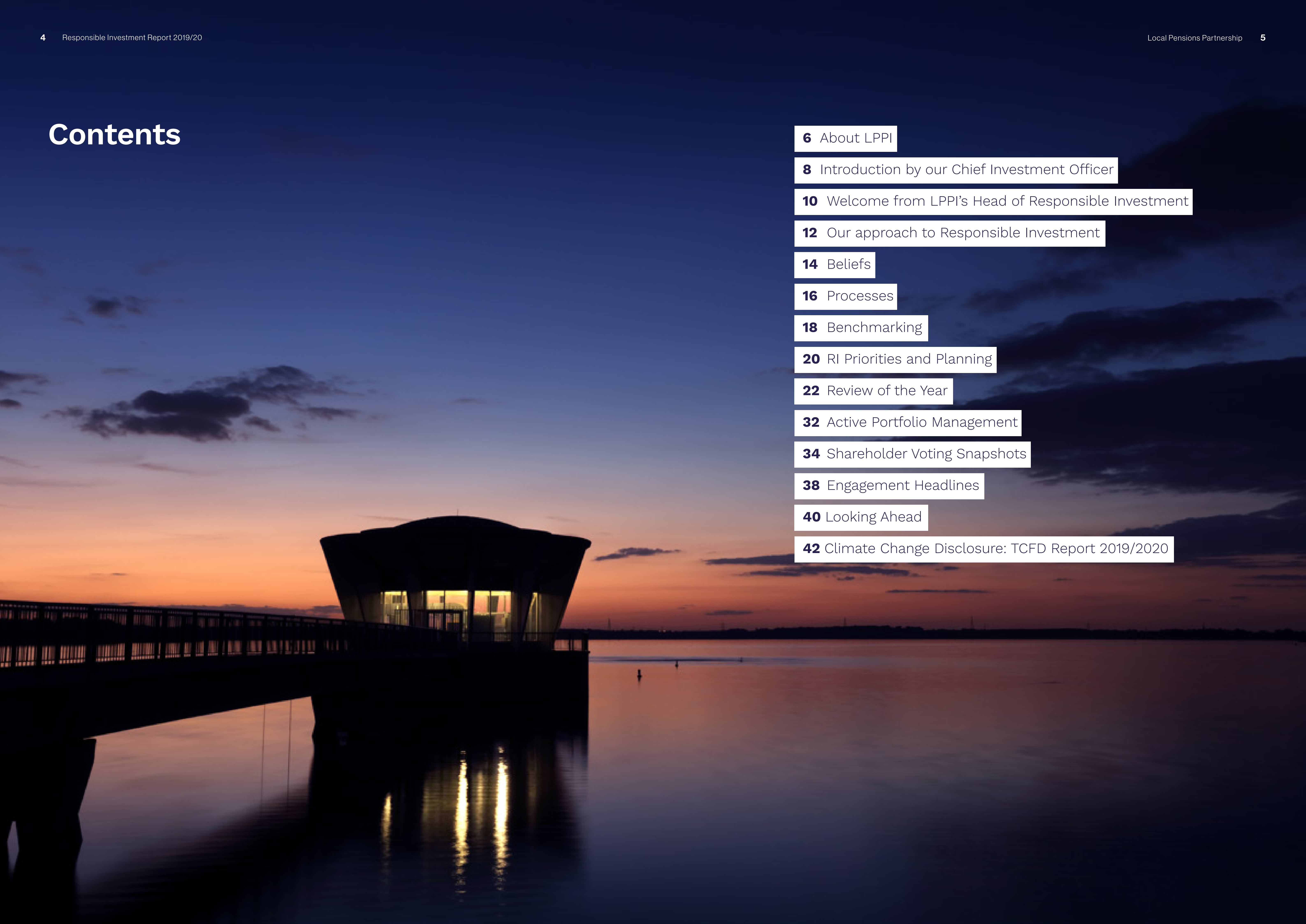
LPP
Local Pensions Partnership

Responsible Investment Report 2019/20

Welcome to our Responsible Investment Report 2019/20, which accompanies the LPP Annual Report and Accounts 2019/20. In this review we share additional insights on our ongoing work as responsible stewards of institutional capital.

A concern for sustainability informs how, where and what LPPI invest in on behalf of client pension funds. It informs how we act as responsible stewards and an active asset owner on their behalf.



Contents

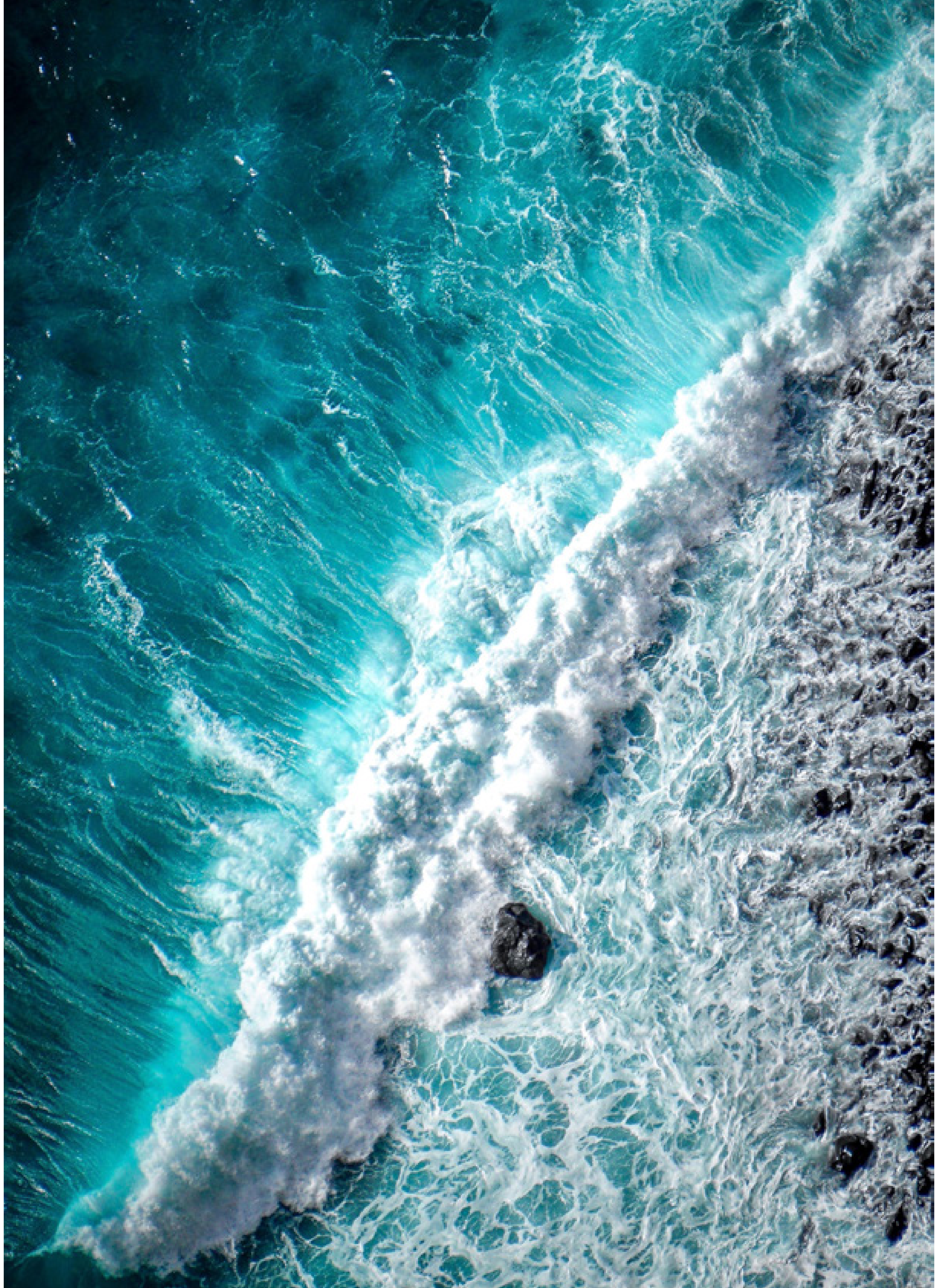
About LPPI

Local Pensions Partnership Investments Ltd (LPPI) is part of the LPP Group and an FCA regulated, in-house investment business.

