LAPFF CONFERENCE 2025

BOURNEMOUTH 3rd to 5th December

RESPONSIBLE INVESTING IN AN UNCERTAIN WORLD

Day 1: Wednesday 3rd December (1345-1700)

1.1. The need for speed – delivering green energy security – affordably and at pace
(attended Pension Committee meeting)

1.2. Fit for the future: how can housebuilders deliver net zero?
(attended Pension Committee meeting)

1.3. LAPFF's engagement in an uncertain world
The panel discussion covered the engagement process by LAPFF representing the asset owners (Shareholders) and it was reported that in particular in the US, there is a considerable and growing amount of pushback being experienced regarding climate related matters such as greenhouse gas emissions.

The issue of businesses exploring their upward supply chain for goods provided by companies employing modern day slaves and areas affected by conflict was also discussed.

1.4. Mitigating climate risk: An Asian perspective
Ben McCarron, Managing Director, Asia Research and Engagement

Day 2: Thursday 4th December (0930-1230)

2.1. Exile Economics: What happens if globalisation fails?
This subject delved into the recent growing trend of inward investment, based upon the internalisation of trade - a national push by some countries to "buy local" at the expense of international trade as an inverse of globalisation. It was acknowledged that whilst there are benefits, they are short lived and internalisation leads to slower economic growth in the long term.

It was noted that the world economy thrives on international trade which drives the GDP of the world and in periods of Exile Economics throughout history, has seen the slowdown of the world economy.

2.2. From trade wars to the ESG backlash: How can we manage investment risk in an uncertain world?

The by-word of this session was "Economic multi-polarity" which is defined as a global system with several "poles" or major economic powers influencing world affairs, shifting away from the US-dominated unipolarity towards a more complex economy with competing centres like China, the EU, and emerging economies. This is a less cohesive globalisation model with increased focus on national resilience employing “friend-shoring” tactics utilising a supply chain strategy where production and sourcing is relocated to politically and ideologically aligned nations to reduce geopolitical risks.

There is a potential for more economic conflict (tariffs, sanctions), and more regular use of multiple alternative currencies (EG: Euro, Yuan) alongside the dollar. With nations seeking economic security and self-sufficiency, economic multi-polarity has the potential to slow global integration whilst creating opportunities for emerging market economies.

2.3. <u>Reducing risks and impacts in conflict areas: what can investors do?</u>

Some statistics 1 in 8 of the world population live in areas affected by wars/conflict, only 37% of people have trust in politics, governments and corporations, 1 in 4 in the UK would entertain violence to bring about change, whilst only 17% of UK adults believe the next generation will live in a better society.

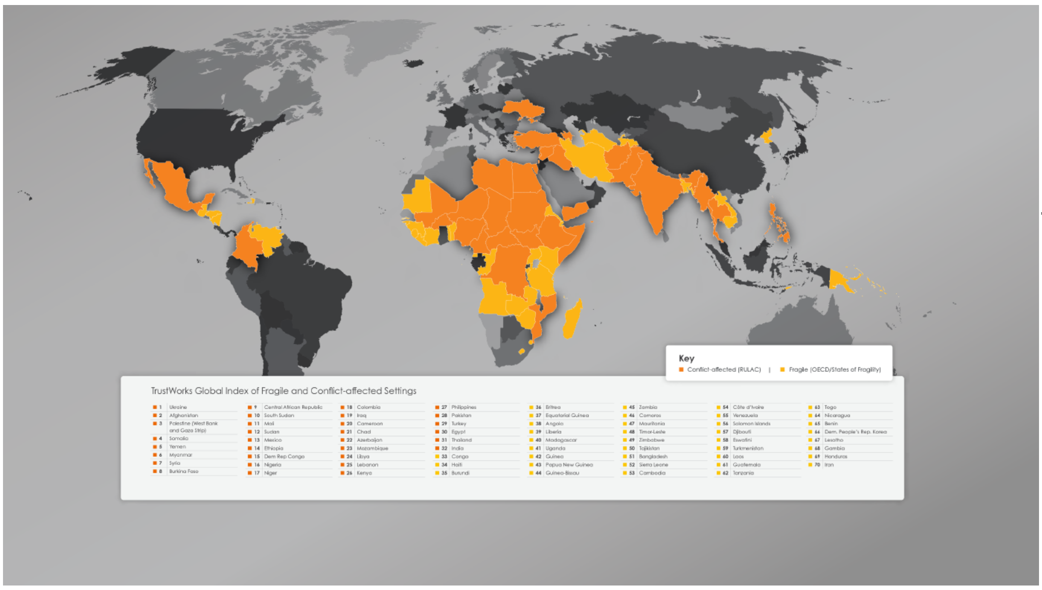
Of three huge changes ushered in during recent decades: The Cold War; the the liberalisation of democracy since the end of the Soviet era to the; Arab Spring of 2012, the greatest returns from investments surprisingly did not occur in the relative stability of peace during the growth of liberal democracy

The panel discussed mapping out for different scenarios including war, concluding that planning ahead with diversification of investments and assessing the portfolio’s risks in order to be able to shift the portfolio to different asset classes along with the ability to hedge and de-hedge accordingly if necessary is a means of protecting investments.

