Quarterly Engagement Report

April-June
2026

- **Energy Supply**
- **Modern Slavery**
- **CAHRAs**

Local Authority Pension Fund Forum

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CLIMATE CHANGE MITIGATION: BP AND DRAX

BP

Objective: LAPFF's approach to stewardship with oil and gas companies is grounded in the view that climate transition risk is fundamentally a financial risk, and therefore centres on engaging companies to align their business models to be Paris-aligned. A core element of LAPFF's approach is challenging the prevailing industry model of production growth, which LAPFF argues risks over-investment in high-cost projects and potential value destruction. Instead, LAPFF advocates a "managed decline" model focused on capital discipline, prioritising low-cost assets, reducing overall capital expenditure, and returning cash to shareholders. The rationale for this approach is set out in a report LAPFF published over ten years ago. Although some of the assumptions in this report are now dated, the prevailing argument that oil and gas companies should be able to demonstrate that capital allocation to oil and gas projects is disciplined and capable of generating acceptable long-term shareholder returns remains as relevant as ever.

The notion remains particularly relevant in the case of BP, a company LAPFF has maintained a multi-decade engagement with because of concerns regarding the credibility and consistency of the company's climate strategy, capital allocation, and board accountability. These concerns were brought to the fore as a result of the company's strategy reversal in 2025, in which it committed to refocusing its business on hydrocarbons. While BP had previously been regarded by some investors as relatively forward-thinking in acknowledging climate risks and investing in renewable energy, LAPFF became increasingly concerned following the company's "reset", which involved scaling back renewable investment and increasing spending on oil and gas. In response to these concerns, LAPFF issued a voting alert ahead of the company's 2025 AGM recommending the withdrawal of support for the then Chair, Helge Lund. Mr Lund received over 24% opposition to his re-election, having already announced his intention to stand down from the board.

Achieved: Based on these concerns, LAPFF supported the co-filing of a shareholder proposal ahead of the company's 2026 AGM. Resolution 24 sought to enhance shareholder understanding of BP's capital allocation by requesting improved disclosure on how the company applies capital discipline to its upstream oil and gas investments. Specifically,

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the proposal focused on three core areas: the assessment of project cost-competitiveness (to understand exposure to high-cost, higher-risk assets), the incorporation of realistic assumptions around project execution risks such as cost overruns and delays, and the value creation of ongoing exploration expenditure.

Overall, the proposal called for greater transparency to enable shareholders to evaluate whether BP's capital allocation decisions are disciplined and aligned with long-term value creation. The resolution was well supported, receiving over 28% in favour. This level of support triggers a formal response requirement under the UK Corporate Governance Code. In practice, this means the company will explain what actions it intends to take to understand shareholder concerns, undertake a shareholder consultation and report publicly on the outcome of that process within 6 months to remain compliant with this provision of the Code.

In Progress: During 2026, LAPFF's engagement with BP extended beyond the topic of capital discipline, with governance issues at the company taking centre stage in the build up to the AGM. In April, LAPFF raised concerns about governance decisions at BP that LAPFF viewed as impinging on the rights of shareholders. These included proposals to allow virtual-only AGMs, efforts to revoke binding shareholder-approved climate disclosure resolutions, and the exclusion of a shareholder proposal from the AGM agenda. In response to these concerns, LAPFF issued a voting alert, urging members to withdraw support for the Chair, who was seeking election to the board for the first time, as well as recommending voting against proposals regarding amending articles and virtual-only AGMs.

The company's attempts to revoke climate disclosure resolutions and to allow virtual-only AGMs were defeated, with over 50% of shareholders opposing the proposals. The newly appointed Chair, Albert Manifold, received over 18% in opposition. Mr Manifold has since been sacked by the Board of BP, arguably putting the company into another governance crisis. The company has had three CEOs and, by the time a successor to Albert Manifold is named, three Chairs over a five-year period. Following the news of the Chair's departure, LAPFF met with BP in April.

Drax

Objective: LAPFF has a longstanding engagement with UK energy company Drax plc regarding the credibility of its biomass-based business model. The Forum's core concern is that Drax's claim of carbon neutrality, based on the concept of "dynamic carbon sinks" (i.e. that burned wood is offset by regrowth), is not supported by robust evidence. LAPFF has previously highlighted that available data does not demonstrate that forest regrowth is sufficient to offset emissions in the short term, raising the risk that Drax is contributing to a net increase in atmospheric carbon. The Forum has also questioned the overall efficiency of biomass, noting that wood burning can produce more emissions per unit of energy than coal, alongside wider environmental and community impacts linked to forestry practices in the US and Canada. Additional concerns include data integrity and disclosure, evidenced by regulatory action by Ofgem and the FCA, and ongoing scrutiny of biomass sourcing practices.

LAPFF also has concerns around the technological and policy assumptions underpinning Drax's strategy, particularly its reliance on bioenergy with carbon capture and storage (BECCS). The Forum notes that CCS remains unproven at scale, highly dependent on subsidies, and may be operationally incompatible with Drax's evolving role as a dispatchable, rather than baseload, power provider.

Accordingly, LAPFF's objective is to ensure that Drax's strategy is grounded in credible, evidence-based decarbonisation, ensuring full transparency on emissions, sourcing, and ecological impacts and scrutinising reliance on unproven technologies such as CCS.

Achieved: In June, LAPFF met with the senior independent director at Drax to discuss four key areas: governance and internal controls following recent regulatory scrutiny; the credibility and transparency of its biomass sourcing practices; the resilience of its business model under reduced government support and tighter operational constraints; and the extent to which its transition strategy depends on CCS and BECCS.

LAPFF sought reassurance that Drax had strengthened board oversight of internal controls following an investigation from Ofwat, and an ongoing investigation by the FCA, over data accuracy. The company assured LAPFF it has robust traceability and compliance in its supply chain. The company also stated it is ending the use of Canadian wood pellets at its UK power station and that by around 2027, its UK plant will burn biomass sourced only from the United States. This decision follows sustained criticism, including from LAPFF, over allegations of the use of wood from old-growth or primary forest in its Canadian operation. The decision is also likely linked to the new UK subsidy regime starting in 2027, which comes with a requirement to ensure biomass meets stricter sustainability criteria.

