

# **Warwickshire Pension Board Training Day**

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# What LAPFF is

- 82 LGPS fund members, six pools, combined assets of approximately £250 billion
- Unparalleled resource for funds to develop approach to stewardship and responsible investment and maximise influence as shareholders
- The Forum engages over a wide range of topics, including environmental and carbon risk, social and governance risk and reliable accounts

# 2019 Priorities

**New themes:** plastics, board employee representation, lobbying, sectoral aspects of disruptive technology and diversity, sustainable development goals

**Continuing focus:** executive pay, governance, corporate tax disclosure, bribery and corruption, employment practices, human rights, reliable accounts and the role of the FRC

# Clear Priority for 2019

Strong mandate from members for climate action to be a high priority especially in light of Intergovernmental Panel on Climate Change report on 1.5 degree limit



# Crisis 'What Crisis'

- Last five years the hottest ever, Europe 2° above average
- PGE first corporate casualty of climate change
- In December 2018 and September 2019 UN Secretary General warns of a 'direct, existential threat'

# UN Secretary-General

"I am appealing for leadership from politicians, from business and scientists and from the public everywhere ... we face a direct existential threat. Climate change is moving faster than we are.'





# Global climate strike, PLSA to .....

Biggest climate protest  
in history, four million in  
September



PLSA: Rishi Sunak targeted

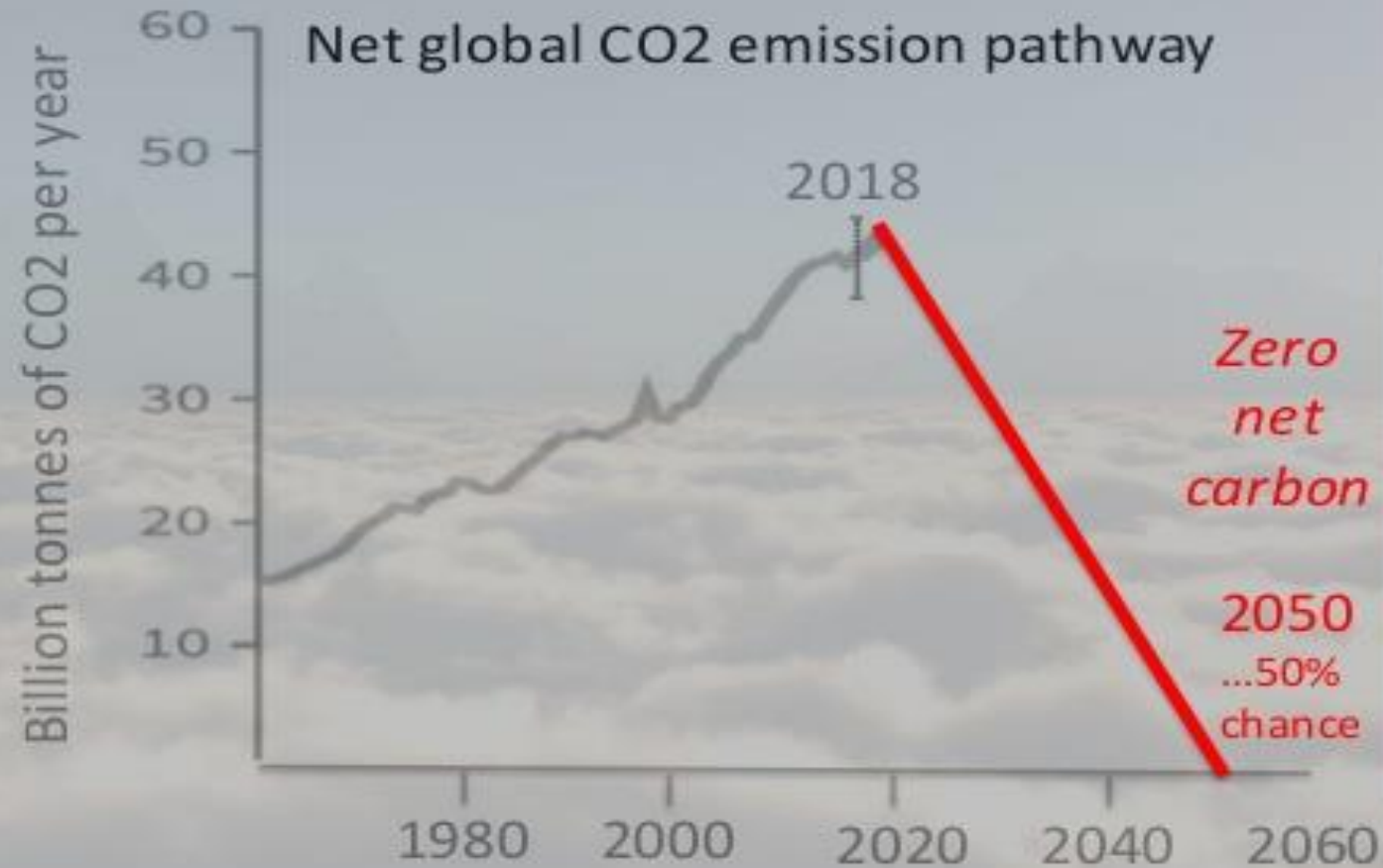
# Extinction Rebellion in Westminster

- Wider social dimension drives pressure on members to respond and illustrate investment risks being addressed
- Demands for response unlikely to diminish but to ratchet up





## The system change we need according to climate scientists



Only a 50% chance?  
Goal must be 100% renewable energy before 2050, therefore

**UN's Intergovernmental Panel on Climate Change, October 2018:**  
To limit global mean surface air temperature to the 1.5°C target in the Paris Agreement

# What funds can do



- LAPFF's Climate Change Investment Policy Framework uses Taskforce on Climate Related Financial Disclosures themes
