



Quarterly
Engagement
Report

October-December
2024



Electric Vehicles, Conflict Areas, Decent Work, Airlines, Capital Markets

ENGAGEMENTS



Kyiv, Ukraine

CONFLICT-AFFECTED AND HIGH-RISK AREAS (CAHRAS)

Letter to the FTSE 100

Objective: There has been an increase in geopolitical tensions and conflict in recent years. This has covered Russia-Ukraine war, Sudanese civil war, the ongoing conflict in Myanmar and the Israel-Gaza war. Alongside conflicts, there are a number of regions which are classified as high-risk (of conflict or widespread or serious abuses).

Such conflict-affected and high-risk areas (CAHRAs) pose serious legal, financial and reputational risks for companies. However, understanding the nature and exposure that investee companies face can be difficult to ascertain because of the geographical spread of CAHRAs and because associated risks are not only the direct footprints of company operations but also complex supply chains

and a nexus of sold goods and services. Furthermore, the exposure investors face will be shaped by the ways in which companies mitigate and manage CAHRA-related risks. LAPFF therefore wanted to better understand company exposure and practices towards such risks.

Achieved: In December LAPFF wrote to all FTSE 100 companies (excluding investment trusts) requesting they provide the Forum with details about their approach to operating in, or having operations or funds linked to, CAHRAs.

The letter noted the human rights risks and potential negative impacts on financial performance. It also set out the legal, operational and reputational risks and the emerging mandatory laws on human rights and environmental due diligence.

LAPFF requested companies provide

information on their approach to risk mitigation in relation to CAHRAs. The Forum outlined considerations to do so that were aligned to LAPFF's policy on CAHRAs, including the process of heightened human rights and environmental due diligence (hHRDD).

In Progress: LAPFF will monitor the responses to the letter to better understand and identify the most material reputational, legal and financial risks. This will in turn inform the engagement work that LAPFF undertakes for its members. In addition, LAPFF will follow up with companies, continue to monitor ongoing global conflicts, and engage with companies more broadly operating in conflict-affected and high-risk areas to assess their implementation of heightened human rights due diligence (hHRDD).

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Armed guard at Coblat mine, Democratic Republic of Congo, Africa

Electric Vehicles

Objective: Decarbonising the automotive industry is contingent on the rollout of battery electric vehicles at scale. However, the transition from internal combustion engines to battery electric vehicles has significantly increased demand for key battery minerals including lithium, cobalt and nickel, along with other rare earth elements.

The International Energy Agency (IEA) forecasts that demand for critical minerals could increase sixfold by 2040. This demand has placed pressure on already fragile supply chains, many of which originate in CAHRAs. These regions are often characterised by weak governance, poor labour protections, and environmental degradation. One such area is the Democratic Republic of Congo (DRC) which supplies over 70% of the world's cobalt and where mining

operations are frequently linked to severe human rights violations, including child labour and unsafe working conditions.

The increasing regulatory focus on human rights and supply chain transparency further amplifies the materiality of these issues for investors and issuers. The EU Corporate Sustainability Due Diligence Directive (CSDDD) adopted in 2024, mandates that companies identify and mitigate adverse human rights and environmental impacts within their operations and supply chains. Failure to comply can result in significant financial penalties.

Undertaking hHRDD is crucial in the context of CAHRAs, where weak governance and conflict exacerbate the potential for abuse. These heightened risk areas demonstrate a necessity to take the just transition seriously and require companies to ensure that the benefits of EV production do not come at the expense of vulnerable communities. This means implementing robust mechanisms to assess, address, and manage risks across all tiers of the supply chain, from extraction to processing. In this context, LAPFF's engagement with EV manufacturers aims to encourage companies to identify, address, and mitigate salient human rights risks both in their direct operations, and throughout their supply chains.

Achieved: During Q4, LAPFF met with a total of five automobile manufacturers. The meetings were useful and provided the opportunity to discuss and press the companies on how they were mitigating and managing human rights risks in supply chains and often associated with CAHRAs. All the companies met were able to demonstrate progress in their respective approaches to managing human rights risks in their battery mineral supply chain.

Mercedes

Since LAPFF first began engaging the company on the issue over three years ago, Mercedes has increased the number of raw materials it provides information around human rights due diligence on from six to fifteen. Mercedes is now providing enhanced disclosures on how it drives effective due diligence, detailing comprehensive breakdowns on individual minerals, as well as stakeholder engagement that it is involved in.

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Ford

LAPFF met with Ford for the third time on the issue of managing human rights risks within its battery mineral supply chain. Ford has developed a supply chain mapping initiative, which includes tracing battery materials to the point of extraction for several high-risk minerals, including cobalt and lithium. Whilst vehicle supply chains are incredibly complex, through partnerships with third parties, Ford has completed 30 supplier audits across four select battery supply chains to a raw material level. It has also further demonstrated commitments to addressing potential human rights abuses across its supply chain by integrating Free, Prior, and Informed Consent (FPIC) requirements into its supplier code of conduct to protect indigenous communities impacted by raw material extraction.

Volkswagen

VW has been facing investor pressure on the issue of human rights due diligence following reports of Uyghur forced labour in vehicle supply chains. LAPFF had previously raised concerns on the ability of the company to undertake meaningful due diligence in the Xinjiang region given the limited visibility. During Q4 LAPFF met with VW to discuss managing human rights risks throughout its supply chain. During the engagement the company announced it had taken the decision to exit its joint venture in Xinjiang. This follows reports surfacing that an audit conducted the previous year had not met Social Accountability International's SA8000 Standard.

BMW

BMW has been advancing responsible sourcing practices, with a focus on the ethical procurement of cobalt and lithium. The company has shifted its cobalt sourcing exclusively to certified mines in Australia, eliminating higher-risk sourcing from the Democratic Republic of Congo (DRC). Reshoring or nearshoring the supply chain for higher risk commodities is considered a meaningful approach to managing human rights risks.

General Motors

Since LAPFF last met with General Motors the company has continued to focus on expanding its supplier



An electric car at the DRC mining conference

education and ethical sourcing programmes, including expanding the number of direct agreements it has with mines. The company now also requires suppliers to cascade the requirements of GM's human rights policy throughout their supply chains. LAPFF has also noted improvements in the approach the company is taking in mapping its supply chain, increasing the number of suppliers that it is screening for risk using EcoVadis' survey, with 1,334 suppliers participating, representing 88% of its logistics and direct suppliers (by budgeted annual purchase revenue). Alongside this, GM has been using an in-house supply chain visibility tool to map tier 1 and 2 suppliers.

In Progress: Progress has been demonstrated in addressing human rights and environmental risks within critical mineral supply chains by the companies LAPFF engaged during Q4. However, challenges remain. The sector has yet to fully align with international standards relating to hHRDD and comprehensive supply chain transparency. Companies continue to face difficulties in verifying supplier compliance deeper within their supply chains, particularly in CAHRAs, where risks of labour exploitation persist. LAPFF will continue to engage with EV manufacturers on the issue of operating in or sourcing from CAHRAs and expect companies to be able to demonstrate heightened human rights due diligence for high-risk minerals.