In Progress: Drax remains a focus for LAPFF engagement into 2026. Concerns remain regarding the transparency and integrity of Drax's biomass supply chain, including traceability to forest level and exposure to old-growth or environmentally sensitive forests. LAPFF will monitor the ongoing FCA investigation as it relates to the accuracy and adequacy of what the company told investors about its biomass sourcing. Beyond this, LAPFF will continue to engage the company on whether Drax's business model remains resilient given its heavy reliance on public support and the tighter constraints under the new Low Carbon Dispatchable CfD, and the extent to which the company's pathway to net zero is overly dependent on BECCS and other CCS technologies that remain technically and commercially uncertain at scale.

UK banks materially backtracking on climate commitments

LAPFF has long recognised the imperative to address climate change as a systemic, long-term investment risk given the material financial risks it poses across all asset classes and its potential to erode shareholder value. The Forum expects companies to identify and address climate-related risks and opportunities, align their business models with a

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1.5C scenario, and support an orderly transition to net-zero.

Climate change and the energy transition remain financially material for banks. The transition to a cleaner economy increases the risk of stranded assets, and evidence suggests credit risks could also rise significantly. The UK's Climate Change Committee (CCC) cited evidence that "Banks who participated in the BoE's climate scenario exercise estimated potential credit losses on lending could be 50% higher than in a future with no climate change". In parallel, physical climate risks are intensifying, with extreme weather events - including storms, flooding, heatwaves, drought, and wildfires - becoming more frequent and severe. These risks carry significant macroeconomic implications. The CCC also cites estimates that physical climate impacts globally could adversely affect up to 6% of the value of physical assets in S&P international stock indices. This is particularly relevant to the UK, given the global exposure of its financial sector and its significant role in GDP, exports, and price stability. The CCC further estimates that "aggregate climate damages could cost 4-10% of UK GDP each year by the end of the century". Climate change also presents a chronic risk to workforce productivity and economic output. High temperatures affect productivity, leading to a loss in earnings for those in the workforce, and lost learning days for children.

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It is widely recognised that the banking sector sits at the heart of the climate-energy nexus; banks can manage and mitigate climate-related risks by curtailing fossil fuel financing and leverage their position to accelerate the energy transition. The growing demand for sustainable finance presents significant commercial opportunities for banks, as investment in renewables continues to break records and energy security concerns strengthen the case for cleaner alternatives. The twin fossil crises of the 2020s, Russia's 2022 invasion of Ukraine and the 2026 US-Israel war on Iran, has exposed the dependency and volatility of fossil fuel markets. In contrast, renewable energy sources are increasingly cheaper and, once deployed, are increasingly viewed as offering greater price stability and energy security.

Policies that restrict fossil fuel finance and reduce financed emissions signal alignment with the transition and the Paris Agreement. However, banks backtracking on such policies undermines the credibility of its climate strategy and increases exposure to climate and transition-related risks. It also erodes investor confidence, particularly for banks like NatWest, where over 93% of shareholders approved its climate strategy in 2022, which has since been materially weakened. Where credibility is undermined, investor confidence has declined, and board oversight of climate and transition-related risks is deemed inadequate, the chair should be held accountable.

Objective: Against this backdrop, NatWest updated its Environmental and Social Risk policy in February 2026, which has occurred in tandem with the dissolution of the board-level Group Sustainable Banking Committee (SBC). The bank has removed its restrictions on financing upstream oil and gas companies, including those without credible transition plans and those operating outside the UK. Restrictions on unconventional energy activities, including fracking and oil sands, have been diluted, with blanket exclusions replaced by thresholds and the removal of the specific ban on expansion. Concurrently, HSBC updated its Sustainability Risk Policies Framework in November 2025. The bank has diluted its oil and gas policy by weakening restrictions on new oil and gas fields, exploration capex, ultra-deepwater exposure, and altered its definition of oil and gas infrastructure to exclude regasification facilities used to import Liquefied Natural Gas (LNG). It has changed the standards it uses to engage with non-EU/OECD thermal coal clients in ways that make them less clear. Most crucially, HSBC has extended its discretion to accept clients and transactions that contravene the terms of its policy. The bank has also diluted the ambition of its decarbonisation targets by basing them on the IEA's 1.5C-aligned NZE scenario from 2024 (updated from 2021) and introducing a range of target values. Together, these changes increase the scope for financing activities with limited prospects of alignment with its stated climate commitments.

During Q2, LAPFF engaged both NatWest and HSBC to assess how these policy updates align with their stated climate commitments, including commitments to be net zero across their financed emissions, own operations and supply chain by 2050. The Forum sought to understand and evaluate the updates to both banks' risk frameworks, while maintaining constructive dialogue on climate-related issues and promoting transparency and accountability in each bank's approach.

Achieved:

NatWest

NatWest affirmed that it would continue to prioritise renewables and transition finance, including through its £200 billion sustainable finance target. The bank acknowledged moving away from 1.5C temperature alignment, arguing that its previous framework constrained its ability to pursue ambitious climate-related financing opportunities. NatWest considers this a shift towards flexibility, enabling it to build a better risk-return profile, creating value while reducing emissions.

LAPFF challenged the bank's position, maintaining that these changes weaken fossil fuel guardrails and climate ambition, ultimately misaligning its business model with a 1.5C scenario. Concerns regarding governance were raised, particularly the disbanding of the SBC. NatWest justified this on the grounds that oversight is now embedded across the board and its committees as part of a broader effort to simplify governance and integrate sustainability into its core business strategy.

HSBC

HSBC framed the policy update as part of an annual review informed by client engagement and latest scientific scenarios. It positioned its approach to fossil fuel financing as focused on supporting clients' transition, particularly in emerging markets, through enhanced due diligence, internal risk controls, and shorter loan tenors to manage exposure.

LAPFF challenged how continued support for hydrocarbon expansion, including unconventional and LNG projects, can credibly align with the Paris Agreement. The Forum also raised concerns on the decision to replace the requirement of coal clients in non-EU/OCED markets to demonstrate phase down plans with a discretionary assessment of transition plans.

In Progress: The engagement with NatWest provided a broader context for the policy changes but cemented concerns that these changes risk increasing NatWest's exposure to transition risk. LAPFF also emphasised that it does not negate the value of a dedicated committee with clear oversight and accountability.

