard to implement for all parties involved.

*SDGs: All of the SDGs are relevant to the realisation of all human rights.*

### **1.3. Leadership: Emerging and Developing Initiatives (LEAD)**

**Objectives:** LAPFF aims to identify emerging thematic investment concerns as well as to respond to responsible investment concerns at companies widely held by members, on issues raised by members and the Executive committee. These issues can arise at any point during the year and so do not necessarily align in timing with the development of the LAPFF work plan.

**Method:** Monitoring and assessment of emerging thematic investment concerns is undertaken during the year, with compelling investment concerns and impacts drawn into the workplan throughout the course of the year. Responsible investment concerns at companies widely held by members will be explored and relevant engagement strategies proposed as will issues raised by the Executive

committee. This process will include identifying initiatives where the Forum could be active or could collaborate and progress engagement.

**Longer-term objectives:** LAPFF seeks to retain a focus on areas that provide added value for members whilst ensuring priority and emerging engagements or value-added collaborations can be incorporated. One of these emerging areas is split voting.

## 2. Promoting Good Governance

LAPFF continues to take the view that without effective corporate governance, effective social and environmental standards and practices cannot be implemented at investee companies. Necessary governance practices include adequate board diversity, good practice on anti-bribery and corruption, effective governance of technological development and implementation of this technology, and reliable company accounts. LAPFF engagements in these areas are set out below.

### 2.1.1. *Anti-Bribery and Corruption (GOV)*

**Objectives:** LAPFF has engaged a number of companies on anti-bribery and corruption in the past, most recently Glencore. The aim is to ensure that companies have appropriate internal controls in place and are transparent in their relationships with business partners, including their identity, their location, and the exact relationship to the investee company.

**Method:** To date, LAPFF has engaged investee companies with support from Global Witness, a non-governmental organisation aimed at promoting anti-corruption practices at major multinational companies. This type of engagement will continue where situations arise warranting LAPFF's scrutiny.

**Longer-term objectives:** LAPFF will seek to monitor investee companies in respect of any bribery and corruption allegations both to determine when it is appropriate to engage and to ascertain whether any policy engagement is necessary in relation to corporate conduct in this area.

### 2.1.2. *Diversity (GOV)*

**Objectives:** The Forum seeks to enhance the diversity of boards and the workforce. LAPFF recognises that higher levels of diversity at board level are needed to tackle 'group think'. There are various papers and reports that show links to better company performance where there are higher levels of diversity at board level. FCA rules introduced from 1 April 2022 also now require companies to disclose in their annual reports whether they have met specific board diversity targets on a 'comply or explain' basis.

**Method:** LAPFF is a member of the 30% Club Investor Group, which seeks to improve gender diversity at board level. This group has extended its remit to incorporate ethnic diversity. LAPFF will continue to engage collaboratively through this group as well as with identified laggard companies. John Gray, LAPFF Vice Chair, previously sat on the City of London's Taskforce on Socio-Economic Diversity which sought to progress discussions and identify best practice in the financial sector. This has now morphed into the 'Progress Together' initiative which Cllr Gray will continue to support.

**Longer-term objectives:** Given the time limits of both the Parker and Hampton-Alexander reviews alongside the new FCA rules, it is clear where boards have made minimal effort to meet these recommendations. LAPFF will look at whether boards have incorporated diversity into their business strategy and the process undertaken by boards in ensuring diversity considerations are integral to the appointments process. Within this analysis of companies, LAPFF will also take into account pay gap reporting, both on ethnicity and gender, at both board and company level.

*SDGs: Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all; Goal 5. Achieve gender equality and empower all women and girls; Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all; Goal 10. Reduce inequality within and among countries*

### **2.1.3. Technology and Governance (GOV)**

**Objectives:** LAPFF will seek to improve the governance practices of technology companies which fall far short of best practices. The Forum will also seek improved practices for content management on their platforms to reduce human rights risks facing investee companies and therefore shareholder value.

**Method:** LAPFF will seek to engage with major technology companies, including issuing voting alerts focused on resolutions on governance issues (including dual class shares, majority voting for directors and joint chief executive and chair roles) and on social issues (including human and civil rights policies and practices and content management safeguards). Where appropriate LAPFF will engage collaboratively.

**Longer-term objectives:** That technology companies' (including those making IPOs) governance arrangements are in line with best practices and that human rights risks around their content are being properly managed.

*SDGs: Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels*



## 2.2. Reliable Accounts, Capital Market Regulatory Reform (REL)

**Objectives:** This objective is an umbrella for the climate-related accounts engagement set out above. LAPFF aims to ensure that there is a regulatory environment that ensure companies prepare and report their accounts in line with a true and fair view as established in law.