UNOHCHR List of Enterprises in Relation to Occupied Palestinian Territory (OTP)

Objective: LAPFF's approach to engaging with companies operating in conflict zones is to ensure these companies undertake robust and hHRDD. This includes companies listed in the UN Office of the High Commissioner for Human Rights database (UN OHCHR) in relation to the Occupied Palestinian Territory (OPT). LAPFF's approach is informed by the principles set out in the UN Guiding Principles on Business and Human Rights (UNGPs), which outline corporate responsibility to respect human rights. The principles include an emphasis on companies to identify the extent to which operations contribute to or exacerbate human rights abuses. Guidelines for companies to undertake meaningful human rights impact assessments specific to conflict contexts is also included.

Achieved: Booking Holdings

LAPFF engaged with Booking Holdings to discuss its approach to hHRDD in CAHRAs, including Israel and Palestine. The discussion also covered its processes for exiting, entering, or remaining in high-risk areas. LAPFF requested the company update its human rights statement.

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Motorola Solutions

In a meeting with Motorola Solutions, LAPFF queried the company's approach to hHRDD in conflict zones, including Israel and Palestine, its processes for assessing risks associated with customers and products, and the company's inclusion on the UNOHCHR database.

GOVERNANCE

London Stock Exchange Group

Objective: LAPFF has been concerned about the weakening of standards relating to new entrants to the London listed companies' market, which has included, Aston Martin Lagonda, NMC Health, Finabl and Quindell, the former of which has lost >90% of its value since listing, the other three being 100% losses.

The LAPFF Executive convened a 'Capital Markets Working Group' in the light of a recent concerted campaign by some interests to further weaken the standards of the listing regime. That campaign has included the Capital Markets Industry Taskforce a coalition of "fee earning" interests rather than those of shareholders, such as issues of investor protection. It is chaired by the CEO of the London Stock Exchange.

Achieved: Further to an open letter sent in May 2024 to the Chair of London Stock Exchange Group (LSEG), two follow up letters have been required.

LAPFF requested an evidence-based approach, and to supply the evidence for assertions made to date. Because the response did not sufficiently address the issues, LAPFF wrote again in August 2024 and then again in October 2024. Each letter had made clear that LAPFF expected the May letter to be answered with evidence and accuracy. It was stressed that like any other listed company, LSEG should be making accurate representations to shareholders and the market about its own business.

As open letters, the correspondence achieved positive coverage in UK national, regional as well as international press.

To date, in LAPFF engagements with companies where the question about listings have been asked, none have said that over-regulation is a problem.



Nikhil Rathi, CEO of the Financial Conduct Authority

A Freedom of Information Request was undertaken with regards to the Financial Conduct Authority and replies have been received.

A session was run on the subject at the annual LAPFF conference in December 2024 and it is clear that the LAPFF position is widely held amongst significant asset owners as well as representative bodies such as the International Corporate Governance Network (ICGN).

In a session of the Treasury Select Committee in December 2024, the CEO of the FCA Nikhil Rathi said that linking growth objectives to capital markets regulation will mean that 'more things will go wrong over time'. Mr Rathi also said: "If we allow more risk into the system, sadly in the financial services industry—not just here, but around the world—it does sometimes attract people who do not have the best of intentions and we will not be able to stop everything." And that "The test will come when those things do happen and what the tolerance is, here in Parliament, for some of those situations when they crystallise."

In Progress: A meeting with the Senior Non-Executive Director of LSEG is pending. The Capital Markets Working Group plans survey LAPFF members on these issues. The position of asset owners versus fund managers is particularly relevant to this area.

Housebuilders

Objective: As we drew closer to the target implementation year for the Future Homes Standard (2025), LAPFF continues to engaged with the UK's largest housebuilders across a range of environmental and governance topics. The sector remains responsible for significant emissions in both the building of houses as well as from homes in use. LAPFF also continues to monitor and challenge housebuilders on their governance standards and regulatory compliance within the sector. This is particularly relevant at the moment, as the industry is under scrutiny due to a Competition and Markets Authority (CMA) investigation into the alleged sharing of commercially sensitive information by eight housebuilders.

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Achieved: LAPFF met with the Chair of Persimmon to discuss governance updates following significant changes in board composition and the ongoing CMA investigation. Climate strategy was also addressed, with plans for further follow-up on this topic in Q1 next year.

Persimmon acknowledged changes in its board governance, noting positive steps taken to address issues raised in a 2018 LAPFF meeting regarding executive pay. A key improvement since the board refresh has been Persimmon's upgrade in the National Home Builders Federation (HBF) rating, from 3-Star to 5-Star, as well as successfully recovering from its remuneration crisis. While Persimmon was unable to share specifics about the ongoing CMA investigation, it assured LAPFF of its full cooperation with the authority.

Persimmon highlighted its efforts to integrate sustainable innovations, such as air source heat pumps, into recent net-zero home developments in York and Malmesbury. The company acknowledged the ongoing challenge of balancing market demand, climate strategy, and the high costs of sustainable housing development with the need to maintain profitability. Persimmon also noted its anticipation of government guidance on the Future Homes Standard.

In Progress: LAPFF will continue its engagement with Persimmon, with a meeting scheduled with the company's Director of Sustainability in early 2025 to discuss climate strategy. LAPFF will also continue to monitor the outcomes of the CMA investigation and ongoing oversight of Persimmon's board governance to ensure alignment with governance standards.

HUMAN RIGHTS

Vale

Objective: LAPFF is a lead investor on the PRI Advance Vale engagement, along with Regia Capital (part of JGP Asset Management). The engagement objective with Vale is focused on managing grievances appropriately, governance as it relates to managing human rights risks, and employee and community feedback and engagement.

Achieved: During Q4 LAPFF met with Vale's Chief Sustainability Officer, Malu Paiva. The meeting focused on the company's ongoing efforts to strengthen safety measures and enhance community engagement practices. Vale shared progress on developing their grievance mechanisms, acknowledging that further work is needed. Vale also provided updates on initiatives aimed at improving safety for both employees and local communities, and efforts to enhance engagement and communication with communities. The company spoke on the introduction of community WhatsApp groups for sharing updates and news. It also acknowledged the challenges of previous approaches, such as leaflet campaigns, which were discontinued after being misinterpreted as marketing efforts.

Results from Vale's first community perception survey in 2022 indicated gaps in engagement with indigenous groups. Vale addressed this and spoke of the impact of COVID-19 restrictions, which had limited the company's ability to engage effectively with these groups.

Vale expects to have results from the latest community perception survey by February 2025 and expressed a willingness to discuss the findings with the PRI Advance engagement group.

The group also spoke briefly on the announcement of the new CEO Gustavo Piment, who replaced Eduardo Bartolomeo in October 2024.

In Progress: LAPFF has refined its engagement strategy with Vale to focus on key themes of grievances mechanisms, human rights governance, and employee and community feedback and engagement.