For HSBC, the engagement clarified its rationale for these changes, but beyond general references to governance and monitoring processes, the company was unable to demonstrate how its updated policies align with its decarbonisation targets or the Paris Agreement. This culminated in the call for independent assurance on the bank's climate strategy. The Forum also requested improved transparency on how financing decisions align with its climate commitments and clearer disclosure on the methodology for assessing transition plans for its clients in non-EU/OECD markets. Once published, LAPFF will use these enhanced disclosures as the basis for further engagement.

In response to the dilution of their climate policies, LAPFF issued a voting alert recommending members withdraw support for HSBC's Chair Brendan Nelson and Chair of the Group Risk Committee James Forese, and NatWest's Chair Rick Haythornthwaite. Both banks faced elevated shareholder dissent at their

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Annual General Meetings. At HSBC, 7.7% of votes were cast against Chair Brendan Nelson and 8.1% opposed the re-election of James Forese, Chair of the Group Risk Committee, compared with near-unanimous support previously. At NatWest, 7.9% opposed the re-election of Chair Rick Haythornthwaite, a sharp increase from 2.4% last year. Given that Chairs are routinely waved through with over 98% support, outcomes close to 92% send a clear signal of investor concern over the policy rollbacks.

While the AGM season has concluded, continued engagement with both NatWest and HSBC will focus on restoring undiluted policies, strengthening board oversight of climate-related risks, and rebuilding investor confidence in banks' climate strategies.

CLIMATE CHANGE ADAPTATION AND ENVIRONMENT

Climate adaptation has continued to be a focus for LAPFF during Q2, building on the Climate Adaptation: Food Producers and Distributors report which set out what the Forum should be asking investee companies with exposure to high-risk commodities, including dairy, fresh fruit and vegetables, coffee and cocoa. Adaptation concerns how companies anticipate and prepare for climate-related changes already occurring and expected to intensify, complementing LAPFF's continued focus on climate mitigation.

The financial implications of insufficient adaptation are significant. A 2024 report by the World Economic Forum estimates that climate hazards could drive annual fixed asset losses of $560–610 billion across listed companies by 2035, which equates to a fall in average company earnings of 6.6% to 7.3% each year by 2035 in the absence of adaptation strategies.

Within the food sector, adaptation risks are particularly acute. The UK government has identified climate change as one of the greatest risks to long-term global food security. Food producers and distributors face material impacts from extreme heat, drought and water stress. Exposure varies considerably by geography and commodity, reinforcing the need for location-specific and commodity-specific adaptation approaches.

This urgency has been echoed by the industry itself. Inside Track's April 2025 memo from food industry executives stressed that yield, security and supply predictability will become increasingly unreliable due to physical climate risks. The memo cautioned that the food sector is ill-equipped to deal with the magnitude of these risks and called on investors to lead a pragmatic dialogue with companies to strengthen supply chain resilience. Against this backdrop, strengthening supply chain transparency, traceability, and risk management has become a key priority for LAPFF.

Objective: Building on Q1 engagement with food retailers, LAPFF sought this quarter to engage with Tesco on how it is managing material physical climate risks across its supply chains. The engagement also aimed to encourage improved disclosure of material physical climate risks and adaptation responses. LAPFF emphasised the importance of ensuring that adaptation strategies are grounded in a range of plausible climate scenarios, rather than a single preferred outcome, and that these strategies reflect the specific characteristics of different sourcing regions. In addition, LAPFF sought to reinforce expectations around governance and accountability. This includes regular disclosure of progress, clear assessment of key sourcing geographies, and demonstrable board-level oversight of adaptation planning, with responsibility anchored to a named director to ensure clear accountability.

To conclude these engagements, LAPFF participated in an Investor Roundtable focused on protecting UK food security and investor returns by strengthening food supply chain resilience. Bringing together investors, NGOs and academics, the session discussed industry research by ShareAction, WWF, and Anglia Ruskin University, alongside key insights from engagements, to inform a shared view on priorities and next steps.

Engagement: Tesco stated the themes raised in the memo are core to board discussions. It identified security of supply and climate - which has been expanded to include nature-related risks, as principal risks - with cross-functional teams working more closely.

Tesco highlighted several initiatives aimed at strengthening resilience. These include investment in agricultural innovation through its low-carbon concept farm in Lincolnshire, as well as long-term partnerships with suppliers designed to support farmer investment in regenerative agricultural practices.

On policy engagement, Tesco noted its advocacy for a more coherent UK food strategy through the British Retail Consortium. The company also reported progress in developing a proprietary, AI-enabled risk mapping tool intended to support real-time supplier engagement and enhance visibility across its supply chain.

In Progress: Given the engagement took place with representatives from Tesco's Investor Relations teams, LAPFF is seeking a follow-up meeting with relevant subject matter experts to address remaining gaps in understanding. Further clarity is required on the company's progress in mapping and tracing specific high-risk commodity supply chains, including coffee and cocoa.

Next steps will focus on assessing how Tesco is advancing traceability to the farm level and how this information informs broader risk management and climate adaptation strategies. LAPFF will also seek to understand how insights generated at the farm and supplier level are translated into operational decision-making, prioritisation and capital allocation. This continued engagement will aim to ensure that Tesco's approach to climate adaptation is sufficiently granular, decision-useful and aligned with the scale and immediacy of physical climate risks facing the food sector.

A key outcome of the roundtable was the call to develop a clear set of investor expectations of companies. Participants also highlighted the need to expand the discussion to include trade associations representing UK farmers, recognising the critical need to support farm-level resilience and adaptation. This will form the foundation for the next stage of engagement, supporting a more coordinated and effective approach to addressing systemic risks to the UK food system.

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CCLA MODERN SLAVERY BENCHMARK

Modern slavery encompasses forced labour, debt bondage, human trafficking and other forms of severe labour exploitation. With an estimated 50 million people affected worldwide and 28 million in forced labour, it represents a serious human rights crisis and carries direct implications for companies operating complex, multi-geography supply chains. According to the International Labour Organisation (ILO), a majority of all forced labour cases are linked to global supply chains, with risks particularly concentrated in lower tier suppliers. Modern slavery remains a significant global business risk, with the International Labour Organisation estimating that forced labour generates US$236 billion in illegal profits each year, up 37% since 2014.

During Q2, LAPFF engaged companies listed in the lower tiers of CCLA's Modern Slavery Global Benchmark. The Benchmark provides an investor-focused framework for assessing how major listed companies disclose and manage modern slavery risks in their operations and supply chains. Developed in the context of a growing concern that corporate reporting often emphasises policy commitments above and beyond demonstrable, the Benchmark highlights a persistent gap between disclosure and implementation.