Deficiencies with accounts and audits became a matter of significant concern following the 2007-2010 banking crisis/credit crunch. LAPFF identified that rather than a liquidity crisis, the problems stemmed from a solvency crisis, in large part due to the accounts of banks a) leaving out likely losses and b) taking unrealisable market only gains on trading books to profit and loss (unrealisable as large-scale selling would deflate what was an asset bubble).

The position was supported by the House of Lords Economic Affairs Committee, the Treasury Select Committee and the Parliamentary Commission for Banking Enquiry (a joint committee of both houses of parliament).

It then became clear that the problematic accounting of the International Financial Reporting Standards (IFRS) International Accounting Standards Board (IASB) were conceptually flawed as the accounting was inconsistent with determining a) whether a company was capable of being assessed as a going concern or not b) whether a company was in a position to pay a dividend lawfully or not (with a) and b) having mutual dependencies, and both being Companies Act requirements).

After years of Parliamentary intervention and enquiries, Parliamentary Questions, Freedom of Information Act requests and legal opinions it has become clear that the problems in resolving matters flow from officials within BEIS. One outcome has been the recommendations of the Kingman Review that the Financial Reporting Council is replaced by the Auditing, Reporting and Governance Authority (ARGA). However, progress in laying legislation to implement those reforms has been hampered by the regular changes in Prime Ministers.

As there are now parallel issues appearing with Liability Driven Investment strategies (LDIs) it is proposed to add work on this topic to the workstream because:-

The EU Directive relevant to occupational pension schemes prohibits pension funds borrowing, but it appears that due to industry lobbying the UK transposition of the Directive changed words to permit borrowing.

LDIs are predicated on “hedging” the number for pension “liabilities” produced by IAS 19 (using a bond rate). Whereas the same pension funds in the hands of insurers use IFRS 17 (Insurance) which permits discounting at a rate based on the actual expected returns of an investment portfolio).

LDIs led to financial instability and forced selling of equities by pension funds at distressed prices. There is therefore a problem with inconsistent, illogical and

value destructive regulation arising from what is essentially policy making outsourced to vested interests that runs contrary, inter-alia, to the intention of Parliament and democratic institutions.

**Method:** An accounting issues group within the LAPFF Executive is being established. The aims of this group are to break through the jargon and false complexity to deal with the harm that has occurred and is continuing to occur from poor and misleading accounting and audit practices.

**Longer-term objectives:** Overall the objective is to get in place a rational, public interest framework for accounting, audit and capital market reform that is in the interests of long-term shareholders and the public interest, in the place of piecemeal gerrymandered structures created by vested interests.

The Kingman Review stated the risk of deviating from the public interest in such terms relating to the FRC, however, the broad point is relevant regardless of which regulatory is involved...

“The Review is concerned by what appears to be a widespread assumption that the FRC’s board should in some sense be “representative” of the many stakeholders affected by its work. Many respondents, in fact, asked for additional representatives to be added to the board...

...the purpose of a regulator’s board, ... is not to represent all the multiplicity of views of relevant vested interests and somehow reconcile them in discussion, but rather to ensure that the regulator is doing a highly effective job in protecting and promoting the public interest.”

*SDGs: Goal 17. Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development*

### 2.3. Holdings Based Engagement, AGM Attendance (HBE)

**Objectives:** LAPFF aims to communicate with/meet board members of companies most widely held by members in a number of markets, at least bi-annually. It is important to ensure any engagement on behalf of bond holders is differentiated from engagement on behalf of shareholders. LAPFF seeks to participate in UK and non-UK-based company AGMs in a manner that is best targeted to communicate with board members and ensure board access for follow-up meetings.

**Method:** Holdings data is requested from members from September onwards and collated. This data collection enables LAPFF to undertake engagement where members collectively represent a significant holding in the company (2 percent and over). Engagement is undertaken on identified governance, capital stewardship, and corporate responsibility concerns as well as topics aligned with workplan themes. In undertaking engagement on bonds, there is recognition that

the skills needed to scrutinize bonds are different to those used to deal with equity, as the risks are very different. Engagement will also recognize the conflict of interest between what is best for shareholders and what is best for bondholders. AGM attendance has long moved on from being purely an escalation strategy and is now a regular part of ongoing engagement with companies. Attendance can commend boards for progress as well as press on areas where further progress could be made. Given that most meetings are now virtual or hybrid, LAPFF executive members have greater access and are briefed in advance of such meetings.

**Longer-term objectives:** LAPFF seeks to build relationships with company boards so that increasingly directors seek out meetings with LAPFF. It also seeks to build further board-level relationships with non-UK company boards, especially where current collaborative engagements may be at investor relations level.

## 2.4. Policy Engagements (CONS)

### Consultation Responses, Networking, Policy Development

**Objectives:** LAPFF's objectives include promoting the highest standards of corporate governance and corporate responsibility by influencing government, regulatory and market-led policies and norms. In doing so, LAPFF aims to increase its impact by building relationships with like-minded organisations.