LAPFF also continues to participate as a support investor in the Anglo American PRI Advance engagement group.

Separate to the Advance initiative, LAPFF has also written to the Chair of Rio Tinto, Dominic Barton, with the aim of continuing discussion on Rio Tinto's approach to water issues.

Mining Council Australia (MCA)

Objective: The Minerals Council of Australia (MCA) is an advocate for Australia's minerals industry. The MCA initiated engagement with LAPFF to



Minerals Council of Australia chief executive officer Tania Constable

discuss environmental and social standards of mining companies operating in Australia.

Achieved: During the quarter, LAPFF met with Tania Constable, Chief Executive of the Minerals Council of Australia, whose members include several major mining companies that LAPFF engages with, including Anglo American, BHP, Glencore, and Rio Tinto. During the meeting LAPFF set out its expectations and heard from MCA about its approach to human rights, water stewardship, and climate change as they relate to the mining industry. LAPFF also raised the issue of lobbying practices and outlined expectations regarding corporate governance.

DECENT WORK

Objective: LAPFF has initiated a series of engagements to explore the ongoing use of zero-hours contracts (ZHCs) in the UK, focusing on implications for workers and company performance, and the potential impacts of proposed restrictions under the incoming 2024 Employment Rights Bill.

The Bill seeks to enhance employment rights by prohibiting exploitative ZHCs, granting 'guaranteed hours' contracts based on average hours worked over a reference period, as well as mandating compensation for last-minute shift cancellations. These measures are likely to pose challenges for companies which have become overly reliant on the use of ZHCs.

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A housekeeper at a Holiday Inn Express Merida IHG hotel

During the quarter, LAPFF broadened its focus in engagements to include companies with exposure to low-hours contracts and third-party organisations which provide agency staff, many of whom may also be on ZHCs. This approach aims to raise with companies the issue of precarious employment arrangements, the associated risks, and the steps being taken to adapt to potential regulatory changes.

Achieved: During Q4, LAPFF Vice-Chair John Gray held meetings with the Chief People Officer and Chief Finance Officer of Hollywood Bowl, along with senior representatives at InterContinental Hotels Group (IHG) to discuss the issue of precarious work and implications of the Bill.

Hollywood Bowl

Hollywood Bowl outlined progress in transitioning away from the use of zero-hour contracts (ZHCs). Previously, the company reported to LAPFF that a small percentage of its hourly workforce, primarily university students, were on ZHCs. However, the company confirmed that these contracts would be phased out and replaced with fixed-term contracts.

The company expressed concerns over the impact the Bill would have on

providing flexibility for student workers. The company also outlined potential challenges in implementing guaranteed hours policies, particularly when the reference period coincides with busy seasons such as Christmas or school holidays. Hollywood Bowl confirmed that it was engaging with the government consultation on the Bill.

IHG

LAPFF met with IHG, whose business includes franchised, managed, and owned/leased hotels. IHG confirmed that hotels where it directly employs staff represent a small fraction of its brand, and that IHG phased out ZHCs before the proposed legislation. The decision behind phasing out ZHCs was made to enhance the hospitality sector's appeal to workers post-pandemic, show commitment to value employs and foster strong brand affinity amongst staff. While IHG could not comment on the number of or extent to which ZHCs are utilised elsewhere in its business, it assumes ZHCs may be used in franchise properties and managed hotels. IHG confirmed it engages with property owners through an owner association group and the upcoming legislation on ZHCs remains a key discussion point for this group.

IHG highlighted its ethics hotline for

employees across managed, leased, or owned properties, allowing complaints to be escalated through IHG operations, though resolution ultimately rests with property owners and franchisees. While IHG expressed general confidence about adapting to the Employment Rights Bill, LAPFF acknowledged the need for ongoing dialogue to monitor both the practical and financial implications of the legislation over time. IHG confirmed its openness to ongoing dialogue.

In Progress: As the Bill comes into effect, LAPFF plans to engage further with companies exposed to the ban on 'exploitative' ZHCs.

LAPFF maintains the view that, on balance, there is no clear evidence to suggest that business models relying on zero-hour contracts and precarious work outperform those with more inclusive human capital strategies. Where relevant, LAPFF continues to request enhanced disclosure from companies regarding their use of employment contracts.

CLIMATE CHANGE

Drax Group plc

Objective: Drax's Yorkshire power station is the UK's largest single emitter of carbon dioxide. LAPFF has focused for several years, from its own research as well as public coverage of the company, on Drax's business model which faces considerable challenges. These challenges include the continuation of government subsidy which is in excess of £500m a year. That subsidy runs out in 2027. There is now the additional proposition, so far not approved by HM Government, to add carbon capture and storage to Drax for what is called BioEnergy Carbon Capture and Storage (BECCS) which would require further subsidy, locked in for the duration of at least 25 years.

On the environmental side there are significant issues with claims of net zero as well as continuity of supply of imported wood pellets.

Achieved: LAPFF met with the Senior Non-Executive Director in December 2024. LAPFF had identified that Drax has been cutting down rare forest wood in Canada, and also reported that during the energy

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crisis Drax had closed a plant as it was more profitable to sell the pellets than to use the pellets for power generation – thus casting doubt on Drax’s role in energy security.

The BBC reported in 2022 that Drax was sourcing pellets from whole trees from primary forests in Canada-as opposed to waste wood and sawdust. The BBC then identified that Drax took more than 40,000 tonnes of wood from so-called “old-growth” forests in 2023. Old-growth is some of the oldest forest, which the provincial government says provides “unique habitats, structures and ecological functions”.

The BBC investigation broadly aligned with LAPFF research but the company defended the claims from the BBC publicly. However, in August 2024 Drax agreed to settle to the sum of £25m with Ofgem its regulator after its investigation which concluded:

“there was an absence of adequate data governance and controls in place that had contributed to: (i) Drax misreporting data in relation to their annual profiling submission to Ofgem for compliance period 1 April 2021 to 31 March 2022 (“CP20”); and (ii) Drax being unable to provide Ofgem with sufficient evidence demonstrating how its CP20 annual profiling submission had been arrived at and unable to support the reliability of its profiling data reporting of forestry type and sawlogs for Canadian consignments for that same period.”

“Ofgem takes the importance of accurate data reporting very seriously, in this case by a company of significant size and a major scheme participant. Accurate information is important for a number of reasons, including helping to improve statistics on biomass use and to monitor the effects of biomass use on the areas of origin. This information is intended to enable the Secretary of State to understand and monitor the extent to which both primary forests and sawlogs are used in woody biomass, which has consequences for carbon emissions and biodiversity.”

LAPFF notes that that the video on the Drax website from Drax’s CEO rebutting the BBC position is now a dead-link.

LAPFF’s original research also identified that the “catchment area” surveys Drax cites as showing that trees grow to match emissions by offset absorption don’t actually do that. The



Cooling towers at Drax power station

surveys merely ask the question whether there has been a reduction in absorption capacity. That question doesn’t address the needed increase in absorption capacity.