CCLA evaluates the public disclosures of large companies operating in the UK and places them across performance tiers ranging from leading practice to unsatisfactory. Its purpose is not only to assess the quality of disclosure, but also to encourage stronger due diligence, better transparency, and more effective management of modern slavery risks in practice. For investors, the benchmark serves as a useful tool to identify gaps between policy and implementation, support engagement with companies, and promote more credible action on human rights risks across global supply chains.

For companies and investors, modern slavery creates clear financial materiality: exposure can lead to supply chain disruption, import restrictions, regulatory investigation, legal liability, remediation costs and reputational damage, while also signalling broader weaknesses in governance and risk management. Recent and emerging regulations, including the EU Forced Labour Regulation and the Corporate Sustainability Due Diligence Directive, are increasing expectations on companies to demonstrate credible, risk-based due diligence rather than relying on high-level policy commitments alone.

Against this backdrop, LAPFF engaged companies which scored in the lower-tiers of the benchmark to encourage focus companies to move beyond compliance-led disclosure towards more robust management of modern slavery risk. The aim was to assess how companies are strengthening supply chain mapping, improving the quality of risk identification, embedding effective remedy and building the governance needed to prevent recurrence.

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Objective: The objectives for these engagements were aligned with the CCLA's Modern Slavery Global Benchmark, which served as the basis for each meeting and provided a consistent framework for assessing company practice. The overarching objective was to understand how far companies are moving beyond policy commitments towards more credible and effective management of modern slavery risk. LAPFF sought evidence of stronger due diligence, including better identification of higher-risk operations and supply chains, deeper supply chain mapping beyond tier 1, clearer disclosure of salient risks, and more robust approaches to monitoring, remedy and governance.

More specifically, the engagement objectives were designed to encourage companies to use the benchmark as a gap-analysis tool, improve the quality and timeliness of their modern slavery disclosures, and demonstrate how risks are identified, prioritised and mitigated in practice. This included seeking greater transparency on sub-tier suppliers and indirect risk exposure, clearer reporting on the effectiveness of controls and grievance mechanisms, and stronger evidence that companies can identify harms, support affected workers and prevent recurrence. Taken together, these objectives reflect the benchmark's core emphasis on closing the gap between policy and practice and strengthening investor confidence in companies' management of modern slavery risk.

Achieved

Philip Morris International (PMI)

Philip Morris International (PMI) disclosed a comparatively developed approach to managing modern slavery risk, particularly within its agricultural supply chain. It pointed to direct supplier relationships, farm-level monitoring, external verification and an emphasis on corrective action over time. PMI also described steps taken to address labour standards in contracted workforces and acknowledged the need to improve the visibility of its UK modern slavery statement. Overall, the discussion suggested stronger traceability and oversight in tobacco sourcing than seen in some peers, although there remains scope for clearer external reporting on outcomes, non-conformances and remediation.

Salesforce

Salesforce acknowledged that the benchmark had not previously been a major point of focus but engaged constructively on its approach to modern slavery risk. It described a largely compliance-led framework supported by supplier risk assessment, onboarding controls, grievance channels and internal governance processes. Salesforce recognised that a lower-risk business model does not remove exposure, particularly through indirect supply chains and higher-risk service categories. The discussion nevertheless suggested that its external disclosure remains at an earlier stage, with further work needed to provide clearer evidence on risk prioritisation, due diligence and measurable outcomes. Planned publication of its human rights saliency assessment may help strengthen that picture over time.

Amgen

Amgen highlighted its broader compliance culture, supplier standards, audit processes and speak-up mechanisms as the basis of its approach to modern slavery risk. It also pointed to board-level oversight of compliance matters and described these structures as supporting risk management across its operations and supply chain. However, the discussion indicated that the attendees were not best placed to address several of the more detailed questions on supply chain due diligence and modern slavery risk management. As a result, follow-up questions were shared after the meeting so that the relevant internal teams could provide a more informed response. Overall, the engagement suggested an underlying governance framework, but also a need for more specific evidence on how risks are identified, managed and remediated in practice, particularly beyond tier 1 suppliers.

In Progress: Across all three engagements, several themes remain under active follow-up. Further work will focus on how companies are moving beyond policy commitments and compliance-led processes towards more demonstrable management of modern slavery risk in practice. In particular, ongoing engagement will examine the extent to which companies can strengthen sub-tier supply chain mapping, improve the clarity and accessibility of disclosure, and provide more robust evidence on how risks are identified, prioritised, escalated and remediated, including through grievance mechanisms and worker support processes.

For Amgen, follow-up will centre on the written responses to questions that could not be fully addressed during the initial discussion, particularly in relation to supply chain due diligence, risk identification beyond tier 1, and the operation of remedy and escalation processes in practice. For PMI, continued dialogue will focus on improvements to the visibility and quality of its UK modern slavery disclosure, alongside clearer external reporting on outcomes, non-conformances and remediation. For Salesforce, further engagement will examine how the company translates internal governance and compliance processes into more decision-useful evidence on risk prioritisation, due diligence effectiveness and measurable outcomes, including through planned publication of its human rights saliency assessment.

More broadly, LAPFF will continue to use the CCLA Global Modern Slavery Benchmark as a reference point for assessing whether investee companies are closing the gap between policy and practice. Engagement will test whether companies can demonstrate credible progress against the objectives set out for these calls, including stronger due diligence, clearer disclosure of salient risks, and more persuasive evidence that governance, monitoring and remedy processes are operating effectively. This will remain important as investor expectations rise and regulatory scrutiny of forced labour and supply chain due diligence continues to intensify.

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Image: Alamy

MINING: PRI AND EARTHWORKS

Earthworks

In Q2, LAPFF met with US-based NGO Earthworks to discuss recent events within Vale's Brazilian mining operations and ongoing concerns regarding the company's preparedness for climate-related physical risks, particularly in relation to tailings facilities.

The discussion built on LAPFF's ongoing engagement with affected communities in Brazil and highlighted that more than seven years on from the 2019 Brumadinho tailings damn disaster (which caused 272 fatalities) and over a decade from Samarco tailing dam disaster in 2015 (which killed 19 people and left untold social and environmental devastation), significant concerns remain regarding tailings safety and accountability within the company's operations.