- These are governance, investment strategy, risk management and metrics and targets

# Suggested Investment Strategy Statement

The Board and Management of the Fund believe that over the expected lifetime of the Pension Fund, climate related risks and opportunities will be financially material to the performance of the investment portfolio. As such, we will consider climate change issues across the Fund and specifically in areas such as Strategic Asset Allocation, Investment Strategy, Investment Manager Selection and Risk Management with the aim of minimising adverse financial impacts and maximising the opportunities for long-term economic returns on our assets



# Investment Strategy

- Investment strategy: incorporates all asset classes and includes asset allocation, oversight of investment managers, use of scenario analysis and climate related investment opportunities
- Scrutiny of fund managers voting brings an interesting perspective on the engage/divest debate

# Fund manager voting on climate resolutions

Company	Resolution	LAPFF	Baillie Gifford	Blackrock	BMO	Columbia Thr.	Fidelity	HSBC	Invesco	Investec	Janus Hend.	JP Morgan	Jupiter	LGIM	M&G	MFS	Newton	Royal London	Schroders	UBS
Ford	Dislosure of lobbying	F		O	F		F	F	F		F	O		F	F					F
Rio Tinto Ltd (Aus)	Amend Constitution	F		O	O	O	O	O	O		O	O		O						O
Rio Tinto Ltd (Aus)	Transition Planning	A		O	O	O	O	O	O		O	O		O						O
BP	Climate disclosures	F		F	F	F	F	F	F	F	F	F	F	F	F	F	F	F	F	F
Amazon	Climate policy	F	F	O	F	F	F	F	F	F	F	O		F		F	O*	F	F	F
Exxon Mobil	Susan K. Avery	O		F	V	F	F	F	F	O	F	F		F	F	F		F	F	F
Exxon Mobil	Angela F. Braly	O		F	V	F	F	F	F	O	F	F		F	F	F		F	F	F
Exxon Mobil	Ursula M. Burns	O		F	O	F	F	F	F	O	O	O		F	F	O		O	F	O
Exxon Mobil	Kenneth C. Frazier	O		F	V	A	F	F	F	O	F	F		F	F	F		F	O	O
Exxon Mobil	Steven A. Kandarian	O		F	V	F	F	F	F	O	F	F		F	F	F		F	F	F
Exxon Mobil	Douglas R. Oberhelman	O		F	V	F	F	F	F	O	F	F		F	F	F		F	F	F
Exxon Mobil	Samuel J. Palmisano	O		F	O	F	O	F	F	O	F	F		F	F	F		F	O	O
Exxon Mobil	Steven S Reinemund	O		O	V	F	F	F	F	O	F	F		F	F	F		F	F	O
Exxon Mobil	William C. Weldon	O		F	V	F	F	F	F	O	F	F		F	F	F		F	F	F
Exxon Mobil	Darren W. Woods	O		F	F	F	F	F	F	O	F	F		F	F	F		O	F	O
Chevron	Carbon footprint	F		O	F	O	F	F	F	F	F	O		F	F	F			F	F