We manage eight investment pooling vehicles, including two Authorised Contractual Schemes (ACS), and are the appointed Alternative Investment Fund Manager for GLIL Infrastructure LLP.

With £17.7 billion of pensions assets under management on behalf of Local Government Pension Scheme (LGPS) clients at 31 March 2020, our focus is on long-term, sustainable investment returns, supported by robust and transparent processes.

Responsible Investment is an area we have invested in heavily over recent years, reflecting the importance we place on stewardship as part of our asset management role. With numerous examples of good practice already in place, our Responsible Investment Road map targets a more explicit leadership role going forward, working collaboratively with industry peers to develop the tools and approaches all investors are seeking from a forward-looking and sustainable business.



Our investment clients

The Royal County of Berkshire Pension Fund

Lancashire County Pension Fund

LPFA your pension our world

"Embedding and evolving RI will be a continuing feature."

RICHARD J TOMLINSON
Chief Investment Officer, LPPI

Introduction by our Chief Investment Officer

Successful investing is not easy. A major part of the challenge of delivering solid investment returns within prudent levels of risk is adapting to an ever-changing environment. Some things remain constant, some are in constant flux, others move with a degree of cyclicality and others are in a long-term structural trend. Responsible Investment (RI) itself is definitely the latter, it is now of increasing importance to LPPI and our clients, and now a fundamental part of any credible institutional investor's core process.

Why do I hold this view? There are multiple reasons but not least is my recognition RI factors are a core driver of many opportunities and risks, both those visible today and others that are still submerged but likely to show their hand in coming years. Recent events surrounding COVID-19 have reinforced this view and are a strong test of responsible investing discipline and principles. I am sure I am not alone in hearing tales of fortunes made selling Personal Protection Equipment (PPE) in the UK. A market opportunity to source and supply PPE raises a raft of questions around the appropriateness of private enterprise making opportunistic "super-normal profits" from a global health crisis when RI considerations are to the fore.

We now live in a world with ever increasing levels of transparency and accountability coupled with distributed social media platforms that facilitate mass communication and protest. As investors we have to consider multiple risk factors that simply were not present a decade ago. A single individual can now reach a global audience and shine a torch on issues that can significantly disrupt, and possibly be enough to entirely destabilise, the standing of companies or even governments. This is a reality which demands responsible investment discipline is taken seriously.

LPPI's core mission is to ensure client pension funds can pay pensions as they fall due so the fiduciary responsibility to drive investment returns is always dominant in our thinking. To succeed in the long-term our client portfolios need to hit an appropriate balance of risk and reward. I cannot now see how this can be achieved without a deep, systematic and thorough integration of RI throughout the whole investment process. LPPI has already made significant strides forward in recent years and this trajectory of embedding and evolving RI will be a continuing feature in future.

Welcome from LPPI's Head of Responsible Investment

I am delighted to introduce LPPI's first Annual Report on Responsible Investment produced as a supplement to LPP's Annual Report and Accounts. This new approach reflects our focus on improving communication about our RI and stewardship activities; we recognise that this is an area of growing interest for our stakeholders.

We are increasing our commentary on RI and stewardship through reports like this and by making more information available from the RI section of the **LPP website.** Here you can view our RI Policy and annexes in full, read more about our approach and see examples of our ongoing activities and partnerships.

Our inaugural report on Responsible Investment shares introductory insights on how RI principles inform investment practice at LPPI. Over the following pages we outline our approach, present highlights from our RI activities over the past 12 months, and share features from an RI Roadmap which looks ahead to future plans, reflecting we are continually reviewing, refining, and enhancing what we do.

As the 2019/20 accounting period closed, COVID-19 was a global pandemic. The crisis is demonstrating the vulnerability of humans to their environment on an unprecedented scale. Our Annual Report and Accounts explain how LPP has acted to mitigate the impact of the virus on our business, our members, our employees, and their families. COVID-19 is also a significant investment issue with ramifications across markets, asset classes and business models. We strongly believe our RI approach (which routinely incorporates the integration of material Environmental, Social and Governance (ESG) considerations) has contributed to our portfolio's resilience. Strong ESG characteristics tend to be identifiers for quality companies. Well managed organisations with effective corporate governance systems will generally possess a greater capacity for the operational agility critical to longevity and competitive edge.

The global response to COVID-19 has caused significant dislocation, with businesses, lives, and livelihoods impacted to an extent not yet fully quantifiable. The experience has re-emphasised the importance of people (as consumers, community, and workforce) and starkly illuminated existing inequalities and imbalances. In response, ambition is growing for fiscal stimulus by government to re-build better by incorporating wider sustainability issues (including the challenges posed by climate change) within COVID-19 recovery planning.

As you will read in this report, LPPI is actively advocating for a clean, just recovery from COVID-19, which creates quality employment and builds a more sustainable, inclusive, and resilient economy for the future. Our stance is aligned with a core purpose to invest for strong risk-adjusted returns over the long-term. We recognise this will be assisted by a policy context that facilitates effective planning and strengthens the capacity of businesses to adapt to shaping forces within the economy, society, and environment.