The one catchment area report that says that there may have been an increase in absorption capacity put that down to replacing indigenous hardwood with (mono-culture) pine. That is an ecological problem for biodiversity.

One of the outcomes of the meeting with the company was that the ‘contracts for difference’ scheme essentially sets a fixed price for power output. That meant that during the energy crisis (caused by the Ukraine war) the revenue from energy for Drax did not rise but the price of pellets in the open market did, thus it was revenue beneficial to sell pellets to other (uncapped) power producers rather than self-consume.

The extension of the current subsidy arrangements, and any progress to CCS (the former not necessarily dependent on the latter) is as yet undecided. However, it is of note that the position of the Official Opposition has changed and is now negative towards Drax and BECCs.

Also of note is this statement from the new Secretary of State for Energy and Net

Zero, Ed Miliband made on Monday 8th July 2024.

“In an unstable world, the only way to guarantee our energy security and cut bills permanently is to speed up the transition away from fossil fuels and towards homegrown clean energy.”

Given that Drax supplies wood pellets from overseas, and UK forests do not have the capacity to make any appreciable alternative supply, there may be a problem with the term “homegrown”.

In Progress: The issues LAPFF has raised are central to the business model and demonstrates the importance of good research and a depth of understanding of the investment risks.

The argument for the government to continue to support Drax is the claim that “the UK can’t be carbon net-zero by 2050 without it” thus Drax with carbon capture and storage (CCS) would result in “negative emissions”. The problem with that is several fold:

- 1) security of supply of pellets
- 2) ecological issues
- 3) water supply as CCS is very water intensive
- 4) ammonia is a toxic chemical used in large quantities in the process

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5) the cost of government support for CCS on top of the existing subsidy, which has an effect on electricity prices – which as well as affecting domestic consumers also raises the cost of power for electricity intensive new industries e.g. steel from electric arc furnaces

6) the fact that all that CCS would do – if it were to work – would be to remove the carbon dioxide from burning the woody biomass that wouldn't have been emitted if the wood were not burned. Drax with CCS would only be “negative” if counteracting tree growth due to the cutting of trees also matched emissions, which due to the long growth cycle is not the case and something that is not currently proven.

Airlines

Objective: Following the “Aviation, decarbonisation and synthetic fuels (‘synfuel’)” paper which was produced for LAPFF and shared at the October LAPFF Business Meeting, LAPFF continues to engage with airlines and aviation fuel suppliers, who as an industry, account for approximately 2% of global CO₂ emissions.

Achieved: During the quarter, LAPFF met with Wizz Air and IAG, gaining insights and reaffirming its understanding of the aviation industry’s approach to decarbonisation, building on similar discussions with Ryanair in Q3.

At the time of the meeting, Wizz Air had not yet committed to a net-zero target but plans to publish one by April 2025. The company is reassessing its approach in light of evolving Science Based Targets initiative (SBTi) guidance and will complete internal evaluations by the end of this year to establish a roadmap for 2030-2035 targets. IAG has already committed to achieving net-zero emissions by 2050, aligning with global aviation bodies such as IATA and ICAO. Its strategy includes interim goals, such as a 10% use of Sustainable Aviation Fuel (SAF) by 2030 and reducing overall emissions by 20% by 2030 compared to 2019 levels. Both Wizz Air and IAG noted their short, medium and long term goals with regards emissions reductions.

For the short term, Wizz Air is investing in Airbus A321XLR aircraft with advanced engines, enhancing

fuel efficiency and reducing emissions per seat. Its goal is to lower emissions intensity to 42 grams of CO₂ per passenger kilometre by 2030. Similarly, IAG is focusing on operational efficiency and fleet upgrades to achieve near-term reductions in carbon intensity.

In the medium term, both airlines are advancing SAF as a cornerstone of their decarbonisation strategies. Wizz Air has secured long-term SAF supply agreements, while IAG is targeting 10% SAF use by 2030 and 70% by 2050. IAG is also actively advocating for SAF mandates and incentives, partnering with producers like 12 Power Liquid to accelerate SAF technology development.

With regards long term approach, both Wizz Air and IAG are exploring hydrogen-powered aircraft, both similarly acknowledging infrastructure and cost hurdles that make adoption unlikely before the mid-2030s for smaller aircraft and before 2040/50 for larger planes. IAG is investing in disruptive technologies like hydrogen fuel cells and carbon removal solutions, including direct air capture, to address residual emissions. It emphasises the need for regulatory support to scale these technologies.

IAG supports carbon pricing mechanisms, such as the UK and EU emissions trading schemes and the global CORSIA framework, while advocating for enhancements to include all emissions and extend timelines to

2050. Additionally, IAG integrates carbon efficiency into its operational practices, tying 10% of managers’ bonuses to carbon reduction targets. The company continues to engage with policymakers to promote SAF production and ensure regulatory frameworks align with industry goals.

In Progress: Airlines highlighted additional operational challenges in improving emissions intensity, including idling on runways and circling over airports while waiting to land. Both companies noted stricter climate-related regulation requirements for flights within the EU compared to longer-haul flights outside the EU. LAPFF recognises these challenges and may explore future engagement with airport authorities and regulatory bodies to gain their perspective on these issues. Additionally, LAPFF continues its engagement with Shell and BP, two key suppliers of aircraft fuel.

BP & Shell

Objective: During the quarter LAPFF continued engagement with Shell and BP. LAPFF’s approach has remained to test oil and gas companies beyond claims of decarbonisation based on existing business models to challenge the viability of the current business. This expectation, based on LAPFF policy, is that the demand for hydrocarbons will



Shell oil jet-a1 refuelling tanker

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1) reduce in aggregate terms; and 2) that demand will be met by lowest cost producers. BP has been regarded as at the better end of the sector in recognising climate change as an issue but faces the same competitive and structural pressures above from what is a disruptive transition due to disruptive alternative technologies. The war in Ukraine has increased governments' focus on reducing reliance on fossil fuels on energy security and price volatility grounds.

What seems to be an inevitable shrinkage in the sector, not matched by growth from elsewhere, supports the argument for more cash returns to shareholders instead.

Achieved Shell: From meeting the then new Chair of Shell in 2023, LAPFF believes that the position holds that the company is better run from the top, as the Chair has a more realistic grasp of the issues at stake regarding decarbonisation and is a plainer communicator.

As an example, there is less emphasis on "nature based solutions" (i.e. planting trees) as the IPCC regards that as necessary for hard to abate sectors, not fossil fuel companies.

LAPFF has previously questioned the extent to which its climate change strategy has been sufficiently integrated into business planning and financing. LAPFF was therefore pleased that there has been restructuring and the energy transition work and corporate strategy now reports to the CFO.

Achieved BP: The new CEO Murray Auchincloss appeared at the LAPFF Annual Conference in December. He set out the focus on the business going forward. The intent is to increase investment in non-fossil capital items from 30% of cash flows to 50% by 2030. He also set out that initial approval has been given for "Net Zero Teesside" which includes a gas based hydrogen plant as part of a CCS cluster which will include decarbonising adjacent Teesside chemical industries.

