Brief analysis of Local Authority Pension Fund Forum's reports on progress on climate change through engagement with companies

Summary

The Greater Manchester Pension Fund (GMPF) holds substantial investments in fossil fuel companies. Campaigners have challenged this. One justification that GMPF gives for retaining these investments is that the holdings enable them to engage with the companies and persuade or compel them to reduce their CO2 emissions.

GMPF assert that this engagement is through the Local Authorities' Pension Fund Forum (LAPFF). The Forum represents all member funds. It engages in discussions with companies on several ethical issues, including environmental performance.

Fossil Free Greater Manchester (FFGM) analysed the Forum's own quarterly reports and concluded that they do not appear to show any reduction in CO2 emissions resulting from the Forum's engagement activities.

In conclusion, GMPF's strategy of engagement appears to be failing to persuade fossil fuel companies to reduce their CO2 emissions.

Introduction

FFGM reviewed 12 quarterly engagement reports available on the LAPFF website. It is clear that leading councillors on the forum meet regularly with representatives from many companies which the funds invest in. All bar one of the quarterly reports from the forum list quarterly engagements with companies and categorise each engagement according to type and amount of progress made. There may be more than one engagement with each company in the quarter, so the list enumerates companies engaged each quarter not total number of engagements.

Engagement on Climate Change with all companies

The best level of progress on outcomes is listed as "Substantial". Appendix 1 includes copies of all narrative reports which LAPFF designates as "substantial" progress. We assumed that this "substantial" progress was as described under the heading "Outcome".

Unfortunately, the report for October-December 2021, which is the one which does not include such a categorisation, also reports by far the highest number of engagements. 425 engagements are reported in that quarter as against 315 in the other 11 added together which include this type of analysis. It may well be that the 425 includes sending a joint letter reported on p7 October-December 2021 under the heading "Say on Climate" to which 64 replies had been received by the end of December 2021.

The 315 engagements reported in the 11 reports containing comparable analysis generated 21 outcomes that the LAPFF designated (though undefined) as “Substantial improvement”, a strike rate of 7%.

A categorisation of the reports on the 21 substantial improvements (detailed in the appendix) shows that of the 8 with related narrative reports, the outcomes can be classified as shown in the table below.

Type of outcome	Number
New target set	2
Improved target	2
Sale of Subsidiaries	1
Reduced lobbying	2
Introduction of Climate risk reporting	1
Total	**8**

Significantly, whilst potentially valuable changes are reported, **no actual emissions reductions are reported from these engagements**.

Engagement on Climate Change with companies from the “Carbon Underground 200” list

47 of the 315 engagements on climate change are with 25 companies on the Carbon Underground (October 2022) list of the 200 fossil fuel companies contributing the most to climate change.

There are narratives in the body of the report relating to 8 of these 47. Only one of these is listed under “Excerpts from the reports Substantial Improvements.” (See Appendix 1.) The rest appear under the heading “Excerpts from the reports Climate Change Topic.” (See Appendix 2.)

Type of outcome	Number
Awaiting Response	6
Change in Process	4
Dialogue	23
No Improvement	3
Small Improvement	3
Moderate Improvement	4
Substantial Improvement* see excerpts highlighted in appendix 1	4
Total	**47**

As the table highlights, LAPFF’s engagement has had negligible impact on these fossil fuel companies.

It is also interesting to note that the LAPFF criticised Shell’s choice of environmental targets. (April-June 2021 quarterly engagement report). Shell uses a carbon ‘intensity’ measure which the LAPFF describes as ‘discredited’. However, in GMPF’s 2022 Annual Report, the only carbon measure reported is also a measure of carbon ‘intensity’.

Fossil Free Greater Manchester May 2023

Appendix 1

Excerpts from the reports “Substantial Improvement” outcome

October-December 2022 – 1 report

Equinor* – No report listed as Sent Correspondence

April-June 2022 - 1 report

National Grid

Achieved: The first meeting with National Grid representatives was timed one day after the company issued its annual report, its Responsible Business report and notice of meeting for the AGM. It was evident that significant progress had been made, notably in disclosing a science-based medium-term Scope 3 emissions target, as well as a long-term Scope 3 target for 2050. The company has made a ‘strategic pivot’ to electricity in the UK, selling its majority stake in the gas transmission business and its Rhode Island Business. However, there are still challenges in New York state and Massachusetts in addressing the decarbonisation of heat. These concerns were also discussed at a later meeting with the chair, Paula Rosput Reynolds, in June.