# What LAPFF does on your behalf

- Risk management: company engagement is an important element, encouraging development of low or zero carbon-aligned business models
- Metrics and goals
- Engaging with systemically important emitters and those who can drive clean energy transition
- Integral to Climate Action 100+ and other investor initiatives



# Assistance provided by LAPFF

## Voting recommendations

- Nine climate-related alerts in 2019; BHP Billiton, Rio Tinto, Ford, GM, Anadarko, Amazon, Exxon, BP and Chevron

## Filing shareholder resolutions

- Ten funds co-filed at BP for a strategy consistent with the Paris Agreement; one fund co-filed a similar resolution to ExxonMobil; others on US lobbying resolutions

# ArcelorMittal

Largest steel company in the world commits to

- join the Energy Transitions Commission
- substantial reductions globally, carbon neutral in Europe by 2050
- Trialling industrial scale hydrogen at Hamburg plant for direct reduction of iron ore



# National Grid

Engagement with Chair resulted in scope 3 disclosure

Value change for shareholders

- decarbonisation of transport, charging points
- new sensitivity analysis for net zero carbon emissions by 2050



Ambition to operate UK electricity system at zero-carbon by 2025



# Some Conclusions

- Funds and pools will use a range of governance and investment strategies to address climate risk
- Company engagement an essential element of climate risk management, that undertaken by LAPFF both direct and collaborative and linked to member holdings
- All LAPFF engagement around the mission of responsible investment for long-term returns



# Just transition

- To date, focus on climate change/ environment
- What about social impacts?
- Potential tension: jobs v climate change?



# Just Transition

## What is a just transition?

There is an increasing recognition that the **social dimension** of the transition to a resilient and low-carbon economy has been given insufficient attention, notably in terms of the implications in the **workplace** and **wider community**