LAPFF had noted some rowing back from the company's 2023 carbon reduction targets. Although BP has made some commitment to investment in renewables, and is stating the supply of power for electric vehicles is a growth area, it does appear that the company

has substantial threats to its business model regarding the scope of no-carbon products that would fully replace the scale of the fossil fuel business, and that expectation of more cash returns to shareholders should be more clearly set out.

After the conference BP announced that it will be transferring all of its offshore wind assets into a joint venture with Japanese power generator Jera. That has been reported in the press as rowing back from its commitment to offshore renewables. However, it does achieve – an unstated – outcome of separating (hence ring fencing) legacy fossil fuel assets from renewable – non-legacy – assets.

In Progress Shell: LAPFF continues to challenge whether CCS can be made to work as a line of business, given that the costs involved make it a last resort if cheaper substitute energy sources are not possible. Developments in aviation fuels and biofuels need to be examined in more detail, particularly as the mode of synthetic aviation fuel Shell refers to is to take CO₂ resulting from combustion by carbon capture from elsewhere and converting it – by an energy intensive process – into a hydrocarbon. That is not a contribution to net zero. That is merely using the same emission twice, whilst still resulting in an emission.

CCS has been given prominence for, inter alia, gas (methane) for power, hydrogen for home heating, hydrogen for ammonia production and hydrogen for steel making. All of these have non-fossil hydrogen alternatives. It should be noted that CCS for coal was heavily promoted as a way of maintaining coal demand, but never materialised with the phase out of coal on economic as well as emissions grounds. There is the same risk with gas.

In this quarter Shell has announced that it will be placing its North Sea oil and gas assets into a joint venture with Equinor.

In Progress BP: Monitoring of the net zero progress – or lack of – continues.

Energy utilities

Objective: LAPFF has engaged National Grid for several years. During 2024 the focus has been on the company's approach to lobbying, following a low

InfluenceMap score, and the potential for the use of gas in home heating/cooling to undermine the company's approach to decarbonisation.

Achieved: With regards corporate lobbying, National Grid expressed frustration with some aspects of the methodology applied by the InfluenceMap's evaluations, emphasising that the company's continued participation in trade and industry associations allows them to influence climate policies from within. The company acknowledged LAPFF's concern however and confirmed it would assess the drivers behind the low score.

LAPFF supported National Grid's transition plan presented at the 2024 AGM, but differing views on the role of gas in heating were highlighted in the meeting. National Grid confirmed it has modelled various scenarios involving gas heating, highlighting that cost implications for customers remain a key concern. The company also stressed that meaningful progress requires collaboration and support from regulators and other key stakeholders. In the US, National Grid reported seeing growing state support for electrification in the regions where it operates. However, it noted that current efforts to electrify the network do not yet match the ambition required, particularly in terms of affordability. The company re-emphasised that affordability will ultimately shape the options available to customers.

Since meeting with National Grid, the company has announced proposals to invest up to £35 billion in its UK electricity transmission network between 2026 and 2031. The plan includes upgrading 3,500 kilometers of overhead lines which will nearly double energy transport capacity, and also develop and deliver major network reinforcement and expansion projects. Chief Executive John Pettigrew described it as "the most significant step forward in the electricity network in a generation."

In Progress: LAPFF will continue to engage National Grid with a focus on corporate lobbying and the use of gas.

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Asia Research and Engagement's Energy Transition Platform

Objective: A focus area for LAPFF is the significant role that banks play in the energy transition, both in continuing to support fossil fuel energy and in financing low carbon alternatives. As part of LAPFF's involvement with Asia Research and Engagement investor group, the Forum seeks to engage with major financial institutions in Asia to improve their alignment with a 1.5°C pathway. This seeks enhanced disclosure, strengthened transition finance frameworks, and the adoption of clearer policies relating to the financing of more emissions intensive energy sources such as coal and oil sands.

Achieved: In the quarter LAPFF met with three Japanese banks to discuss their approach to financing the transition.

Mizuho Financial Group

Mizuho Financial Group has improved its approach to environmental and social governance by expanding its E&S Policy to include wood-based biomass as a monitored sector. Furthermore, the bank introduced a 1.5°C criteria within its FY2024 transition risk control framework.

Sumitomo Mitsui Banking Corporation (SMBC)

SMBC has developed a Transition Finance Playbook relative to its transition financing strategy. This playbook not only provides guidelines for transactions but also incorporates annual client progress assessments to ensure alignment with its sustainability goals. Using this, SMBC is taking steps to align its financing activities with climate transition requirements while managing its own financed emissions.

Mitsubishi UFJ Financial Group

Mitsubishi UFJ Financial Group has introduced a 'transition evaluation framework' launched in April 2024, which evaluates projects and corporate financing against its 1.5°C pathway criteria. Each project undergoes a rigorous E&S checklist review by the relationship manager and HQ approval. This approach reflects MUFG's effort to institutionalise climate considerations within its decision-making processes.

Although still in its early stages, the framework lays the foundation for scaling up sustainable financing while ensuring that funded activities align with climate transition goals.

In Progress: While notable progress has been achieved there remain significant gaps in transparency, sectoral exclusions, and clear escalation pathways. As regulations like the Corporate Sustainability Due Diligence Directive (CSDDD) and Net Zero Banking Alliance guidelines evolve, LAPFF expects financial institutions to enhance their disclosures and actions, ensuring alignment with a 1.5°C pathway.

WATER STEWARDSHIP

Chipotle

Objective: LAPFF has been engaging with Chipotle on its approach to water stewardship since 2019. The initial engagement objective was met during 2022, with the company undertaking an ingredient level water risk assessment to identify areas of water stress within its supply chain. The mapping exercise identified suppliers operating in regions of water stress. Having identified priority regions, LAPFF's expectation is for the company to set measurable and time-bound targets to reduce negative impacts on freshwater.

Achieved: In April 2024 Chipotle published its sustainability report which included a goal to support water stewardship efforts to conserve and restore watersheds in priority regions. Whilst the setting of the goal was welcomed by LAPFF, the target itself lacked specificity, making it difficult to assess the extent to which the goal is effective in reducing water stress within the company's value chain.

In Progress: In December 2024 LAPFF met again with Chipotle to discuss the previously established water goal. The company indicated it was working to develop a more focussed target, including a potential incentive for agricultural suppliers to adopt additional regenerative farming practices.

ENVIRONMENTAL

Nature Action 100

Objective: Nature Action 100 (NA100) is a global investor-led initiative designed to assess and promote corporate actions aimed at reversing nature and biodiversity loss. Its primary objective is to mitigate financial risks and protect the long-term economic interests of investors by supporting greater corporate ambition and action.

Launched in October 2024 during the United Nations Biodiversity Conference (COP16) in Cali, Colombia, the initiative includes a benchmark which evaluates companies across six high-level indicators: Ambition, Assessment, Targets, Implementation, Governance, and Engagement. These indicators are aligned with the initiative's 'Investor Expectations for Companies', providing a comprehensive framework for assessing corporate progress toward nature-positive outcomes.