January-March 2022 - 3 reports

ArcelorMittal

Objective: In a meeting at the end of 2021, LAPFF and the other lead CA100+ investors sought publication of a more granular report on lobbying with a trade association overview. Further correspondence in early January promoted engagement with InfluenceMap, whose assessment feeds into the CA100+ benchmarking process.
Achieved: In January 2022, ArcelorMittal issued a new Climate Advocacy Alignment Report. Continued engagement on lobbying disclosure and the shortly to be released new CA100+ benchmark results have helped the company, a year and a half on from their first ‘lobbying’ report, to update and improve it. In particular there is now disclosure on the action the company will take where misalignment is found between climate policy positions taken by membership associations, and ArcelorMittal’s own policy priorities and the Paris agreement. Potential escalation measures include direct communication requesting further alignment with company policy priorities and the Paris agreement, ensuring ArcelorMittal’s financial contribution is ringfenced for non-lobbying activities (e.g. towards standard setting only) and ArcelorMittal ceasing membership of the respective association.

DBS Holdings and London Stock Exchange - No report, listed as “AGM”

July-September 2021 – 2 reports

ArcelorMittal

Objective: After the long-awaited issuing of the company’s second Group Climate Action report, a meeting was held with company representatives and other CA100+ investors to discuss company progress.
Achieved: ArcelorMittal now has a group-wide emission intensity reduction target for 2030 of 25%, and 35% for Europe. The LAPFF Vice-Chair, Cllr Chapman commended the strengthening of targets and announcements of zero carbon steel plants in Spain and Canada. On request, the report also

included a mapping of the company progress against the CA100+ benchmark. This mapping will be used by many investors to inform AGM voting. Also raised were Paris-aligned accounts, climate considerations in remuneration, consulting shareholders on a transition plan vote at the 2022 AGM and requesting that the company run the 2022 AGM as openly as it did the 2021 AGM when the meeting was run on a virtual platform.

NEXTERA ENERGY INC - No report listed as "Received Correspondence"

April-June 2021 – 2 reports

National Grid

Objective: A meeting was held with National Grid representatives as part of the ESG roadshow the company is undertaking prior to the July AGM. LAPFF Vice Chair Cllr Rob Chapman, together with other lead CA100+ investors, met with Steve Thompson, Environmental Sustainability Manager and Nick Ashworth Director of Investor Relations. The primary objective for LAPFF was to assess company progress against the CA100+ benchmark in anticipation of questions to put to the chair prior to the 2021 AGM and the resolution for an advisory vote on the group net zero transition plan, ie. a 'say on climate' vote. Achieved: The company has now set a new Scope 3 target to reduce carbon emissions 37.5% below the 1990 baseline by 2034, up from the previous target of 20% by 2030. This target is aligned with the science-based targets initiative. Scope 3 emissions are by far the largest proportion of the company's emissions, and, having signed up to the science-based targets initiative, it is welcome to see this amended mid-term concrete target. Although National Grid is buying WPD Group, the UK's largest electricity distribution business, it is still devoting attention to including hydrogen in the domestic gas supply. Concerns were raised about this focus and the potential of locking in stranded assets.

ArcelorMittal

Objective: At a meeting in May, Cllr Chapman led a collaborative investor meeting to ascertain if there was an increased focus on hydrogen as opposed to processes reliant on carbon capture and storage (CCS) to ensure all procedures were in place to input questions to the AGM, and to ask if the company would consider a 'say on climate' vote at its 2022 AGM.
Achieved: Company representatives indicated there had always been an emphasis of hydrogen, even if it wasn't reported in that way and the recent separation of hydrogen and 'smart carbon' in their reporting showed this. However, more information was provided on ArcelorMittal's electrolysis technology, the company's Siderwin project on which it is collaborating with 11 partners, which shows a lot of potential. The company agreed to liaise on AGM arrangements. Subsequent to this, LAPFF received correspondence indicating that the CA100+ benchmark would be referenced in their next Climate Action report.