2.4 <u>Reducing risks and impacts in conflict areas</u>

There is no internationally recognised index on conflict risk. The TrustWorks Fragile and Conflict-affected Settings (FCS) Index has identified and ranked 70 FCS as of 2024. TrustWorks has chosen to develop its own ranking to provide companies and investors with a better understanding of their potential exposure to conflict risks.

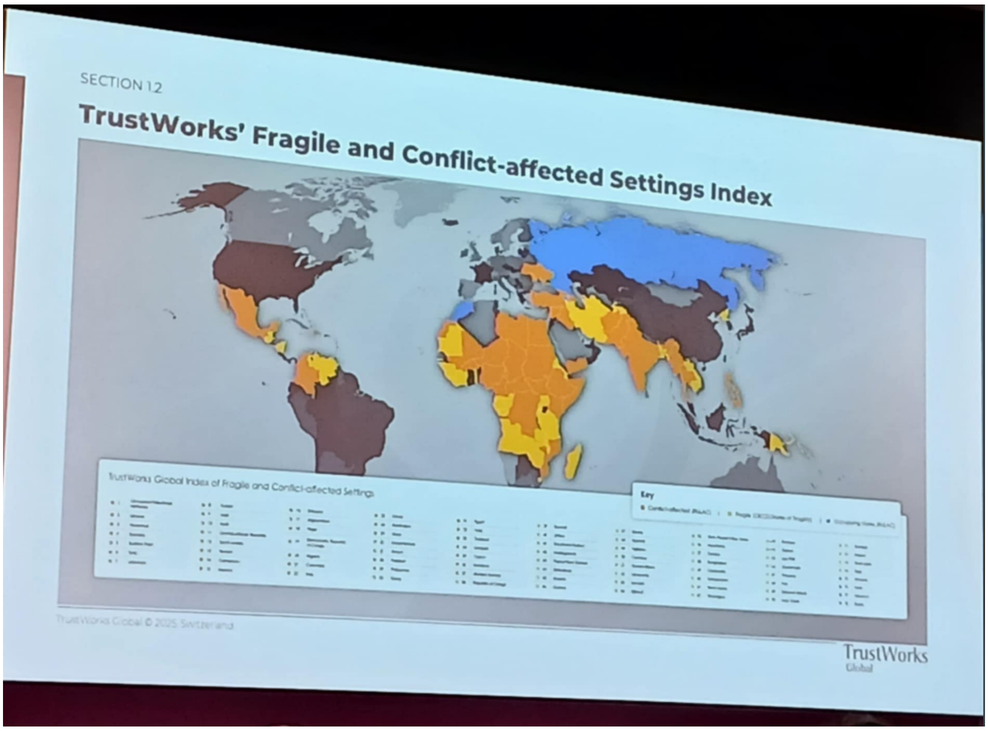
The TrustWorks Fragile and Conflict-affected Settings (FCS) Index is a tool for companies and investors to assess conflict risks, ranking countries based on factors like political instability, security, economic conditions, and societal vulnerabilities, drawing from frameworks like the OECD States of Fragility and the Rule of Law in Armed Conflict (RULAC) Project. It helps understand complex risks in these areas, where traditional business models often fail, by identifying countries with weak governance and high conflict.



<u>KEY</u>

<u>Orange:</u>
Conflict affected (RULAC)

<u>Yellow:</u>
OECD States of Fragility



KEY

Blue:
Occupying states

Orange:
Conflict zones

Yellow:
OECD States of Fragility

The Rule of Law in Armed Conflicts (RULAC) is an online portal that identifies and classifies all situations of armed violence and is updated regularly.

The OECD States of Fragility Framework identifies fragile contexts by assessing the risk and coping capacities of countries across 6 dimensions: economic, environmental, human, political, security, and societal.

For further info: https://trustworksglobal.com/fcs-index-methodology/

Day 2: Thursday 4th December (1400-1700)

2.5 Under Fire: Where do shareholder initiatives go from here

Climate change and switching to alternatives, shareholder engagements and shareholder resolutions and the fight-back against the shareholders.

Conference received a report regarding Shell plc's bullish LNG strategy following a co-filed shareholder resolution by the Australasian Centre for Corporate Responsibility (ACCR), alongside Brunel Pension Partnership, Greater Manchester Pension Fund, Merseyside Pension Fund and ShareAction, to help ensure shareholders have sufficient information to appraise the financial risks related to Shell plc's bullish LNG strategy.