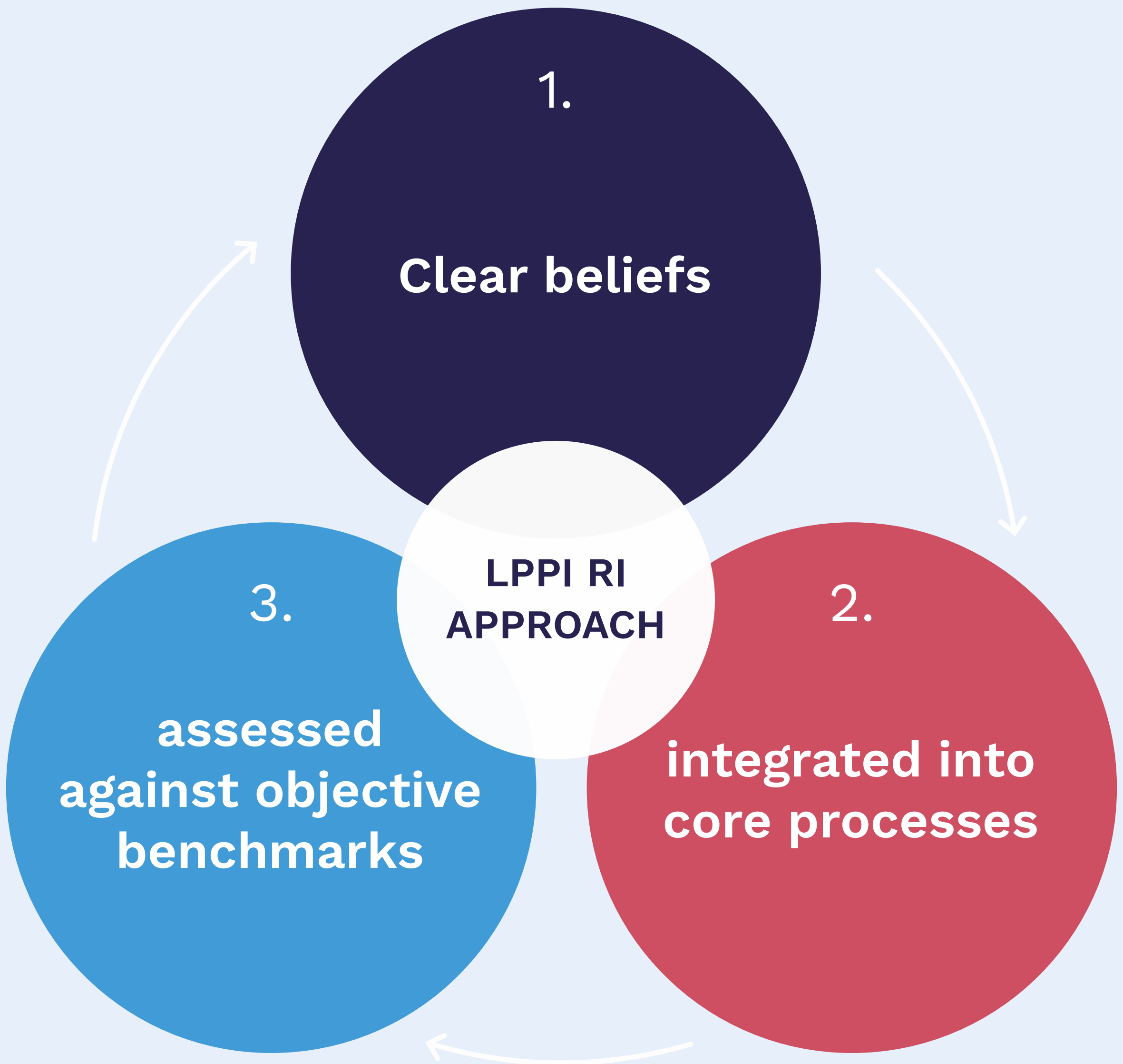
Our **Responsible investment and stewardship policies** are available **here.**

"LPPI is actively advocating for a clean, just recovery from COVID-19."

FRANCES DEAKIN
LPPI Head of Responsible Investment

Local Pensions Partnership Investments Ltd

Our approach to Responsible Investment



1.
Beliefs

Our approach to Responsible Investment begins with clear beliefs about our role and purpose, which are strong foundations for prudent investment management.

Our RI Policy, which is available **here**, articulates five RI beliefs and explains how these translate into investment practice.

Our five responsible investment beliefs

We believe that:

1. Fiduciary Duty

LPPI has a fiduciary duty to act in the best long-term interests of client pension funds and their beneficiaries.

2. Optimum Returns

The objective of Responsible Investment is to secure optimum returns in the long-term, at an acceptable level of risk.

3. Sustainable Basis

The primary focus of Responsible Investment is the effective management of investment risks and opportunities to achieve optimum risk-adjusted returns on a sustainable basis.

4. ESG Factors

Environmental, Social and Governance (ESG) factors can have a direct financial impact on the value of individual investments and an influence on long-term investment performance.

5. Active Ownership

As providers of capital, investors have influence. Institutional investors should utilise their ownership powers to exert influence in circumstances where their intervention is warranted to protect the long-term financial interests of beneficiaries.

2. Processes

To implement our Responsible Investment beliefs as part of our day to day investment activities, we have identified six target outcomes for our core processes.

6 target outcomes for our core processes

Responsive to clients

We strive to be a responsible long-term investor via an investment approach driven by the circumstances of our clients and their specific investment needs. LPPI provides investment management services which fulfil the fiduciary duties owed by trustees to fund members, employer organisations and wider stakeholders.

Commercial and sustainable

LPPI takes a resolutely commercial approach to asset selection and ongoing asset ownership. Our approach is built on detailed analysis and an up-to-date understanding of context. Protecting and enhancing the value of our clients' investments involves prudence in selecting and managing assets which generate superior returns and build value over the long term.

Diligent in selection

Selecting suitable assets on appropriate terms is a critical investment discipline.

We routinely integrate Environmental Social and Governance considerations within our evaluation of opportunities which fit our clients' investment strategies and meet their core investment objectives.

Active in ownership

LPPI actively exercises ownership rights to encourage high standards of corporate governance and sustainable management behaviour by investee companies. Activities include direct representation on company boards and investor and advisory committees, shareholder voting and engagement, and participation in partnerships and collaborations with other investors.

Committed to collaboration

LPPI is active in a range of organisations that represent the collective interests of like-minded investors. We actively support initiatives which identify common concerns, and assist us to share resources, work together and achieve more through co-ordinated collective effort.

Continuously reviewing and improving

Responsible Investment is a discipline under continual evolution with local, national, and international norms continuously changing. Openness to new approaches and new standards as part of a regular review process is critical for integrating good practice standards aligned with the needs of our clients.

3. Benchmarking

We hold ourselves up to scrutiny against three main benchmarks of good practice.

RI is a discipline under continual evolution. An openness to new approaches and standards, whether these flow from legislation or self-regulation, is the key to developing appropriate practices. We recognise the importance of continually monitoring how well we are doing by regularly checking our progress, and we see it as equally important for our client pension funds to have the assurance of clear standards to assess us against.

THE UK STEWARDSHIP CODE 2020

We are Tier 1 signatories to the UK Stewardship Code (2012).

During 2019 the Financial Reporting Council (FRC) consulted extensively on a new Stewardship Code (2020). We engaged to help shape this and remain in dialogue with the FRC on its enhanced reporting requirements. Prospective signatories to the 2020 Code can apply to be assessed from January 2021 onwards. We plan to submit our reporting in the summer of 2021. In the interim, our Statement of Compliance with the UK Stewardship Code (2012) is an accessible overview of our top-rated stewardship approach. Details available **here**.

Signatory of: PRI Principles for Responsible Investment

PRI is an investor initiative in partnership with UNEP Finance and the UN Global Compact

We are rated A+ by the PRI for our RI Strategy and Governance

We became a signatory to the Principles for Responsible Investment in July 2018 and completed our first round of detailed reporting in 2019 – the first LPGS Pool to do so.

PRI Assessment Reports have given us external assurance that our RI approach is well aligned with high standards. Between 2019 and 2020 our rating for Strategy and Governance has improved from A to A+. We are rated A for our Selection Appointment and Monitoring of Managers and steps to capture better data on our activities supported our improved assessment for Direct Active Ownership, with progression from C to B.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

We recognise that climate change poses systemic risk and have adopted the recommendations of the Taskforce on Climate Related Financial Disclosure (TCFD) as a guide and standard for reviewing our position and progress. We have committed to reporting annually and broadening our alignment with TCFD recommendations over time. Following our first TCFD report in 2019 we set an ambition to progress from a purely qualitative evaluation to the inclusion of some initial quantitative measures by the time we reported for a second time. We have achieved this in our TCFD Report for 2019/20 which you can read **here**. By incorporating TCFD disclosure into our Annual Report on RI we are making information easy to locate in one place.

Responsible Investment priorities and planning

We review our policies and approach and identify areas of greatest priority for us and our client pension funds annually as part of an RI planning process.

This is overseen by LPPI's Stewardship Committee which meets quarterly chaired by our Chief Investment Officer. Members include our Chief Executive Officer, Head of Responsible Investment, and portfolio leads representing public and private market perspectives.