Achieved: During Q4 LAPFF engaged with Zoetis, Novo Nordisk and Merck & Co as part of the NA100 initiative. The engagement with Zoetis, focussed on action the company was planning following the conclusion of double materiality assessments undertaken during 2025. The company was further asked to explore alignment with the Taskforce on Nature-related Financial Disclosures (TNFD) and the Science Based Targets Network (SBTN). Discussions highlighted the company's progress in evaluating the environmental impact of its value chain and transitioning towards preventative healthcare solutions.

The focus of the Novo Nordisk engagement related to the extent to which the company aligned with the NA100 benchmark. Novo outlined initial steps in addressing nature and biodiversity challenges, including integrating these topics into its double materiality assessments and expanding its focus on water and raw materials impacts.

In a second collaborative meeting with Merck & Co, LAPFF focused on the company's response to the NA100 benchmark being published, with an emphasis on the governance and assessment pillars. Merck referenced the potential for enhanced disclosures on the issue of nature and biodiversity,

ENGAGEMENT

alongside assessing its up and downstream supply chains.

In Progress: LAPFF will continue its engagements with companies under the NA100 initiative, focusing on encouraging these companies to develop measurable targets and timelines for addressing biodiversity and nature-related risks. The Forum aims to support companies in aligning their approach to managing biodiversity risks with established best practice frameworks.

In Progress: Follow-up discussions will seek further clarity on how these companies integrate nature-positive actions into their value chains and ensure enhanced public disclosures, particularly as regulatory requirements such as the CSRD come into effect.

Tobacco

Objective: There is mounting global pressure on companies to address single-use plastics in their product ranges. This affects the tobacco industry producing cigarette butts, which are the most littered item globally and made predominantly of plastic. LAPFF has been engaging the tobacco industry throughout 2024 to understand how companies are assessing risk areas as it relates to plastic pollution, and modelling for potential needs to adapt their business models to a changing regulatory environment, as well as how they are looking at plastic alternatives.

Achieved: LAPFF engaged with British American Tobacco (BAT) to discuss its approach to addressing plastic waste,

including cigarette filters and single-use plastics in its product range. BAT outlined its ongoing pilots and initiatives, such as the use of recycled and bio-based plastics in its Velo products and take-back schemes for vaping devices. The company also highlighted its circularity strategy and efforts to innovate within its product design and supply chain to meet regulatory requirements like the EU Single-Use Plastics Directive.

In Progress: As the regulatory environment develops, LAPFF will monitor cigarette companies to assess the scalability of projects incorporating circular economy principles into their business models. Despite projects on next generation or alternative products, the tobacco industry appears too slow to address the issue of cigarette filters.



Cigarette filters are considered a major environmental problem

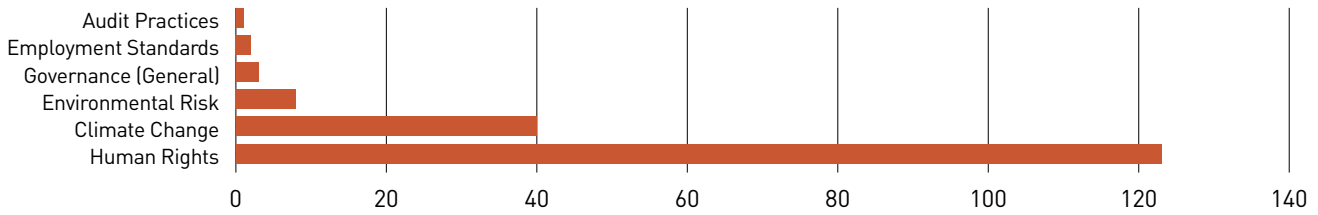
COMPANY PROGRESS REPORT

LAPFF held 24 meetings with companies during Q4. In addition, LAPFF received 38 responses from companies regarding their climate transition plans. LAPFF also sent a letter to 94 constituents of the FTSE100 regarding CAHRAs.

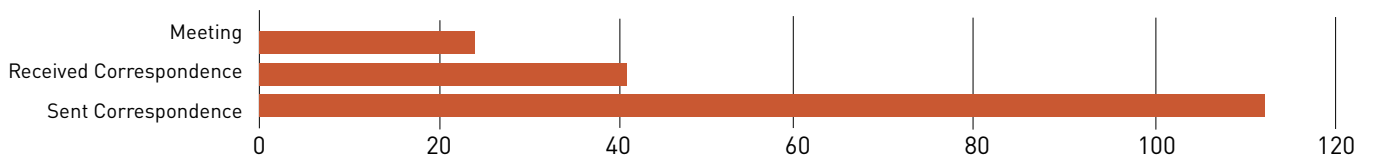
| Company/Index | Activity | Topic | Outcome |
|--|----------|----------------------|----------------------|
| BAYERISCHE MOTOREN WERKE AG | Meeting | Human Rights | Small Improvement |
| BHP GROUP LIMITED (AUS) | Meeting | Environmental Risk | Dialogue |
| BOOKING HOLDINGS INC. | Meeting | Human Rights | Dialogue |
| BRITISH AMERICAN TOBACCO PLC | Meeting | Environmental Risk | Dialogue |
| CHIPOTLE MEXICAN GRILL INC | Meeting | Environmental Risk | Small Improvement |
| DRAX GROUP PLC | Meeting | Environmental Risk | Dialogue |
| FORD MOTOR COMPANY | Meeting | Human Rights | Small Improvement |
| GENERAL MOTORS COMPANY | Meeting | Human Rights | Small Improvement |
| HOLLYWOOD BOWL GROUP PLC | Meeting | Employment Standards | Dialogue |
| INTERCONTINENTAL HOTELS GROUP PLC | Meeting | Employment Standards | Dialogue |
| INTERNATIONAL CONSOLIDATED AIRLINES GROUP SA | Meeting | Climate Change | Dialogue |
| MERCEDES-BENZ GROUP AG | Meeting | Human Rights | Moderate Improvement |
| MERCK & CO. INC. | Meeting | Environmental Risk | Change in Process |
| MITSUBISHI UFJ FINANCIAL GRP | Meeting | Climate Change | Moderate Improvement |
| MIZUHO FINANCIAL GROUP INC | Meeting | Climate Change | Moderate Improvement |
| MOTOROLA SOLUTIONS INC. | Meeting | Human Rights | Dialogue |
| NATIONAL GRID PLC | Meeting | Environmental Risk | Change in Process |
| NOVO NORDISK A/S | Meeting | Environmental Risk | Change in Process |
| PERSIMMON PLC | Meeting | Audit Practices | Moderate Improvement |
| SUMITOMO MITSUI FINANCIAL GROUP | Meeting | Climate Change | Dialogue |
| TBC BANK GROUP PLC | Meeting | Governance (General) | Dialogue |
| VOLKSWAGEN AG | Meeting | Human Rights | Small Improvement |
| WIZZ AIR HOLDINGS PLC | Meeting | Climate Change | Change in Process |
| ZOETIS INC. | Meeting | Environmental Risk | Dialogue |
| BAYERISCHE MOTOREN WERKE AG | Meeting | Human Rights | Small Improvement |
| BHP GROUP LIMITED (AUS) | Meeting | Environmental Risk | Dialogue |
| BOOKING HOLDINGS INC. | Meeting | Human Rights | Dialogue |
| BRITISH AMERICAN TOBACCO PLC | Meeting | Environmental Risk | Dialogue |
| CHIPOTLE MEXICAN GRILL INC | Meeting | Environmental Risk | Small Improvement |
| DRAX GROUP PLC | Meeting | Environmental Risk | Dialogue |
| FORD MOTOR COMPANY | Meeting | Human Rights | Small Improvement |
| GENERAL MOTORS COMPANY | Meeting | Human Rights | Small Improvement |
| HOLLYWOOD BOWL GROUP PLC | Meeting | Employment Standards | Dialogue |
| INTERCONTINENTAL HOTELS GROUP PLC | Meeting | Employment Standards | Dialogue |
| INTERNATIONAL CONSOLIDATED AIRLINES GROUP SA | Meeting | Climate Change | Dialogue |
| MERCEDES-BENZ GROUP AG | Meeting | Human Rights | Moderate Improvement |
| MERCK & CO. INC. | Meeting | Environmental Risk | Change in Process |
| MITSUBISHI UFJ FINANCIAL GRP | Meeting | Climate Change | Moderate Improvement |
| MIZUHO FINANCIAL GROUP INC | Meeting | Climate Change | Moderate Improvement |
| MOTOROLA SOLUTIONS INC. | Meeting | Human Rights | Dialogue |
| NATIONAL GRID PLC | Meeting | Environmental Risk | Change in Process |
| NOVO NORDISK A/S | Meeting | Environmental Risk | Change in Process |
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| TBC BANK GROUP PLC | Meeting | Governance (General) | Dialogue |
| VOLKSWAGEN AG | Meeting | Human Rights | Small Improvement |
| WIZZ AIR HOLDINGS PLC | Meeting | Climate Change | Change in Process |
| ZOETIS INC. | Meeting | Environmental Risk | Dialogue |