**Method:** LAPFF promotes policies aligned with LAPFF's purposes. In doing so, the Forum will respond to government consultations. Priority will be given to consultations which best serve LAPFF's and its membership's objectives and interests. With a significant volume of new regulation focused on climate change this topic is likely to be a major part of the consultation response work. LAPFF's continued interest in auditing and accounting standards is likely to remain a focus area, as are legislative developments related to human rights and environmental due diligence. Other issues could include interventions regarding the LGPS, responsible investment, and corporate governance standards.

Government consultations are likely to be the main focus but LAPFF may also respond to relevant consultations from collaborative initiatives and NGOs given the potential to influence market standards. Responding to consultations is a good way to build relationships and last year led to LAPFF being invited onto a DWP taskforce on social factors in investing. LAPFF will continue to be involved in this initiative and will also build relationships through networking and speaking engagements.

Climate policy will continue to be informed by LAPFF's interactions with investor partnerships and initiatives, including IIGCC, CERES and PRI. LAPFF will continue to maintain and develop relationships with NGOs, workers, and affected communities to inform its work and further its engagement activities. Feedback

from activities will be provided in the QER and the chair's email and new policies agreed by the LAPFF membership will be updated in the LAPFF [responsible investment guide](#).

**Longer-term objectives:** LAPFF seeks to enhance its position as a leading voice on responsible investment and corporate governance issues.

### 3. Positioning the Forum, Communication and Member Services

#### 3.1. Communications, Media Outreach, Publications (COMM)

**Objectives:** LAPFF aims to maintain regular communication with members on engagement objectives, activities, and outcomes, as well as other pension fund-specific collaborations to drive greater momentum in some areas and to make sure that work is not duplicated in others. It aims to **actively highlight progress and effectiveness of LAPFF engagement** across multiple materials and platforms including media coverage.

**Method:** Part of LAPFF's success is dependent on the communication of its work to members, to other investors, and to the general public. The chair's e-mail provides weekly updates on LAPFF's work to members. The quarterly engagement report presents a quarterly update on LAPFF's engagement progress, including through publication of a table containing engagement outcomes. The annual report communicates LAPFF engagement themes and trends over the year.

The LAPFF website is a first port of call for information about LAPFF, including recent initiatives, publications, and news. Following Elon Musk's acquisition of Twitter, LAPFF has paused activity on that social media platform. Instead, there is now a LAPFF LinkedIn page to keep interested parties up to date on the Forum's activities. Media outreach will aim to forge stronger relations with journalists as well as facilitating responses to enquiries and issuing press releases. The use of video and film to promote and support LAPFF work will continue.

Meetings and webinars keep members up to date on investment related topics, emerging initiatives and LAPFF policy development and engagement. In the past year, LAPFF has co-hosted two webinars with IndustriALL on social protection for workers in the garment and clothing sectors. Webinars such as these, and webinars with community members affected by mining operations will continue.

LAPFF also issues a range of reports that are usually released publicly. Although voting alerts are generally reserved for LAPFF members and their fund managers, when appropriate, these alerts can also be issued publicly when it is deemed necessary to do so to promote LAPFF's engagement objectives. Voting alerts are usually made public through press releases regarding LAPFF's work. LAPFF also

responds to press requests on a range of topics, including reliable accounts and, increasingly, human rights.

**Longer-term objectives:** The long-term goal of LAPFF communications is to position LAPFF as a responsible investment leader, based on a strong research, evidence-based analysis, and practical engagement with companies. LAPFF also seeks to become a first 'point of call' for journalists seeking views on ESG investment issues.

### 3.2. Member Liaison, Services, Support and Training (SUPP)

**Objectives:** LAPFF aims to support members through the provision of the aforementioned communications, executive and business meetings, and other ad hoc communications responding to various member requests. LAPFF also liaises with executive members to ensure they have access to relevant training opportunities.

**Method:** Members receive educational and explanatory materials in a range of formats about LAPFF for use by member funds, including during the induction of newly elected members. These materials cover the work and organisation of both LAPFF and its engagement partners, and how funds can become actively involved. The materials also seek to motivate individuals to become directly involved themselves in the work of LAPFF, for example through standing for the Executive Committee. Support also includes responding to queries, maintaining up-to-date contact lists, and ensuring access to the member section of the LAPFF website, where access to information that is private and confidential for LAPFF members is posted.

The member site provides a range of information on LAPFF's activities including information pertaining to LAFF meetings, voting alerts, draft consultations, and the chair's e-mail. It also includes the provision of material that might be helpful for wider dissemination across pension committees and local pension boards in the form of short documents providing members with background information and responses to 'live' issues and concerns as well as responses to stakeholders.