The Stewardship Committee oversees a co-ordinated approach in line with the principles outlined within our RI Policy and the investment procedures we have in place. During the year, the Stewardship Committee has approved a new Policy on Controversial Weapons, which clarifies LPPI's stance and articulates a commitment to appropriate investment norms. The policy is a new Annex to LPPI's Responsible Investment Policy.

More information can be found **here.**

Our priority themes for 2019/20

THEME	TARGET OUTCOMES
Climate Change	• Gain an improved understanding of potential hazards (sources of physical and transition risk) • Develop initial metrics (for the quantification of portfolio risk exposure) • Align voting and engagement activity with the achievement of targets under the Paris Agreement
Enhanced Engagement	• Expand the current capacity for engagement with publicly listed companies • Improve the availability of data on engagement activities and outcomes
ESG Metrics, Measurement, Monitoring	• Identify appropriate frameworks/data sources to support improved insight into portfolio ESG characteristics • Continue the evolution of ESG integration within investment decision-making
Supporting and Reporting to Clients	• Support RI policy development by client pension funds (in alignment with holding assets in a pooled investment context) • Deliver enhanced RI Reporting to client funds incorporating the development of an RI dashboard
Representation and Collaboration	• LPPI is an active participant in key investor networks • LPPI is a respected practitioner and recognised RI advocate within the LGPS/ UK pensions industry
Increasing Transparency	• Develop the RI presence and expand the coverage of content on RI available from the LPP website

Review of the year

The past 12 months have been busy and productive. They are chiefly characterised by progress in adding resources critical for evolving our thinking and implementing processes which will help us meet the strategic objectives we have identified for Responsible Investment in the period 2020 to 2025.

Building resources and increasing capacity

During 2019, we have expanded our RI team from one to four dedicated staff integrated within our large team of asset class experts.

This recruitment expands our capacity to develop data, systems and reporting capabilities, manage ongoing stewardship duties, and continue to collaborate and participate as an active member of the RI community.

Dedicated RI resources are critical for achieving portfolio-level ESG insights and supporting ESG integration by our investment teams.

The selection, appointment and oversight of delegate managers is a key discipline. We have appointed a Head of Operational Due Diligence who oversees a detailed DD process incorporating an assessment of RI and ESG credentials.

During 2019 we reflected on our engagement approach and acknowledged the challenges of fulfilling ownership responsibilities for a large, diverse portfolio incorporating both in-house and external management. To augment internal capacity, increase our engagement resources and assist our co-ordination of data on engagement activities, we ran a tender process to select an external provider of engagement services for public market asset classes. The Robeco Active Ownership Team was appointed, and services commenced in February 2020. We have secured the resources and data infrastructure of an experienced practitioner with the established processes and relationships to supplement and complement efforts underway by our in-house investment team and external managers.

Enhanced Engagement

LPPI will work in partnership with the Robeco Active Ownership Team who will engage an identified group of companies on the following themes in 2020/21:

- Corporate governance standards in Asia
- Reducing global waste
- ESG challenges in the auto industry
- Social risks of sugar
- Climate action
- Cyber security
- Food security
- Culture and risk governance in the banking sector
- Social impact of artificial intelligence
- Single use plastics
- Living wage in the garment industry
- Digital innovation in healthcare
- Life cycle management of mining
- Sound environmental management
- Sound social management
- Good governance

In addition, Robeco will monitor our listed equity and fixed income portfolios for significant norms violations and undertake targeted reactive engagements to address breaches with individual companies.

Review of the year cont.

Increased Transparency

We have been working to generally enhance the range of information and insights LPP is sharing publicly about our RI approach and activities.

We have launched a new LPP website, which incorporates a dedicated section on RI. We have begun to publish quarterly insights on engagements undertaken by Robeco alongside reports on our shareholder voting for the LPPI Global Equities Fund.

A summary of our shareholder voting activity including examples and case studies appears later in this report as part of our review of active portfolio management.

Improving our communication with clients

We have been working to provide clients with enhanced insights on RI as part of an evolution of our reporting.

We have developed Client RI Dashboards which communicate summary information in a visual format. The benefits are a regular and easily digestible summary sharing insights on the portfolio, its stewardship and outcomes. RI Dashboards are a new initiative we produced and shared with client funds for the first time in Q1 2020 and they have been well received.

Metrics and Measurement

We are continually seeking frameworks and metrics which can help us identify ESG characteristics and interpret the risks and opportunities they represent. We integrate the insights available from existing tools and encourage the development of new tools and frameworks for use by investors.

The Transition Pathway Initiative (TPI) is a global initiative led by asset owners and supported by asset managers. Aimed at investors, and free to use, it assesses companies' preparedness for the transition to a low-carbon economy, supporting efforts to address climate change. LPPI has been a named supporter of the TPI since its inception, but in 2019, we took the further step of becoming a strategic asset owner partner and, from 2020, began to provide financial support to assist the development of investor tools and data.

As part of the Institutional Investor Group on Climate Change (IIGCC) Paris Aligned Investment Initiative (PAII) LPPI has worked with peers to support the development of frameworks for testing the alignment of portfolios with climate goals under the Paris Agreement. As part of the real estate working group, we contributed observations on the data challenges associated with being able to model portfolio carbon intensity and assess alignment with a 1.5°C trajectory.

For more information click **here.**

"The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society"

THE NEW UK STEWARDSHIP CODE DEFINITION OF STEWARDSHIP (2020)

ESG integration

LPPI's investment approach and decision-making processes acknowledge the interdependency of the companies we invest in and the cultural, economic, political, and environmental contexts they operate within. We are progressively increasing our focus on ESG as a lens for understanding and monitoring sustainability. Our investment team has continued to embed ESG factors into the core of our investment philosophy. We have also broadened and deepened our ESG analysis when underwriting new investments and managing existing ones.

The insights gained from our focus on climate change have catalysed the evolution of our ESG approach more generally. Being able to assess how our portfolio is placed currently, and how that position will be affected by the investment decisions we are due to take is data and process dependent. In our roadmap, we acknowledge a range of further steps are needed to develop our insights and continue to evolve our approach going forward.

Our use of metrics as part of portfolio monitoring is inevitably skewed towards insights for listed equities. Data sources are far richer for public markets (compared to private market asset classes) due to greater requirements for comprehensive corporate reporting by public companies, plus a well-established data architecture and growing range of ESG metrics and ratings providers.

Progress over the past 12 months includes:

- Expanding our RI Team to create the resources to plan and implement a more systematic integration
- Appointing a Head of Operational Due Diligence to oversee a systematic ODD process that incorporates ESG considerations
- Refreshing of our RI Due Diligence Questionnaire as a tool for collecting information for analysis and evaluation
- Company level ESG metrics are referenced by our internal equities team in their assessment of existing and prospective companies
- We have identified frameworks and data sources suitable (with adaptation) for use in portfolio ESG risk mapping

Review of the year cont.

Working in partnership

A central pillar in our RI approach is the recognition that partnerships build strength and influence through scale, consensus, and a collective voice.

We seek out existing investor collaborations on issues that are important to us and we also initiate new partnership where existing ones do not meet our needs, or where we recognise there are benefits in convening and shaping from scratch.

Our closest partnerships are with our client pension funds and involve us fulfilling their fiduciary responsibilities as asset owners and directly supporting their work on RI and stewardship. We regularly represent client pension funds individually and as a pensions partnership within UK forums for the LGPS and the wider pensions industry.

Our aim is to be a visible practitioner and advocate for RI on behalf of the LGPS and UK pensions sector.