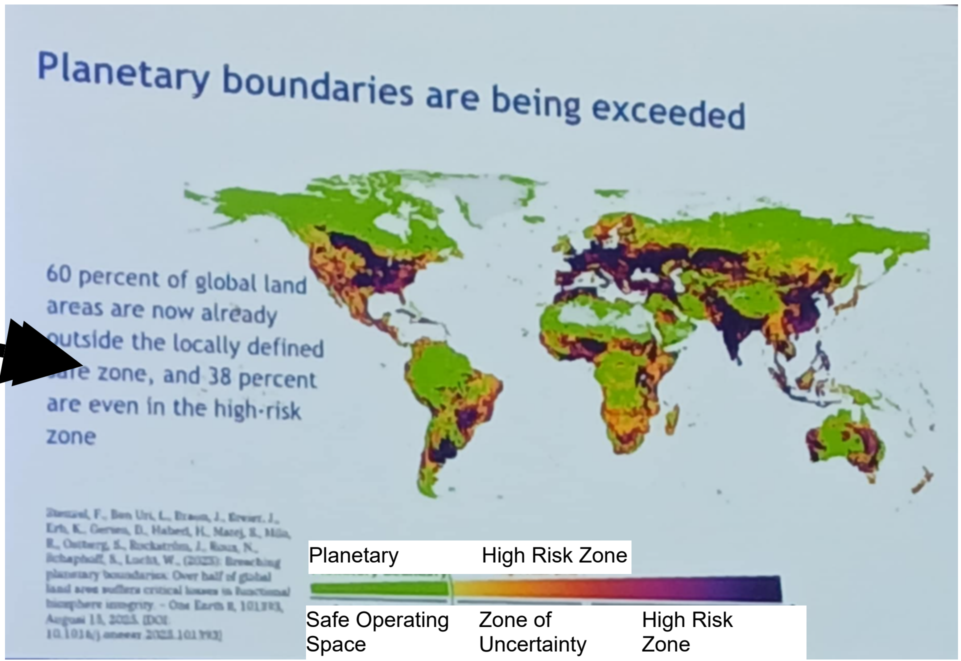
The resolution called for better alignment of Shell's LNG strategy with climate goals and received over 20% support, forcing Shell to engage further with investors. While the resolution wasn't legally binding, it pressured Shell to promise more detailed disclosures and their consistency with net-zero targets.

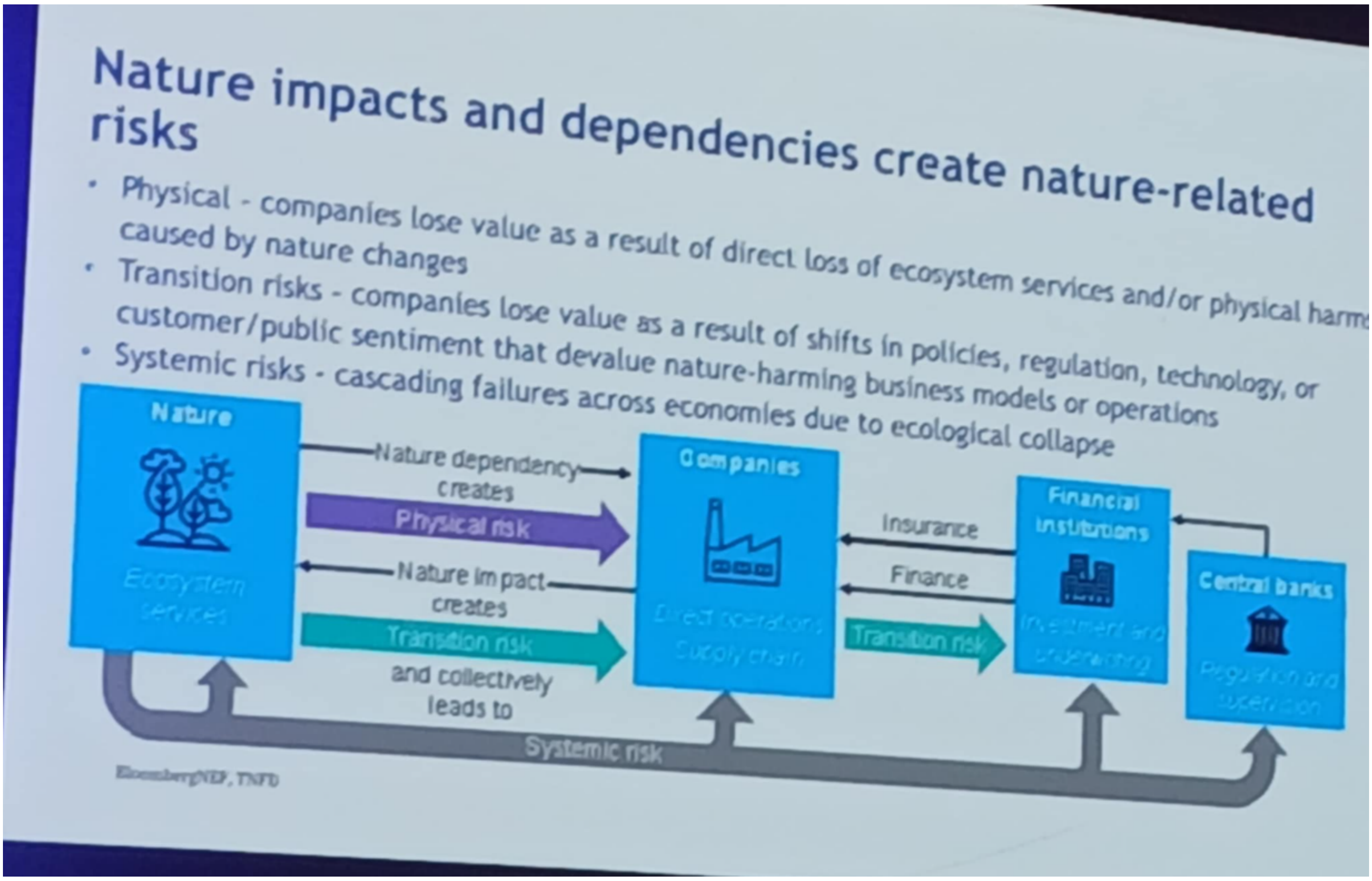
2.6 Biodiversity and business: Managing risks, unlocking opportunities