Evidence and analysis from Earthworks and civil society point to continuing vulnerabilities in Vale's facilities in Minas Gerais, especially under increasing climate stress and extreme weather events, including flooding at Mina de Fábrica and Mina de Viga in January 2026. This flooding demonstrates how physical climate risks are already impacting communities, ecosystems and operations.

The ongoing and lasting impacts of these events reinforce LAPFF's calls for effective board oversight, integration of climate adaptation into operational risk management, and ongoing engagement with affected communities in line with human rights due diligence expectations.

Earthworks subsequently published a blog featuring LAPFF commentary, reinforcing investor expectations in this area.

Vale

As part of the PRI Advance initiative investor group, in Q2 LAPFF wrote to Vale's Chief Sustainability Officer to request a follow up meeting to progress engagement on human rights governance, community impacts and climate resilience. The letter focused on:

- How community and stakeholder feedback is escalated and integrated into operational decision making and board oversight,
- The effectiveness of grievance mechanisms and access to remedy for affected communities, and
- Progress on Indigenous engagement and regulatory compliance, including legacy issues and infrastructure such as the Carajás Railway.

Investors also requested greater clarity on how extreme weather and water risks are incorporated into project approval, asset management and long-term strategy, and how these risks are overseen at Board level.

The group is using recent events to ground this discussion, including the 2026 flooding at Vale's Fábrica and Viga sites in Minas Gerais, as well as controversy surrounding the Carajás Railway (part of Vale's core Northern System iron ore logistics network linking its Amazon mining operations in Pará to the Ponta da Madeira maritime terminal in São

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Image: Alamy

Luís, Maranhão). The controversy here has focused on whether licensing and permitting processes have adequately assessed the railway's environmental, social and climate-related impacts, including risks to Indigenous and traditional communities along the corridor. These examples will be used to press for demonstrable evidence of strengthened accountability, governance oversight, and implementation of climate adaptation measures in practice, rather than policy commitments alone.

In progress: Across the quarter, LAPFF strengthened its engagement on human rights, water and climate risk in the mining sector. Stakeholder engagement remained central to this work, supporting LAPFF's efforts to advance UNGP-aligned human rights due diligence, strengthen governance oversight, and promote the integration of physical climate risks into corporate strategy and operational decision making.

CONFLICT-AFFECTED AND HIGH RISK AREAS (CAHRAS)

Objective: LAPFF's engagement on conflict-affected and high-risk areas (CAHRAs) has continued to develop in response to the growing relevance of conflict-related human rights risks to LAPFF members. Companies with operations, supply chains, customers, investments, financing relationships, products, services or other business relationships linked to CAHRAs may face heightened legal, regulatory, operational, reputational and financial risks. These risks can arise where companies contribute to, are directly linked to, or exacerbate adverse impacts on people and conflict dynamics.

LAPFF's expectations are grounded in the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, and the UNDP Guide for Heightened Human Rights Due Diligence for Business in Conflict-Affected Contexts. These frameworks make clear that companies linked to conflict-affected contexts should apply heightened human rights due diligence, including analysis of human rights impacts, conflict impacts, and the intersection between the two. LAPFF therefore expects companies to have policies, governance arrangements, due diligence processes, grievance mechanisms and decision-making criteria that are capable of identifying, preventing, mitigating and accounting for CAHRA-related risks.

Building on previous engagement and LAPFF's published Engagement Expectations of Companies, LAPFF wrote to 31 companies in February 2026 identified as having operations, business relationships or other activities potentially linked to the Occupied Palestinian Territories. While the Israel-Gaza conflict and business activities linked to the Occupied Palestinian Territories remain important issues, LAPFF's CAHRA work is broader than one conflict or geography. The outreach formed part of a wider engagement programme focused on how companies manage heightened human rights and conflict-related risks across high-risk contexts.

The objective of the outreach was to establish a clearer and more comparable understanding of company practice. Companies were asked to respond to a

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12-part questionnaire covering: policy commitments; international standards; identification of CAHRA exposure; impact and risk assessment; methodology and verification; prevention, mitigation and remediation; enter, remain, suspend or exit decision-making; monitoring and oversight; grievance mechanisms and remedy; transparency; continuous application of heightened due diligence; and financial decision-making. LAPFF sought responses that were specific, evidenced and, where possible, linked to relevant policies, procedures, governance mechanisms, internal controls, KPIs or public disclosures.

Achieved: The responses received demonstrate a wide range of approaches to managing CAHRA-related risk. Some companies provided detailed responses setting out governance structures, risk assessment methodologies, escalation routes and examples of heightened due diligence. Others provided only high-level references to existing human rights, sanctions, export control or sustainability disclosures, without directly responding to the questionnaire.

A number of companies recognised CAHRAs, conflict-affected contexts or high-risk markets as requiring enhanced scrutiny. However, relatively few disclosed a dedicated CAHRA policy or a clearly articulated heightened human rights due diligence framework. In several cases, CAHRA-related risk was embedded within broader human rights, compliance, enterprise risk management, trade compliance, sanctions, procurement or sustainability processes, rather than addressed through a standalone framework. While this may indicate that some controls exist, it also makes it harder for investors to assess whether companies are applying due diligence that is genuinely heightened, continuous and conflict-sensitive.

The strongest responses tended to provide detail on how CAHRA exposure is identified and assessed. This included use of country risk tools, external data sources, human rights risk assessments, third-party input, sanctions screening, supplier or business partner due diligence and escalation processes.

However, important gaps remain. Many companies did not clearly explain the scope of exposure assessed, particularly in relation to downstream customers, end-users, distributors, platform users, financing relationships, joint ventures or other business partners. Consideration of international humanitarian law was also uneven. A small number of companies explicitly stated that international humanitarian law or the law of armed conflict is considered in CAHRA-related assessments, while others referred more generally to the UNGPs, OECD Guidelines, ILO standards or sanctions compliance without explaining whether conflict analysis forms part of their methodology.

Governance disclosure varied considerably. Some companies identified board-level committees, executive-level committees, human rights steering groups, compliance functions or risk committees with responsibility for oversight. Others provided only general references to board approval of human rights policies or did not explain how CAHRA-related risks are escalated to senior management or the board. Across responses, there was limited disclosure on what information boards receive, how often they receive it, and what decisions are reserved for board-level oversight.