January-March 2021 – 5 reports

AngloAmerican on Climate*

Objective: LAPFF wrote to AngloAmerican in November 2020 as part of a collaborative initiative coordinated by Sarasin and Partners, underscoring the vital role of accounting and audit in driving the net-zero transition. An Investor Expectation document provided guidance for ensuring material climate risks associated with the transition to a 2050 net zero pathway are fully incorporated into the financial statements. The letter asked that the guide be shared with all members of the Audit Committee as well as the auditor, from whom independent assurance on Paris-alignment is also being sought.

Achieved: One of the best responses received to date to a total of 36 letters sent to European companies in the energy, transportation and materials sectors was from the Audit Committee Chair who clearly understands what was asked for and addresses it directly. He stated that the company has undertaken a review of climate risks in its financial statements and will publish the results in the forthcoming Annual Report and Accounts. The committee chair referred to specific risk areas including valuation of assets (i.e. impairment testing) where the committee considers carbon pricing and the impacts for assets and to asset exposure to physical risks – specifically the Chile copper mines to water scarcity – all of which feeds into the viability statement analysis.

Heidelberg Cement Commits to Review of Lobbying Activity

Objective: An 'explicit and decisive' response was sought from Heidelberg Cement to towards complying with investor expectations relating to corporate climate lobbying.

Achieved: A collaborative letter, under the auspices of the CA100+ initiative, set out a request for public disclosure of a comprehensive corporate lobbying review to assess the alignment of lobbying activities with the Paris Goals, and to set out what steps the Company intends to take in the event of areas identified in misalignment. After a call from lead investors, a response was forthcoming. The company noted it has pushed its associations to take a pro-active stance towards industry transformation in alignment with the Paris agreement and that these actions had already changed the stance of key organisations leading to the publication of carbon-neutrality road maps by them.

ENDESA SA and ENEL SPA No report listed as Received Correspondence

Rio Tinto - Report on Copper mine in Arizona not clear if this is the substantial climate change improvement referenced

July-September 2020 – 1 report

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

April-June 2020 – 4 reports

No descriptions, listed as -

BARCLAYS PLC Alert Issued/AGM

BP PLC* Received Correspondence

SOUTHERN COMPANY Press Release

WOODSIDE PETROLEUM LTD* Alert Issued/ AGM

January-March 2020 - 2 reports

No descriptions listed as -

ARCELORMITTAL SA Sent Letter

LEGAL & GENERAL GROUP PLC Meeting

Appendix 2

Excerpts from the reports “Climate Change” Topic

April-June 2022 - 1 report

ANGLO AMERICAN

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

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

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

July-September 2021 – 1 report

Mitsubishi Financial

Objective: Cllr Glyn Caron, of the LAPFF Executive, joined a collaborative investor call organised by Asia Research and Engagement with Mitsubishi Financial (MUFJ). The meeting sought to cover constituent details of a plan which would align financing to the goals of the Paris agreement and the setting of a net zero financed emissions target. This call followed LAPFF correspondence with the company on the issuing of a voting alert for the company’s June AGM supporting the company issuing a plan to align financing with the Paris Agreement. The engagement was followed by media coverage on concerns over the bank’s provision of finance to fossil fuel expansion and deforestation.

Achieved: In May, MUFJ made a net zero declaration, and as part of this commitment joined the Net Zero Banking Alliance. The company is committed to developing a plan but has only just started addressing policy formulation and implementation. This initial activity has been through setting up working groups to see if improvement can be made on the current investment threshold of 50% coal, which is 50% of ‘total capacity’. The company representative noted this standard would be revised and a goal set, which will be shown in due course. On physical risk, currently only flooding impact is mapped.

In Progress: It was agreed further correspondence would follow, including sharing examples of good practice from other financial institutions and benchmarking of these companies on coal policies. It was noted further physical risks could be considered going forward. Overall, the outcome from the meeting illustrated there was a ‘change in process’.