LPPI is credited in the PLSA's Stewardship Guide and Voting Guidelines, published in February 2020, reflecting our involvement in the working group which significantly revised the guidance.

A thought piece on stewardship by our Head of Responsible Investment (Portfolio Institutional, January 2020) discussed the position of the LGPS, as expectations of stewardship are redefined and asset pooling changes the investment landscape. More details **here.**

Direct examples of our participation over the past 12 months include the involvement of our Head of RI as:

- The Chair of the LGPS Cross Pool Responsible Investment Group
- A panellist at RI workshops and roundtables organised by Portfolio Institutional, Camradata, and the LGPS Scheme Advisory Board
- A member of the UK Pension Schemes RI Roundtable
- A presenter as part of the Local Government Association's "Fundamentals" training for pension committee and local pension board members
- A member of the Pensions and Lifetime Savings Association (PLSA) Stewardship Advisory Group (Defined Benefit Schemes)
- A member of the Transition Pathway Initiative (TPI) Steering Committee

PLSA's Stewardship Guide and Voting Guidelines can be found on **here**.

Review of the year cont.

Our Response to COVID-19

The global health crisis arising from COVID-19 became an unexpected priority as the reporting period closed, and our response as an investment manager is ongoing.

One of our early priorities was to articulate a clear position reflecting our stance as a responsible investor. We achieved this through signing an Investor Statement on Coronavirus Response, which is focused on safeguarding employees and prioritising a resilient recovery. We have published this statement on our website and have also shared it directly with our delegate managers and encouraged them to take an equivalent approach. Click **here** to read more

We are continuing to monitor the portfolio closely and to engage with companies and asset managers on the impact of COVID-19 and how it is affecting the financial standing of our investments and current and future operating practices. In response to our questions we have insights on how sources, timings, and degrees of stress (and growth) vary across sectors, geographies, asset classes and individual investments.

On the following page you can read about some of the companies whose products and services have been critical during the crisis, and about others who have adapted working practices to protect employees, re-engineered their operations and supply chains, and supported customers and communities.

Social concerns are intensifying as a corollary to COVID-19, which is placing an increased focus on the treatment of workers and on employee and public health, and safety more generally. We envisage that poor management response to the insights, experiences and sensitivities arising out of the health crisis and its aftermath could well have a reputational impact in the future and could feasibly lead to difficulty retaining staff, customers, and social license operate.

Portfolio Insights
COVID-19 Response (case studies)

One of our healthcare property fund managers (Real Estate portfolio) is working directly with the NHS to ease pressure on critical resources and care home operators, and is also supporting vulnerable clients to communicate with their families virtually during isolation. More information on this work is available **here.**

An **online pharmacy** (Private Equity portfolio) is accommodating rapid expansion to meet demand for vital medications to be ordered, processed and delivered whilst avoiding social contact.

Utility companies (Infrastructure portfolio) are adapting existing support programmes to provide greater reassurance and signposting, recognising vulnerable people isolated in their homes (and often alone) need clear information and sources of help.

Anglian Water have gone further, creating a £1million Positive Difference Fund to finance local community organisations, such as food banks and outreach programmes helping the most vulnerable to battle Coronavirus. You can read more on this **here.**

1.3 million trips to the pharmacy saved during lockdown

The UK's biggest online pharmacy has delivered 3 million medicines to people's homes since the start of lockdown, with new data from Pharmacy2U revealing that it has saved over 1.3 million trips outside of potentially vulnerable people since March, helping to ease the strain on the NHS and frontline services.

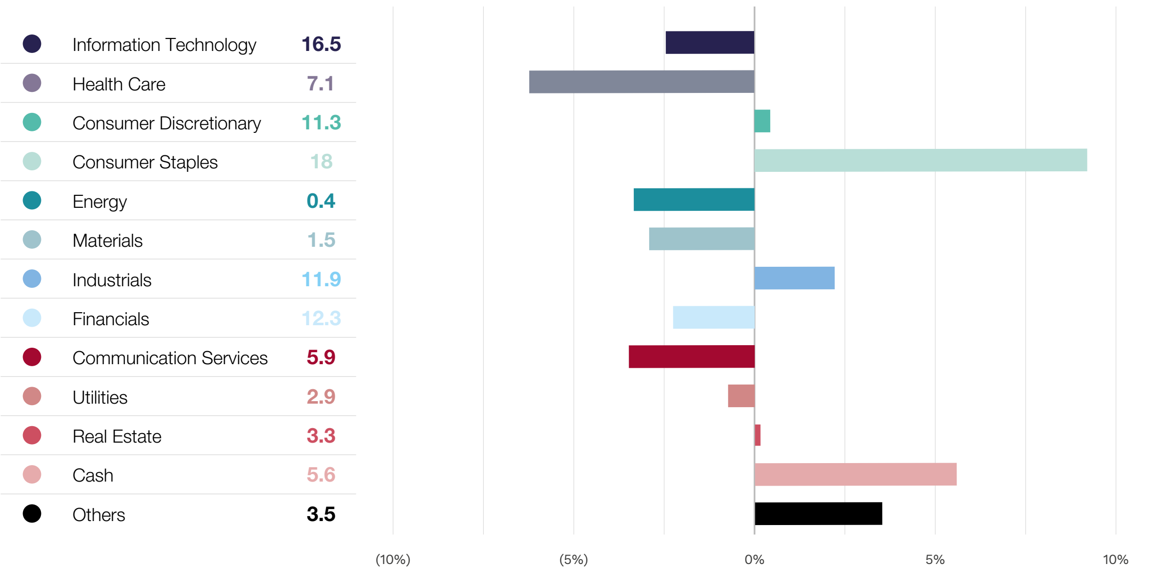
Phil Day, Superintendent Pharmacist at Pharmacy2U comments: "The last few months are unlike anything we've ever experienced, and it has been particularly challenging and worrying for the most vulnerable who still need access to their repeat medicines to manage ongoing conditions. Our technology and AI dispensing facility, with its industry leading clinical accuracy measures, has helped hundreds of thousands of people in need to get their medicines safely and helped in some part to ease the strain on our partners and friends in the NHS and frontline services at an unprecedented time. To ensure we could continue to dispense medication to patients with minimal disruption to service throughout the pandemic, we opened a new dispensing facility in Oldbury in just 12 days."

Pharmacy2U's new dispensing facility, based in Oldbury with the capability to despatch up to 200,000 items per month, joins the existing Leeds facility which has the capability to deliver over one million medicines per month, both with industry leading clinical accuracy at 99.98%.