Decision-making on whether to enter, remain in, suspend or exit CAHRA-linked activities was one of the weaker areas of disclosure. A small number of companies described country-entry controls, traffic-light systems, escalation processes, case-by-case review or formal approval routes. However, most responses did not disclose clear decision criteria, thresholds, examples of outcomes, or how stakeholder input and human rights impacts are weighed against legal, commercial or operational considerations.

Where companies failed to respond, declined to complete the questionnaire, or relied only on generic public disclosures, LAPFF began escalating through AGM attendance and voting alerts. LAPFF issued voting alerts at relevant companies, including Palantir, Meta, PayPal, Amazon and Motorola Solutions.

At Palantir's AGM, LAPFF asked how the company ensures human rights due diligence is effective beyond initial customer screening, and what specific triggers lead to escalation, including termination of customer relationships. Palantir did not respond to the question. At Meta's AGM, LAPFF asked how the board oversees risks associated with the company's services and technologies in CAHRAs, including escalation to the board and assessment of effectiveness. Meta did not answer. At PayPal's AGM, LAPFF asked the board to explain the framework used to assess the human rights impacts of providing, restricting or withholding services in CAHRAs. PayPal did not respond.

At Amazon's AGM, LAPFF raised concerns about downstream human rights risks linked to cloud infrastructure, AI, logistics and other technologies, and asked for greater disclosure on board-level oversight. Amazon did not answer. LAPFF also attended Alphabet's AGM and asked what criteria the company uses to determine when heightened due diligence is required, when risks are escalated to the board or relevant committee, and when it will restrict, suspend or terminate customer relationships. Alphabet did not respond.

In Progress: LAPFF will continue to review the responses received and identify where further engagement is warranted. For companies that provided more detailed responses, LAPFF will consider follow-up engagement where risks appear higher or where disclosure gaps remain. This may include seeking greater clarity on how CAHRA exposure is mapped, how downstream risks are assessed, whether international humanitarian law is incorporated into due diligence, how affected stakeholders are consulted, and what criteria guide decisions to enter, remain in, suspend or exit high-risk activities.

For companies that declined to respond, failed to respond, or relied only on generic public disclosures, LAPFF will consider further escalation. This could include targeted voting alerts during the remainder of the 2026 AGM season and into 2027, further AGM attendance, and opposition to relevant directors where board oversight appears insufficient.

The AGM season has also highlighted a broader concern regarding virtual AGM accountability. In several cases, LAPFF submitted questions on CAHRA-related risks, but companies did not answer them during the meeting. The lack of responses limits shareholders' ability to assess board accountability, follow up in real time, or understand whether similar concerns were raised by other investors. LAPFF will therefore continue to consider how AGM attendance, voting alerts and direct engagement can be used together to press for stronger transparency, clearer board oversight and more robust application of heightened human rights due diligence in conflict-affected and high-risk areas.

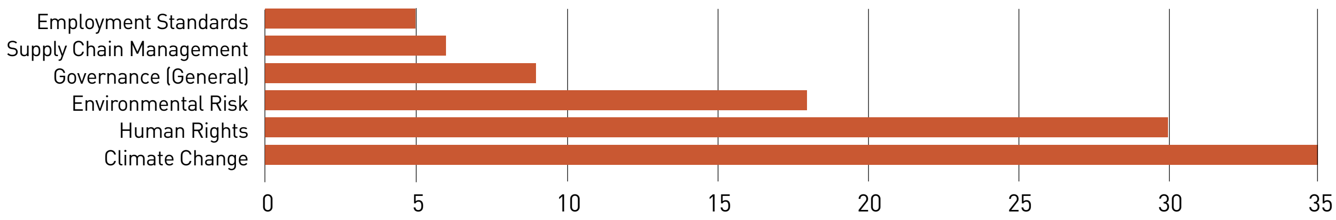
COMPANY PROGRESS REPORT

LAPFF engaged 73 companies engaged over the quarter
The table below represents data taken from 'Meetings', 'AGMs' and 'Received Correspondence' only.

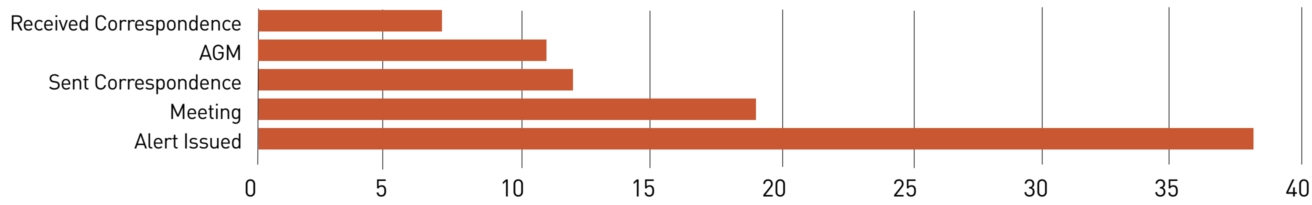
Company/Index	Activity	Topic	Outcome
ALPHABET INC	AGM	Human Rights	No Improvement
AMAZON.COM INC.	AGM	Human Rights	No Improvement
AMGEN INC.	Meeting	Human Rights	Dialogue
ANGLO AMERICAN PLC	Meeting	Human Rights	Dialogue
ASTRAZENECA PLC	AGM	Governance (General)	Dialogue
BP PLC	Meeting	Governance (General)	Change in Process
BUNGE GLOBAL SA	Meeting	Supply Chain Management	Dialogue
CATERPILLAR INC.	AGM	Human Rights	No Improvement
CISCO SYSTEMS INC.	Received Correspondence	Human Rights	Moderate Improvement
COMPAGNIE FINANCIERE RICHEMONT SA	Received Correspondence	Human Rights	No Improvement
DRAX GROUP PLC	Meeting	Climate Change	Dialogue
ELECTRIC POWER DEVELOPMENT CO	Meeting	Climate Change	Dialogue
GENERAL MOTORS COMPANY	AGM	Governance (General)	No Improvement
HEIDELBERG MATERIALS AG	Received Correspondence	Human Rights	Moderate Improvement
HONEYWELL INTERNATIONAL INC.	AGM	Human Rights	Awaiting Response
HSBC HOLDINGS PLC	Meeting	Environmental Risk	Dialogue
KERING SA	Meeting	Human Rights	Small Improvement
KINGFISHER PLC	Meeting	Employment Standards	Dialogue
LUNDIN MINING CORP	Meeting	Climate Change	Dialogue
META PLATFORMS INC	AGM	Human Rights	No Improvement
META PLATFORMS INC	Received Correspondence	Human Rights	Moderate Improvement
MICROSOFT CORPORATION	Meeting	Human Rights	Moderate Improvement
NATWEST GROUP PLC	Meeting	Climate Change	No Improvement
OCADO GROUP PLC	Received Correspondence	Environmental Risk	Satisfactory Response
PALANTIR TECHNOLOGIES INC	AGM	Human Rights	No Improvement
PAYPAL HOLDINGS INC	AGM	Human Rights	No Improvement
PHILIP MORRIS INTERNATIONAL INC.	Meeting	Human Rights	Dialogue
PRIMO WATER CORP	Received Correspondence	Human Rights	Dialogue
ROLLS-ROYCE HOLDINGS PLC	Received Correspondence	Human Rights	No Improvement
SALESFORCE INC	Meeting	Employment Standards	Dialogue
SEMBCORP INDUSTRIES LTD	Meeting	Climate Change	No Improvement
SHELL PLC	AGM	Environmental Risk	Dialogue
TESCO PLC	Meeting	Environmental Risk	Dialogue
THALES	AGM	Human Rights	Dialogue
THE PROCTER & GAMBLE COMPANY	Meeting	Environmental Risk	Small Improvement
TOTALENERGIES SE	Meeting	Climate Change	Dialogue
VALE SA	Meeting	Environmental Risk	Dialogue