April-June 2021 – 2 reports

Mitsubishi UFJ Financial Group

The voting recommendation to members was to vote in favour of a resolution for the company to disclose an annual plan of the business strategy to align financing and investments with the goals of the Paris Agreement. The alert noted that the company continues to provide significant finance to fossil fuel expansion and deforestation, falling far short of Paris alignment.

Shell

Objective: LAPFF has engaged with Shell for many years, including as a participant in the CA100+ initiative. The objective has been to see a clear and credible business transition path towards net zero by 2050, with appropriate reductions in all emissions prior to 2050 in order to reach that goal.

Achieved: LAPFF is a member of CA100+ and the Shell engagement group, and along with several other members was concerned about the commitment Shell had to becoming net zero. The two lead engagers entered into a non-disclosure agreement with the company, therefore privy to Shell’s approach whilst unable to inform other members of the group until after the public statements in support were made. Shell’s approach was released in February 2021. LAPFF had however analysed what was said perhaps more fully and sceptically than others, and LAPFF recommended voting against Shell’s climate transition resolution and for the resolution of campaign group Follow This.

The Shell resolution at the 18 May AGM passed with 11% opposition, but 30% of voting shareholders voted in favour of the Follow This resolution. However, on 26 May a Dutch Court concluded that Shell’s plans were inadequate on each of the points that LAPFF had highlighted.

These were:

• that the small print showed the proposal was not incorporated into operating plans or budgets and that these things would only occur when Shell’s customers had made adjustments;

• that the proposals for Carbon Capture and Storage and Nature Based solutions were ill-defined (as well as not in budgets or operating plans);

• that emissions were based on discredited “intensity” measures rather than absolute emissions; and

• that there were no targets for emis sions reduction by 2030.

In consequence the Court has required that Shell reduce its global absolute emissions by 45% by 2030 with reference to 2019 emissions in order to begin to meet Paris goals.

In Progress: The company has indicated it intends to appeal the judgment. The current plan from LAPFF is to engage with the incoming chair, Sir Andrew Mackenzie. A key issue for discussion is why LAPFF and the Courts were able to draw the same conclusion despite a considerable public relations effort to push the opposite. The key lesson from Shell is that LAPFF engages as part owners of the company, not default supporters of incumbent management.

January-March 2021 – 2 reports

Shell

Objective: LAPFF continues to engage with Shell. In addition to its own engagement, LAPFF is engaging via the CA100+ group of investors on Shell. The Forum is very keen to continue the collaboration with other investors, and make sure that investors collectively communicate a consistent and robust case to ensure all aspects of the company's financial outcomes and performance are under stood fully.

Achieved: Last year, 2020, LAPFF recommended voting for a shareholder resolution at the Shell AGM that requested specific targets for Shell's claimed climate change ambitions. However, on 11 February 2021 Shell published goals that are ambiguous. For example, it claims to remove 120 million tonnes of carbon dioxide by introducing nature-based solutions (trees) by 2030. Achieving that target would require a mature forest the size of Washington State, which is difficult to envisage. In addition, Shell claims to want to remove 25 million tonnes of carbon dioxide by carbon capture and storage (CCS) by 2035. This has not been detailed or scheduled in any other material. The claim represents ten times the largest existing CCS project –

Gorgon Project (Shell 25 percent, Chevron 75 percent) and this project in Australia continues to experience problems. Shell's announcement includes increasing liquid natural gas output by 20 percent by 2030 and only plans for a 17 percent reduction in oil extraction, compared to BPs 40 percent.

In Progress: Shell has proposed a non-binding shareholder resolution on its climate change plans. The LAPFF position will be guided by research and further engagement. At present, it is considered much more detail and evidence is required before any conclusions can be drawn about what vote is advisable

AngloAmerican

Objective: LAPFF wrote to AngloAmerican in November 2020 as part of a collaborative initiative coordinated by Sarasin and Partners, underscoring the vital role of accounting and audit in driving the net-zero transition. An Investor Expectation document provided guidance for ensuring material climate risks associated with the transition to a 2050 net zero pathway are fully incorporated into the financial statements. The letter asked that the guide be shared with all members of the Audit Committee as well as the auditor, from whom independent assurance on Paris-alignment is also being sought.