This session considered the relationship between biodiversity and business and explored the risks and opportunities. The risks considered ranged from habitat loss and single species extinction to cascade failures along with the impact across economies caused by ecological collapse.

Also presented were the opportunities for new investments in food, land and ocean uses as a result of climate change and combating climate change.

60% of global land areas are now already outside the locally defined safe zone, and 38% are even in the high-risk zone





2.7 <u>LGPS Pools Panel: What do the pooling reforms mean for responsible investment in the LGPS?</u>

A panel discussion around different ESG priorities from one pool to another and how they are to be addressed when pools are merged. It was acknowledged that whilst there is mainly consensus, on individual ESG matters, there may not necessarily consensus on priority.

Asked if there are any anticipated changes in direction with regards to ESG and RI with Reform now in control of a number of Local Authorities, the two pool representatives agreed “No”

2.8 <u>Scaling-up Local investing for place-based impact</u>

<u>Day 3: Thursday 4th December (0930-1300)</u>

3.1 <u>AI governance: What should investors expect of companies?</u>

The presenter noted that AI is the biggest growing risk in transforming the world economies. China in embracing AI is moving in the opposite direction to the US and that every day businesses are losing £Bn’s due to bad AI practice.

An AI risk framework has been produced by Thompson Reuters Foundation Partnership. Businesses taking part in the questionnaire are being asked responses public on a question-by-question basis in order to encourage participation.

Thompson Reuters is highlighting the concerns of hidden supply chains on AI development and deployment. This is perhaps something for shareholder engagement to concentrate on.

Thousands of businesses across the US, EMEA and APAC have been analysed with Asia leading on model regulation. Thompson Reuter aim to gather data over time and monitor the impact of the deployment on employment. To date, the evidence demonstrates that manual work is less impacted than middle management as workers are cheaper to employ than AI programming.

A key question for shareholder engagements:

How transparent are companies on policies governing deployment of AI, but whatever the response, accept that “Something, is better than nothing”

3.2 <u>The 2026 Stewardship Code: how will asset owners monitor their asset managers?</u>

“*The UK Stewardship Code 2026 is a revised standard from the Financial Reporting Council (FRC) setting high stewardship expectations for institutional investors (asset owners, managers) and their service providers (like proxy advisors) to foster long-term sustainable value for clients*.”

Deborah Gilsham: The code provides asset owners with a framework to hold asset managers to account by putting the onus upon asset managers to hold them to account.

Andrew Ninian: A lot of the changes to the code has changed the behaviour of all signatories who have to demonstrate it has been properly managed and integrated into the fund management and demonstrate any changes introduced follow the 2020 code.

The code is focused on reporting rather than practice, ie "It is no good doing if it is not being reported to the FRC"

Philippa Bliss: Like the previous code, the 2026 code could have unintentional consequences. Whilst not unwelcome, were unexpected. For example, monitoring that the asset manager is investing against how the owner intends creates more unwelcomed dialogue.

It was noted that the current code in requiring holding fund mangers to account addresses the needs of the FRC rather than the asset owners. It is hoped that in future, reports will be more client facing and easier to understand.

Steve Churchman
December 2025