LAPFF holds quarterly Executive and Business meetings, seminars, and conferences. Member holdings are collated to facilitate LAPFF's ability to obtain engagement meetings with investee companies. Records of these engagement meetings with companies are retained on PIRC's server to facilitate further engagement and to enable regular reporting on LAPFF engagement activities and outcomes. Ongoing training is provided for Executive committee members to ensure development needs are met.

**Longer-term objectives:** LAPFF will seek to ensure information channels are maintained in a manner that suits all members and their changing needs. LAPFF Executive members will also be consulted on whether a more formalised

approach to inducting new members to the LAPFF Executive, or to LAPFF more broadly, is needed.

### 3.3. AGM, Business, Executive, and Subcommittee Meetings (MEET)

**Objectives:** LAPFF aims to ensure that executive committee meeting discussions further LAPFF's mission to promote the highest standards of corporate governance and corporate responsibility. These meetings also aim to inform members about outcomes from LAPFF activities and encourage debate in a way that allow them to take useful decisions in driving LAPFF's objectives forward.

**Method:** Quarterly executive committee meetings allow executive members to discuss and deliberate new proposals as well as review outcomes from engagement. On occasion, other sub-committees are convened to discuss proposals and report back to the executive committee. An annual meeting of the executive in the latter part of the year determines strategy for the year ahead. Quarterly business meetings provide members with the opportunity to debate current initiatives and how LAPFF will engage, as well as to hear updates on engagement outcomes from activity over the previous quarter. The AGM ensures that relevant procedural items are dealt with, such as election of executive committee members and receipt of the annual report.

**Longer-term objectives:** LAPFF seeks to ensure that meetings continue in a format that will best ensure input and discussion by the LAPFF executive and wider membership.

### 3.4. APPG, Party Conference Fringe Meetings, Asset Managers, LGPS Events (LGPS)

#### 3.4.1. *All-Party Parliamentary Group (APPG) for Local Authority Pensions Funds*

**Objectives:** LAPFF supports the APPG for Local Authority Pensions Funds which has been established to discuss LGPS issues with policymakers and stakeholders. The group helps to raise issues of concern, develop policy thinking and inform the work of LAPFF.

**Method:** LAPFF supports the APPG which arranges meetings with parliamentarians and a broad range of stakeholders. The APPG invites ministers and shadow ministers to speak alongside experts and professionals from the investment world.

**Longer-term objectives:** LAPFF seeks for the APPG to further raise awareness of the work it is carrying out and to strengthen relationships with key stakeholders.



### **3.4.2. Party Conference Fringe Meetings**

**Objectives:** The regulatory and legislative environment in which LAPFF operates is shaped by policymakers. To support an environment which helps promote LAPFF's objective of having the highest standards of corporate governance and corporate responsibility, LAPFF will host fringe meetings at the Party conferences.

**Method:** LAPFF will host fringe meetings at the party conferences to build relationships with parliamentarians and ministers, to raise awareness of responsible investment issues, and to lead the debate on reforms which promote well-functioning markets. These meetings provide an opportunity to engage a wide range of stakeholders on the panel and in the audience. The topics of the meetings will be on specific issues relevant to the Forum's workplan.

**Longer-term objectives:** LAPFF aims to raise awareness of its work and strengthen its position as a thought leader on responsible investment issues.

### **3.4.3. LGPS Events, Asset Managers**

**Objectives:** LAPFF aims to maximise its influence both within the investment chain and in respect of investee companies and to promote improvements in practice. One way LAPFF gains influence is through supporting executive participation in external events. LAPFF also aims to ensure good two-way communication between LAPFF fund and pool members.

**Method:** LAPFF will continue to engage with asset managers, regulatory bodies with responsibility for stewardship and related areas, and other relevant experts on matters such as stewardship practices, shareholder voting, stock-lending and infrastructure. Care will be taken to ensure no cross-cutting in terms of the work done by the Pools in 'managing their managers'. Representatives of the research and engagement partner on occasion present to pension committees, pension boards, and employee AGMs on a variety of aspects of the workplan and initiatives. Representation and support are provided to executive and other members for other external events undertaken on behalf of LAPFF as well as for any outreach by the Chair with member funds. In 2023, this event participation may well have a regional focus. Support will be provided for the chair to meet with pool company chairs, CEOs, and Responsible Investment leads on matters of mutual interest and vote recommendations, ensuring greater communication between LAPFF's engagement strategies and similar strategies undertaken by pools.

**Longer-term objectives:** LAPFF seeks to have well-developed relationships with major asset managers and to ensure that the requirements of both fund and pool members are understood by the LAPFF chair and executive through regular communication and integrated into the LAPFF workplan where appropriate.