ENGAGEMENT DATA

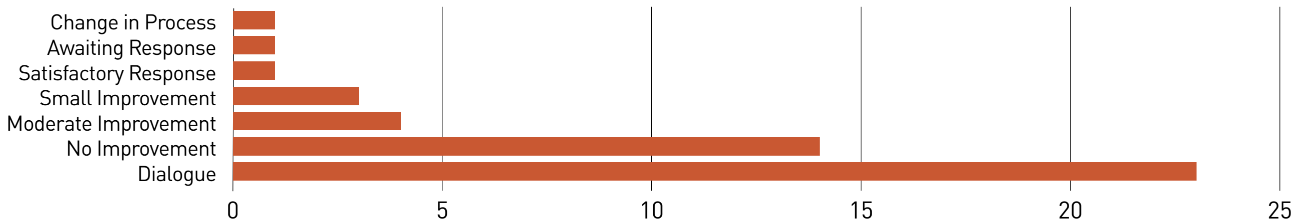
ENGAGEMENT TOPICS



ACTIVITY

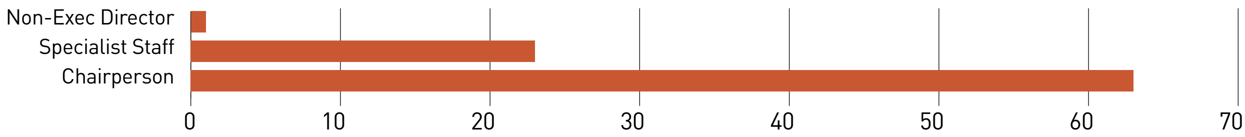


ENGAGEMENT OUTCOMES*

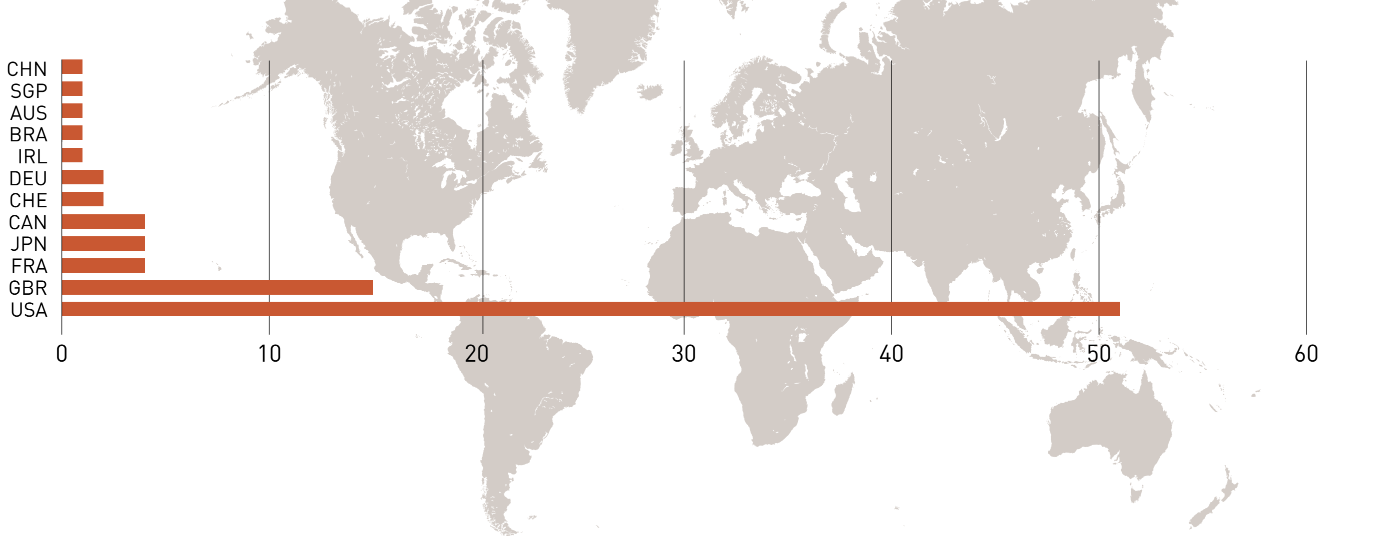


*Outcomes data is taken from 'Meetings', 'AGMs' and 'Received Correspondence' only