Achieved: One of the best responses received to date to a total of 36 letters sent to European companies in the energy, transportation and materials sectors was from the Audit Committee Chair who clearly understands what was asked for and addresses it directly. He stated that the company has undertaken a review of climate risks in its financial statements and will publish the results in the forthcoming Annual Report and Accounts. The committee chair referred to specific risk areas including valuation of assets (i.e. impairment testing) where the committee considers carbon pricing and the impacts for assets and to asset exposure to physical risks – specifically the Chile copper mines to water scarcity – all of which feeds into the viability statement analysis.

In Progress: The audit committee chair has asked that, due to clear parallels, issues raised in this engagement be aligned with CA100+ engagement. LAPFF is also a member of the CA100+ collaborative investor group for Anglo-American

April-June 2020 – 1 report

Shell

'Follow This' Resolution Contested - For a third year, Shell faced a shareholder resolution spearheaded by Dutch NGO, Follow This, which called for the company to issue short, medium, and long-term climate targets. This year's resolution coincided with announcements by Shell and other oil and gas majors – including Total and BP - of new climate ambitions for net zero emissions by 2050. The climate ambition initiative was led by ClimateAction 100+. In the past, LAPFF has recommended votes against the resolution, but after reviewing Shell's new climate ambition, the Forum re-evaluated its position. Although many aspects of Shell's new climate ambition are far-reaching, the sum of its parts did not appear to add up. For example, the company seems excessively reliant on carbon capture and storage, among other technologies, to meet these goals. Further, while its attempts to find solutions for Scope 3 emissions are welcomed, Shell did not deal with some just transition aspects including planting forests to help foster carbon sinks. In short, the Forum felt that this year a full set of targets would be helpful to clarify how Shell's ambition might become concrete, and whether the proposals are sufficient to align with Paris Agreement goals. As a result, LAPFF drafted a voting alert recommending a vote in favour of the resolution. The alert was shared with Shell, which subsequently asked for a meeting to discuss LAPFF's concerns. LAPFF representatives met with the Head of Investor Relations and a member of the technical staff to go through the company's response to the voting alert but came away unconvinced by their arguments. There was an additional call with CEO Ben van Beurden (pictured) joined by numerous investors, including LAPFF. Again, the explanations provided were unconvincing and the LAPFF recommen dation to vote in favour of the resolution remained. Therefore, LAPFF supported Shell's ambition, but also supported the Follow This resolution calling for concrete climate targets, including long-term targets. The Forum will continue to engage with Shell and other investors to ensure that Shell enacts its ambition in a way that aligns with the Paris Agreement.

January-March 2020 – 1 report

Total

LAPFF has been partnering with Sarasin and other institutional investors in engagements with the Big Four auditing firms and Shell, BP and Total about incorporating climate appropriately in the audit process. While the engagements with the audit firms were less than encouraging, both the audit firms and the companies themselves are showing signs of movement on this issue. Specifically, Shell and Total have changed their accounting assumptions after letters from the investor coalition. Sarasin noted the following improvements in reporting from Shell:

1.The board has reduced long-term oil price assumption from $70/bbl to $60/bbl (down from $80/bbl in 2017) & gas from $3.5 to $3/ MMBtu – contributing to the £3.6bn impairments in 2019. They have clearly linked this to climate/energy transition considerations.

2.The auditor, EY, has substantively increased its focus and analysis of the energy transition as it impacts core accounting assumptions from asset valuation tests related to PPE & JVs, reserves, refinery assets, DTA etc –

3.EY notes that gas prices remain elevated versus peers

4.EY has also picked up our call for reassurance over capital maintenance and specifically dividend paying capacity in line with Part 23 of the Companies Act. This is now included as a Key Audit Matter. Total has also accounted for decarbonisation in its commodity price assumptions. This accounting has factored into Shell's impairment assessment too. The investor coalition will continue

to engage with these companies and others on this climate audit issue using the front-runners as examples of good practice.