Portfolio Metrics - Global Equities Fund

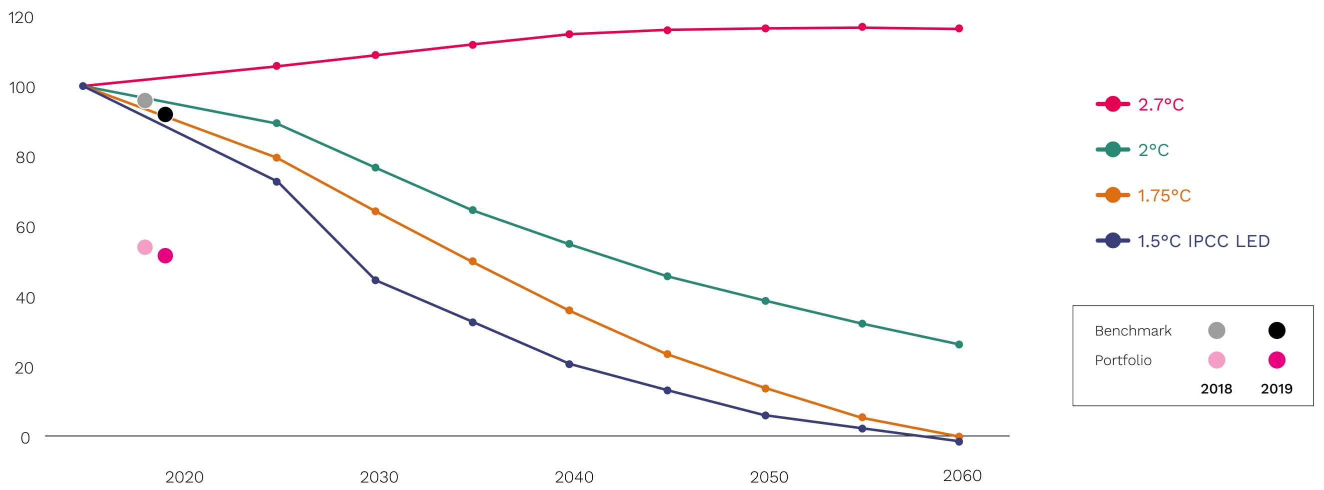
The following metrics offer insights into the character of our Global Equities Fund (GEF).

Sector weights v benchmark (FIG 1)



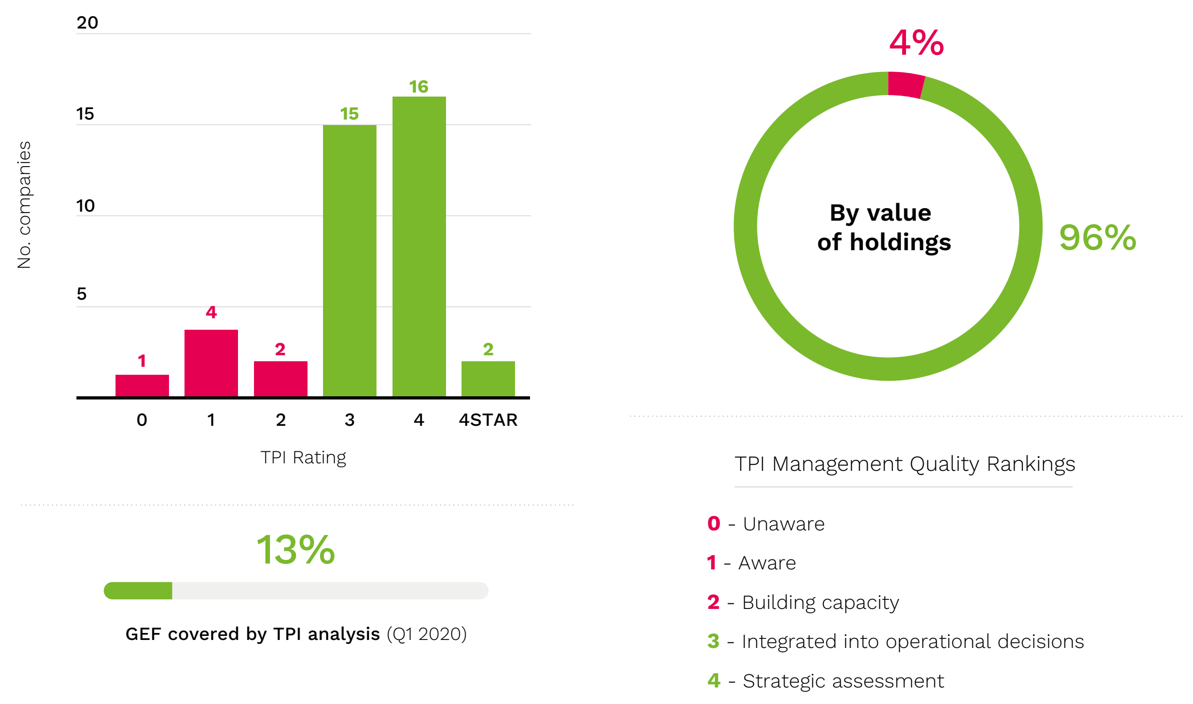
(FIG 1) sector weights give insights into where the GEF is invested. Comparing sector weights to the Fund's benchmark (MSCI ACWI) shows where active portfolio management has produced underweight and overweight positions through stock selection decisions incorporating risk and sustainability analysis. The position shown is March 2020. Key features include a very low exposure (0.4%) to energy (fossil fuels).

Alignment with Emissions Reduction Pathways (Listed Equities) (FIG 2)



We measure carbon intensity (FIG 2) for the GEF annually each December. Additional analysis by Engaged Tracking has provided an indicative modelling of this intensity relative to the pathways for different temperature scenarios (which are shown as coloured lines). The GEF markers are the pink dots, which show significantly lower carbon intensity and a better position versus the carbon reduction pathways than the benchmark (grey/black dots). The methodology plots current and forward emissions relative to their levels in 2014 (2014 =100), and suggests our listed equity portfolio has emissions aligned with a pathway for 1.5°C.

Transition Pathway Initiative (FIG 3)



TPI management quality rankings (FIG 3) assess how well the largest global companies in high emitting sectors are adapting their business models to a low carbon economy. Companies are rated from 0 (indicates a laggard) to 4* (indicates a leader) based on a series of KPIs assessed on information companies disclose publicly. On a quarterly basis we review the overall % of the GEF within TPI coverage and the split of this across TPI ratings (from 0 to 4*).

At 31 March 2020:

- 13% of the GEF is within TPI coverage (denoting a low exposure to high emitting companies)
- 96% of companies are rated TPI 3 or above (denoting that the high emitting companies we do own are planning adequately for transition).
- 100% of extractive fossil fuel companies are rated TPI 3 or above (integrating climate change considerations into operational decision-making and setting emissions reduction targets).

Active Portfolio Management

Active portfolio management is the process of overseeing the assets under our management and exercising the rights and responsibilities of ownership through engagement and voting.

Voting and engagement are tools which, when combined, can reinforce and strengthen each other. Where a long-standing relationship results from a multi-year engagement process, voting becomes more than a transactional activity and can evolve to be an important element of an ongoing exchange of views.

Our RI beliefs recognise institutional investors should utilise ownership powers to protect the long-term financial interests of beneficiaries. This involves monitoring the way enterprises are being managed and raising issues when intervention is warranted. Our interactions with investee companies take place through different routes, depending on the form of our investment. Directly owned assets typically provide us with a seat at the [board] table. This level of influence means we can actively encourage sustainable business practices and behaviours. Our Annual Report and Accounts include a case study on our active ownership in Private Markets where we are able to use our position on the investee board to select, support and direct the executive team in the delivery of their business plan.

Assets owned through funds require a more collaborative approach and we place a strong focus on evaluating, selecting and appointing appropriate external fund managers whose approach aligns with our responsible investment requirements and meet our core standards.

In the case of listed companies, the right to vote at company meetings is the most direct and frequent opportunity for oversight and interaction. To ensure we apply a consistent approach, shareholder voting for the LPPI Global Equities Fund is overseen centrally by LPPI's Responsible Investment Team rather than delegated to individual asset managers. We receive analysis and voting recommendations for each company meeting from an external provider of proxy voting and governance research which reflects Sustainability Voting Guidelines focused on material ESG considerations. We liaise with our asset managers, engagement partner, and proxy voting provider as needed to reach final voting decisions.

Engagement and Voting

Engagement incorporates the range of interactions we have through:

Direct discussion

Direct discussion with companies where we invest directly. Here we can introduce priority issues and influence management thinking via an immediate dialogue and strong relationships.