ENGAGEMENT DATA

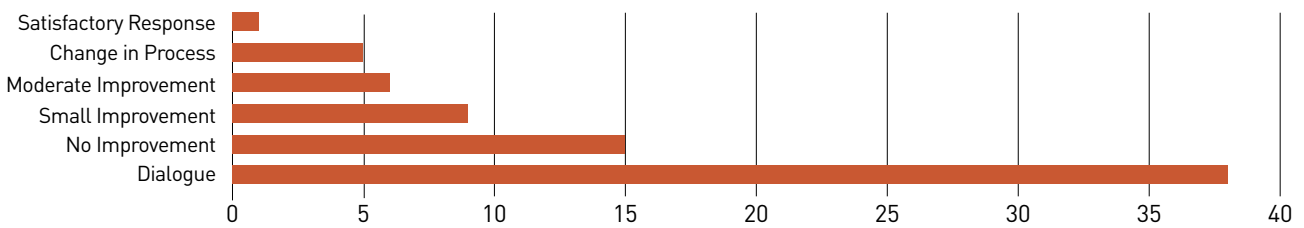
ENGAGEMENT TOPICS



ACTIVITY

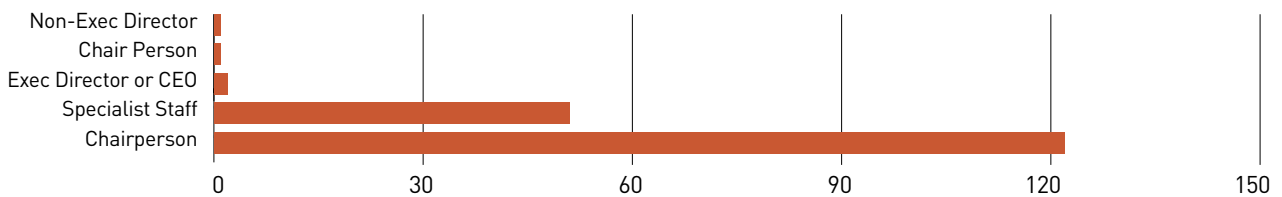


MEETING ENGAGEMENT OUTCOMES*

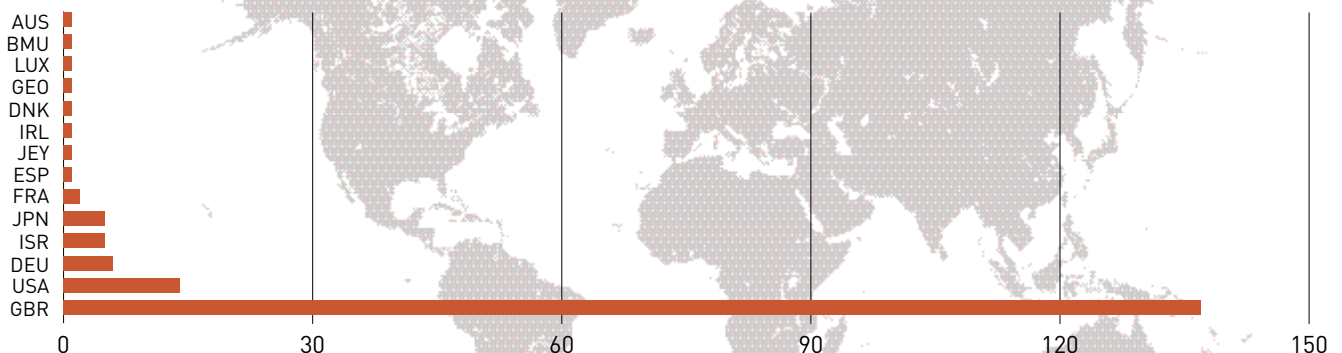


*Outcomes data is taken from 'Meetings', 'AGMs' and 'Received Correspondence' only