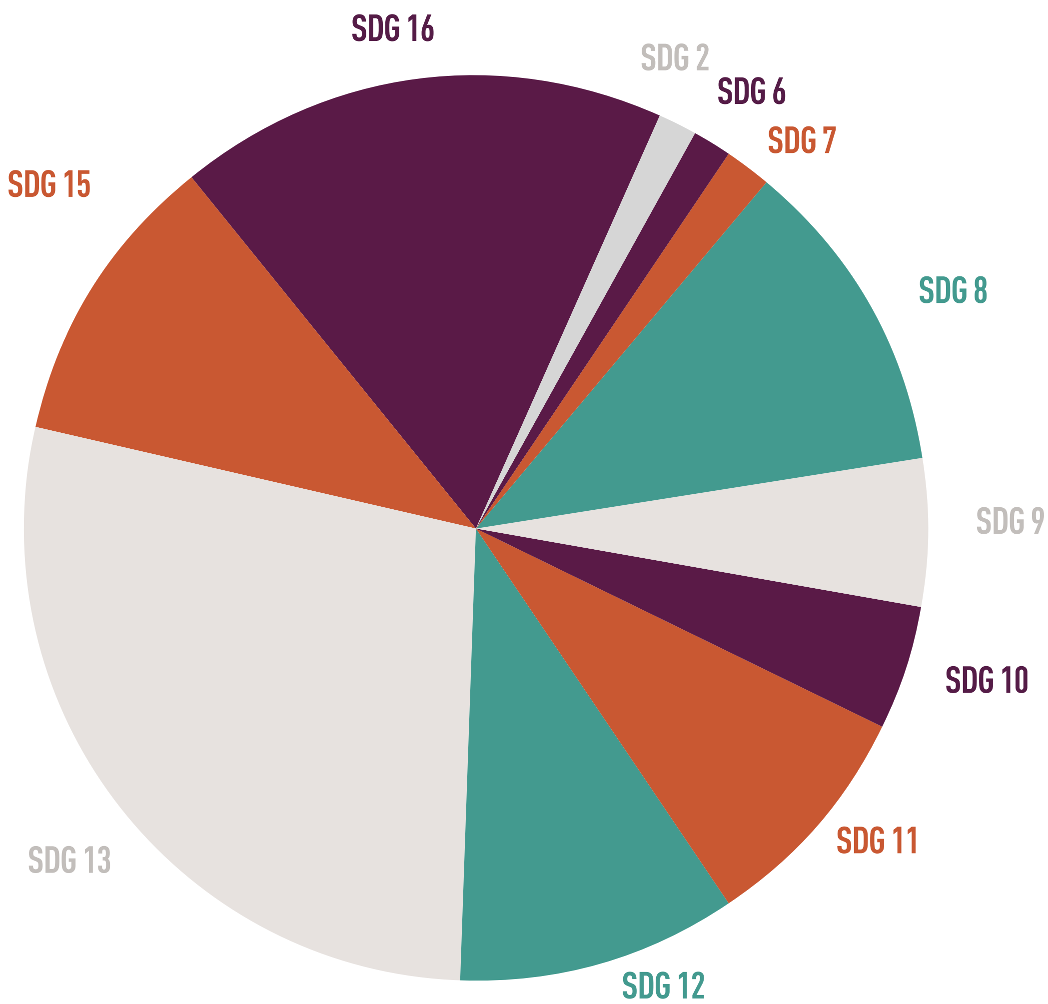
POSITION ENGAGED



COMPANY DOMICILES



ENGAGEMENT DATA



LAPFF SDG ENGAGEMENTS	
SDG 1: No Poverty	0
SDG 2: Zero Hunger	2
SDG 3: Good Health and Well-Being	0
SDG 4: Quality Education	0
SDG 5: Gender Equality	0
SDG 6: Clean Water and Sanitation	2
SDG 7: Affordable and Clean Energy	2
SDG 8: Decent Work and Economic Growth	15
SDG 9: Industry, Innovation, and Infrastructure	7
SDG 10: Reduced Inequalities	6
SDG 11: Sustainable Cities and Communities	11
SDG12: Responsible Production and Consumption	13
SDG 13: Climate Action	37
SDG 14: Life Below Water	0
SDG 15: Life on Land	14
SDG 16: Peace, Justice, and Strong Institutions	23
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
Barking and Dagenham Pension Fund
Barnet Pension Fund
Bedfordshire Pension Fund
Berkshire Pension Fund
Bexley (London Borough of)
Brent (London Borough of)
Cambridgeshire Pension Fund
Camden Pension Fund
Cardiff & Glamorgan Pension Fund
Cheshire Pension Fund
City of London Corporation Pension Fund
Clwyd Pension Fund (Flintshire CC)
Cornwall Pension Fund
Croydon Pension Fund
Cumbria Pension Fund
Derbyshire Pension Fund
Devon Pension Fund
Dorset Pension Fund
Durham Pension Fund
Dyfed Pension Fund
Ealing Pension Fund
East Riding Pension Fund
East Sussex Pension Fund
Enfield Pension Fund
Environment Agency Pension Fund
Essex Pension Fund
Falkirk Pension Fund
Gloucestershire Pension Fund
Greater Gwent Pension Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney Pension Fund
Hammersmith and Fulham Pension Fund
Haringey Pension Fund
Harrow Pension Fund
Havering Pension Fund
Hertfordshire Pension Fund
Hillingdon Pension Fund
Hounslow Pension Fund
Isle of Wight Pension Fund
Islington Pension Fund
Kensington and Chelsea (Royal Borough of)
Kent Pension Fund
Kingston upon Thames Pension Fund
Lambeth Pension Fund
Lancashire County Pension Fund
Leicestershire Pension Fund
Lewisham Pension Fund
Lincolnshire Pension Fund
London Pension Fund Authority
Lothian Pension Fund
Merseyside Pension Fund
Merton Pension Fund
Newham Pension Fund
Norfolk Pension Fund
North East Scotland Pension Fund
North Yorkshire Pension Fund
Northamptonshire Pension Fund
Nottinghamshire Pension Fund
Oxfordshire Pension Fund
Powys Pension Fund
Redbridge Pension Fund
Rhondda Cynon Taf Pension Fund
Scottish Borders Pension Fund
Shropshire Pension Fund
Somerset Pension Fund
South Yorkshire Pension Authority
Southwark Pension Fund
Staffordshire Pension Fund
Strathclyde Pension Fund
Suffolk Pension Fund
Surrey Pension Fund
Sutton Pension Fund
Swansea Pension Fund
Teesside Pension Fund
Tower Hamlets Pension Fund
Tyne and Wear Pension Fund
Waltham Forest Pension Fund
Wandsworth Borough Council Pension Fund
Warwickshire Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Westminster Pension Fund
Wiltshire Pension Fund
Worcestershire Pension Fund

Pool Company Members

Border to Coast Pensions Partnership
LGPS Central
Local Pensions Partnership
London CIV
Northern LGPS
Wales Pension Partnership