Manager dialogue

Dialogue with delegate managers where we have appointed external managers to select and oversee investments on our behalf and to represent us in their dialogue with companies.

Interaction

Interaction with regulators, legislators, standard setters, and representative industry bodies in person or through collective forums and investor groups.

Voting

Voting involves exercising the rights attached to holding shares in listed companies which allow owners the opportunity to vote at company meetings.

Shareholder Voting Headlines

We use shareholder voting to address issues specific to individual companies, but we also raise governance issues that are frequently common to multiple companies

Recurring themes addressed in our shareholder voting during 2019/20 included:

- Board member independence
- Board diversity
- Quantum of compensation
- Performance conditions within incentive plans
- Extent and quality of corporate disclosure
- Exposure to climate change (transition planning, emissions reduction targets, climate disclosure)
- Pay gap reporting

The number of shareholder proposals tabled each season is a general barometer of shareholder sentiment, but not a reliable measure, because the rights of shareholders to submit proposals differ by jurisdiction. Many resolutions do not make it to a meeting ballot, some being withdrawn in response to dialogue and others being omitted by the company through due process. Shareholder proposals are non-binding recommendations to management supporting a specific course of action (typically that they disclose information, measure and report on actual or potential impacts from their operations or adapt to mitigate potential impacts). Proposals are an opportunity for the shareholder community to signal they share the same concerns and are a basis for establishing and escalating a dialogue.

LPPI Global Equities Fund (Total)

Votable meetings
559

Meetings Voted
555*

Resolutions
6,680

Company proposals
6,465
Supported
90%

Shareholder proposals
215
Supported
70%

44%
Meetings with at least one vote against management

*We do not vote at company meetings where share blocking is in place. In markets with share-blocking, proxy voters are unable to sell their shares during a period leading up to the annual meeting.

Voting (By Theme)

	Against	For	Withhold
Election of Directors (and related proposals)	270	3,556	55
Non-salary compensation	91	535	0
Anti-takeover (and related proposals)	2	31	0
Mergers, acquisitions and reorganisations	10	98	0
Capitalisation	90	423	0
Routine business	48	1,202	1
Shareholder proposals	60	150	0

Shareholder Voting Snapshots:
Shareholder Proposals

Climate Change

Company	Shareholder Proposal	Theme
C.H. Robinson Worldwide Inc.	Report on Greenhouse Gas Emissions Disclosure	GHG reporting
Cenovus Energy, Inc	Set and Publish Greenhouse Gas (GHG) Emissions Reduction Targets	GHG targets
Chevron	Report on Plans to Reduce Carbon Footprint Aligned with Paris Agreement Goals	GHG reporting
	Establish Environmental Issue Board Committee	Governance
Duke Energy	Report on Mitigating Health and Climate Impacts of Duke Energy's Coal Use	Disclosure
Exxon Mobil	Report on Risks of Petrochemical Operations in Flood Prone Areas	Disclosure
	Establish Environmental/Social Issue Board Committee	Governance
Flowserve Corporation	Adopt GHG Emissions Reduction Goals	GHG targets
Suncorp	Approve Fossil Fuel Exposure Reduction Targets	GHG targets
Yum! Brands	Report on Supply Chain Impact on Deforestation	Disclosure

Shareholder proposals
11

Company meetings
8

LPPI supported
10

91%

Board diversity

Company	Shareholder Proposal	Theme
Exxon Mobil	Disclose a Board Diversity and Qualifications Matrix	Board Diversity
Gaming and Leisure Properties, Inc.	Adopt a Policy on Board Diversity	Board Diversity
Waste Connections, Inc.	Adopt a Policy on Board Diversity	Board Diversity

Shareholder proposals
4

Company meetings
4

LPPI supported
3

75%

Pay gap reporting

Company	Shareholder Proposal	Theme
Alphabet	Report on Gender Pay Gap	Pay Gap Reporting
American Express	Report on Gender Pay Gap	Pay Gap Reporting
Facebook	Report on Global Median Gender Pay Gap	Pay Gap Reporting
Intel Corporation	Report on Gender Pay Gap	Pay Gap Reporting
Mastercard	Report on Gender Pay Gap	Pay Gap Reporting
Microsoft	Report on Gender Pay Gap	Pay Gap Reporting
Oracle	Report on Gender Pay Gap	Pay Gap Reporting
Bank of New York Mellon	Report on Gender Pay Gap	Pay Gap Reporting
TJX Companies, Inc.	Report on Gender, Race, or Ethnicity Pay Equity	Pay Gap Reporting
Wells Fargo	Report on Global Median Gender Pay Gap	Pay Gap Reporting

Shareholder proposals
10

Company meetings
10

LPPI supported
10

100%

Engagement Headlines

Shareholder voting reinforces our wider engagement activity focused on encouraging strong corporate governance, holding up good practice, identifying situations that are a cause for concern and initiating a dialogue to explain the shareholder perspective. LPPI generally favours a collaborative approach to corporate engagement, working alongside other responsible investors to build critical mass around shared views and clear objectives.

Our engagement activity also involves efforts to influence the context in which businesses are operating by initiating a dialogue with policy makers, standard setters, regulators, legislators, and influential industry groups on issues that matter to us.

During 2019/20, we have submitted responses to specific consultations by the FRC, Financial Conduct Authority and LGPS Scheme Advisory Board, and have contributed insights to collective consultation responses co-ordinated by industry groups who represent us (PLSA, IIGCC, and PRI). We have also been a signatory to a select number of targeted investor letters seeking to promote positive policy development. Where we publicly support investor statements, the issues are material to our portfolio and call for specific actions to remove barriers, align thinking, and improve standards. Examples from 2019/20 include **the Global Investor Statement** to Governments on Climate Change, and the Investor Statement on **Long Termism in Capital Markets**.

In response to COVID-19, and anticipating significant government intervention through fiscal stimulus, we are one of more than 200 businesses and investors who have called on the UK government to deliver a recovery from the pandemic which builds a more sustainable, inclusive and resilient UK economy for the future. **The letter to the Prime Minister** conveys strong support for a plan from the UK Government which:

- Drives investment in low carbon innovation, infrastructure, and industry.
- Supports sustainable growth and increased job creation.
- Includes financial support package measures for businesses that are aligned with national climate goals.

We have also signed an **open letter to EU** leaders urging recovery planning which incorporates a focus on sustainability, equity, and an accelerated transition to a net zero emissions economy.

Corporate Engagement Case Study
Exxon Mobil

This engagement spanned 2018-2019 and involved collaboration with other Exxon Mobil investors who are participants in Climate Action 100+.

In line with our policy on Climate Change, we are monitoring all portfolio companies directly engaged in the extraction of fossil fuels as part of reviewing the balance of risk to return and the likelihood of material asset stranding. The Exxon board's stance on climate change raised multiple concerns. Comparison with competitors raised questions about the company's long-term business model, targets for emissions reduction and disclosure of transition planning.

These concerns, and the board's lack of receptivity to meaningful engagement with shareholders who were communicating valid concerns, prompted the following series of actions by LPPI in 2019:

- Co-filing a shareholder proposal asking Exxon to
  - Engage with Climate Action 100+
  - Disclose in annual reporting (from 2020) short, medium, and long-term emissions targets aligned with the emissions reduction goals of the Paris Agreement (well below 2°C).
- Being represented by the New York State Common Retirement Fund and Church Commissioners for England (as lead investors) in communications with Exxon preparatory to the 2019 AGM.
- Signing an investor petition to the US Securities and Exchange Commission asking them to support investor dialogue when Exxon applied for no-action relief.
- Directly communicating disappointment at the board's action in seeking relief and its failure to engage meaningfully with Climate Action 100+ (through our delegate manager).
- Voting against the entire Exxon board and supporting the two climate related resolutions which made the ballot at the 2019 AGM (following Exxon's exclusion of the shareholder proposal we co-filed).