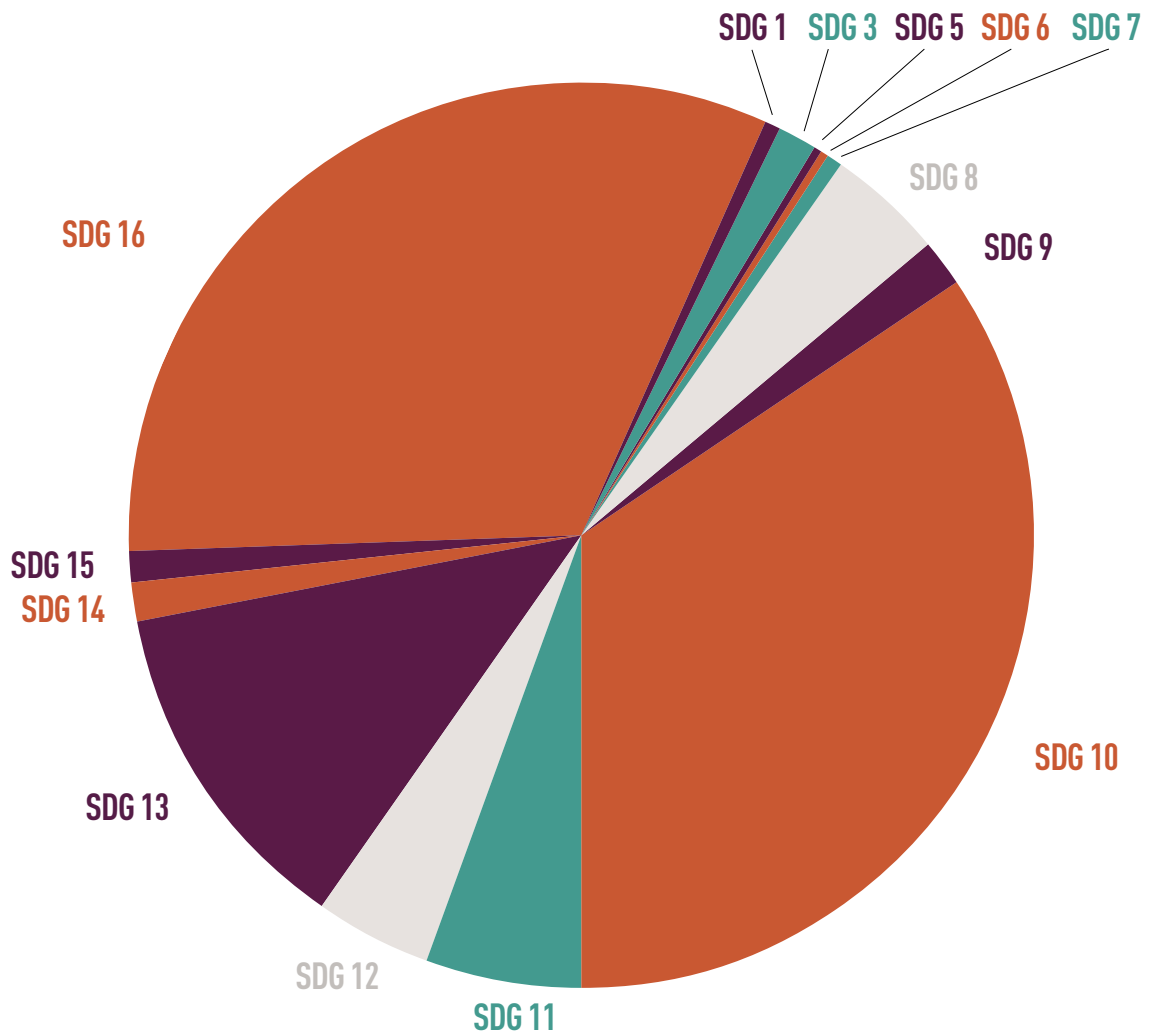
POSITION ENGAGED



COMPANY DOMICILES



ENGAGEMENT DATA



LAPFF SDG ENGAGEMENTS

| | |
|--|-----|
| SDG 1: No Poverty | 2 |
| SDG 2: Zero Hunger | 0 |
| SDG 3: Good Health and Well-Being | 5 |
| SDG 4: Quality Education | 0 |
| SDG 5: Gender Equality | 1 |
| SDG 6: Clean Water and Sanitation | 1 |
| SDG 7: Affordable and Clean Energy | 2 |
| SDG 8: Decent Work and Economic Growth | 15 |
| SDG 9: Industry, Innovation, and Infrastructure | 6 |
| SDG 10: Reduced Inequalities | 121 |
| SDG 11: Sustainable Cities and Communities | 19 |
| SDG12: Responsible Production and Consumption | 15 |
| SDG 13: Climate Action | 43 |
| SDG 14: Life Below Water | 4 |
| SDG 15: Life on Land | 4 |
| SDG 16: Peace, Justice, and Strong Institutions | 113 |
| SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development | 0 |

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

| | | | |
|---|---|-----------------------------------|---|
| Avon Pension Fund | Environment Agency Pension Fund | Lincolnshire Pension Fund | Swansea Pension Fund |
| Barking and Dagenham Pension Fund | Essex Pension Fund | London Pension Fund Authority | Teesside Pension Fund |
| Barnet Pension Fund | Falkirk Pension Fund | Lothian Pension Fund | Tower Hamlets Pension Fund |
| Bedfordshire Pension Fund | Gloucestershire Pension Fund | Merseyside Pension Fund | Tyne and Wear Pension Fund |
| Berkshire Pension Fund | Greater Gwent Pension Fund | Merton Pension Fund | Waltham Forest Pension Fund |
| Bexley (London Borough of) | Greater Manchester Pension Fund | Newham Pension Fund | Wandsworth Borough Council Pension Fund |
| Brent (London Borough of) | Greenwich Pension Fund | Norfolk Pension Fund | Warwickshire Pension Fund |
| Cambridgeshire Pension Fund | Gwynedd Pension Fund | North East Scotland Pension Fund | West Midlands Pension Fund |
| Camden Pension Fund | Hackney Pension Fund | North Yorkshire Pension Fund | West Yorkshire Pension Fund |
| Cardiff & Glamorgan Pension Fund | Hammersmith and Fulham Pension Fund | Northamptonshire Pension Fund | Westminster Pension Fund |
| Cheshire Pension Fund | Haringey Pension Fund | Nottinghamshire Pension Fund | Wiltshire Pension Fund |
| City of London Corporation Pension Fund | Harrow Pension Fund | Oxfordshire Pension Fund | Worcestershire Pension Fund |
| Clwyd Pension Fund (Flintshire CC) | Havering Pension Fund | Powys Pension Fund | |
| Cornwall Pension Fund | Hertfordshire Pension Fund | Redbridge Pension Fund | Pool Company Members |
| Croydon Pension Fund | Hillingdon Pension Fund | Rhondda Cynon Taf Pension Fund | ACCESS Pool |
| Cumbria Pension Fund | Hounslow Pension Fund | Scottish Borders Pension Fund | Border to Coast Pensions Partnership |
| Derbyshire Pension Fund | Isle of Wight Pension Fund | Shropshire Pension Fund | LGPS Central |
| Devon Pension Fund | Islington Pension Fund | Somerset Pension Fund | Local Pensions Partnership |
| Dorset Pension Fund | Kensington and Chelsea (Royal Borough of) | South Yorkshire Pension Authority | London CIV |
| Durham Pension Fund | Kent Pension Fund | Southwark Pension Fund | Northern LGPS |
| Dyfed Pension Fund | Kingston upon Thames Pension Fund | Staffordshire Pension Fund | Wales Pension Partnership |
| Ealing Pension Fund | Lambeth Pension Fund | Strathclyde Pension Fund | |
| East Riding Pension Fund | Lancashire County Pension Fund | Suffolk Pension Fund | |
| East Sussex Pension Fund | Leicestershire Pension Fund | Surrey Pension Fund | |
| Enfield Pension Fund | Lewisham Pension Fund | Sutton Pension Fund | |