# Just Transition

## The Investor Proposition

Societal Goals

Systemic Risk

Fiduciary Duty

Materiality

Opportunity

## Investor Action

Investment Strategy

Corporate Engagement

Capital Allocation

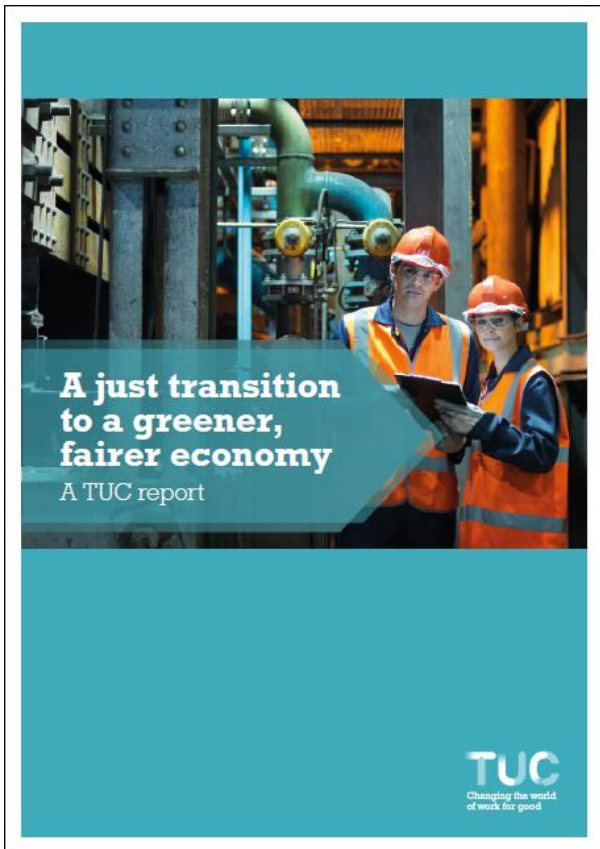
Policy Advocacy

Learning/Transparency



# Just Transition Investment Strategy

Integrate workplace/community issues into climate change policies and investment beliefs... and vice versa?



## Stakeholder Dialogue

LAPFF engagement with unions, workers and communities

## Investment Mandates

NLGPS investment policy, others?

# Just Transition Corporate Engagement



Include workforce and community issues in climate-related engagement – and vice versa?

## Corporate practices

*Tesla* – any local companies with similar issues?

*AngloAmerican* – international considerations



## Scenarios

*Amazon, Sports Direct* - good jobs, not just jobs



## Disclosures

*Drax* – case study and current engagement





# Just Transition Capital Allocation

Design investment mandates across asset classes that link:

## **Decarbonisation**

tilting, carbon free tracker indices, etc.

## **Climate resilience**

scenario planning, Aiming for A resolutions

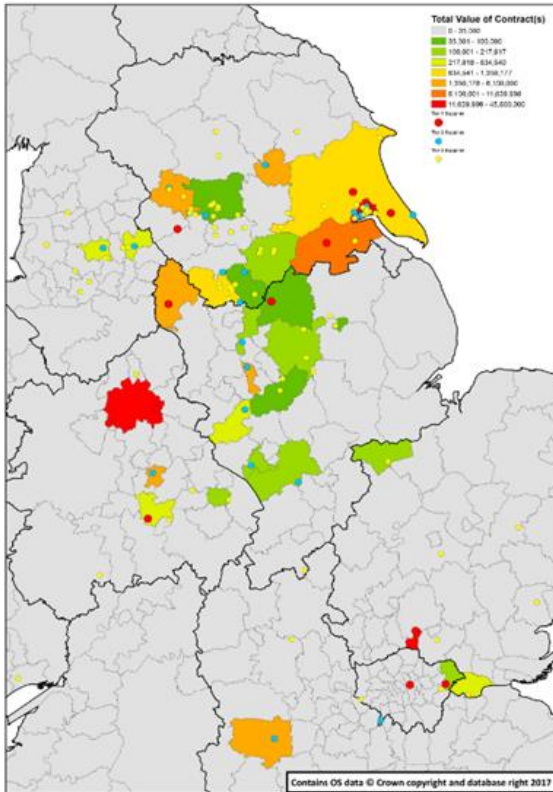
## **Decent work**

Not just jobs, but good quality jobs

## **Inclusive growth**

Growth that works for communities – Energise

Figure 4: Regional value of supply chain contracts and suppliers from the Green Port Siemens Investment.



# Just Transition Policy Advocacy

Support the inclusion of the just transition in policies:



**Regional:** NLGPS, LAPFF

**National:** Climate Change  
Commission

**International:** Paris Agreement,  
SDGs, COP 25

contribute to *place-based partnerships*: Yorkshire and Humber  
(10% of UK carbon emissions)

# Just Transition Learning and Transparency

Develop systems in line with just transition to

## **Review and communicate progress**

Seven case studies: Drax, AMRC, Siemens, Barnsley, Wellington Place, CITU, Yorkshire

## **Share best practice**

Scottish Just Transition Commission  
Another for the UK as a whole?

Just Transition Commission  
Background Report

April 2019