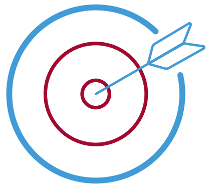
Looking ahead

Our goal is a systematic, consistent, repeatable, measurable and evidenced approach to ESG integration whose insights contribute to better decisions, strong investment returns, and a sustainable and resilient investment portfolio, supported by informed asset management and stewardship activities targeted at material considerations.

We have outlined a number of significant themes influencing our current stewardship approach and ongoing RI priorities. These include regulatory changes, systemic challenges such as climate change, and the position of companies under dislocations magnified by the global health crisis and the fiscal and policy responses which emerge to these.

Our **Strategic Plan 2020-25** has confirmed it is one of LPPI's priorities over the next five years to mature our RI strategy.

Detailed planning to translate this objective into an RI Roadmap focuses on the role, responsibilities, and priorities we have already articulated in our RI Policy which is grounded in our corporate purpose and a strong basis for prudent, responsible stewardship. Our aim is to advance current approaches and target a more explicit leadership role going forward. This will involve us working collaboratively with industry peers to develop the tools and approaches required.



Key tasks ahead include further progress against the following target outcomes:

Portfolio-wide assessment of material ESG risks with data and observations available for both public and private market asset classes, as a basis for portfolio monitoring, risk management and an appropriate prioritisation of stewardship activities.

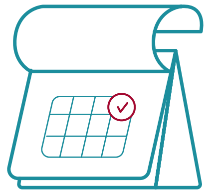
Improved manager reporting on the ESG characteristics of externally managed portfolios to provide the data and insights critical for measurement, monitoring and reporting.

Practical frameworks for identifying material ESG considerations and targeting analysis and questions as part of strategy, due diligence, and decision-making on the selection and retention of assets, investment products and delegate managers.

Standard processes for assessing and rating the genuine commitment, capabilities, and integration practices of delegate managers.

Efficient internal dissemination of RI and ESG knowledge, data, and insights through useful tools, appropriate policy, practical support, and constructive challenge from an embedded and valued RI Team.

Regularly refreshed insights on how best practice is being evolved by our peers and what good looks like as part of benchmarking ourselves, our processes, the experience of our clients and the investment outcomes we are achieving on their behalf.



This is a broad landscape and initial steps planned within next 12 months include:

Recruitment of further resources to continue the incorporation of ESG analysis into stock selection, portfolio management and engagement activities for our internally managed listed equities portfolios.

Development of an ESG framework tool which regularises analysis, informs sector sentiment and assists the identification of material ESG issues for prospective investment decisions.

Portfolio ESG risk mapping informed by the Sustainability Accounting Standards Board (SASB) approach to sector risk.

A manager ESG rating approach which explicitly assesses RI and ESG credentials as part of manager selection, review, and monitoring.

An engagement policy and shareholder voting guidelines which articulate our approach, set clear standards and expectations, and support our stewardship dialogue.

An RI Knowledge Bank giving investment staff easy access to existing policies, tools, frameworks, guides, and research insights (plus recommended reading curated by the Responsible Investment Team).

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Climate Change Disclosure:

TCFD Report 2019/2020

We believe the scope and long-term significance of climate change as an investment issue merits specific attention as part of our Responsible Investment approach.

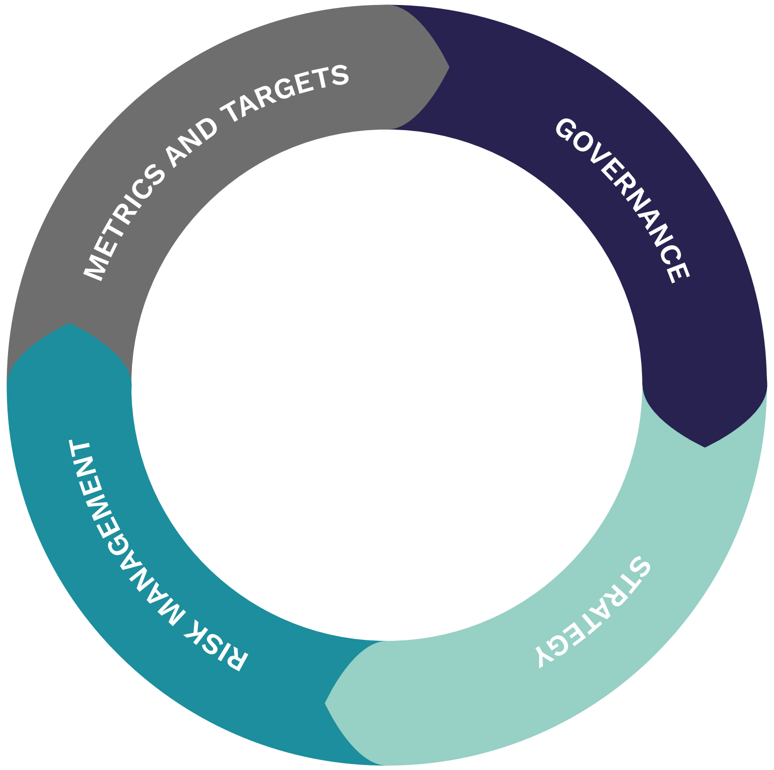
In its Annex on **Climate Change**, our Responsible Investment Policy recognises climate change as a systemic risk arising from the effects of sustained changes in weather patterns due to global warming (physical) and from human interventions to manage these changes by adapting to new circumstances through regulation, technological innovation, or other cultural shifts (transition).

We believe that climate change poses a long-term and material financial risk to client portfolios and will impact every sector and asset class they invest in globally, though the route, scale and timing of this impact is both complex and uncertain.

Climate change has the potential to destroy value where business risks are not being recognised and integrated into effective strategic planning, but it also presents opportunities where products and services can be developed which solve problems and meet societal needs.

Our objective is to be able to identify, quantify, measure, act, monitor and report to clients on our management of climate change risk on their behalf. This is a significant undertaking with numerous challenges, and we recognise we remain at a relatively early stage in an ongoing task to evolve our capabilities, access insightful data, set appropriate measures and monitor and report on our progress.

Core Elements of Recommended Climate-Related Financial Disclosures



Governance
The organisation's governance around climate-related risks and opportunities

Strategy
The actual and potentional impacts of climated-related risks and opportunities on the organisation's businesses, strategy and financial planning

Risk Management
The processes used by the organisation to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Our inaugural TCFD report was published as an annex to LPP's Annual Report 2018/19 with the subtitle "First steps in applying the recommendations of the Taskforce on Climate Related Financial Disclosure". In this, our second TCFD Report, we are updating our disclosure to reflect changes over the past 12 months and the further steps towards fuller alignment.

We set an ambition to move on from a purely qualitative evaluation by the time we reported for a second time. We have achieved this through some initial quantitative metrics which are aiding us to identify aspects of our portfolio's exposure to climate risk. In disclosing them we acknowledge they are listed equity-centric and indicators rather than measures of risk exposure.

For all investors, the availability of comprehensive data and consensus around robust, consistent measures for assessing portfolio positioning is still some way off. Accepting the data challenges all investors face, we believe it is an appropriate course of action to begin framing our investment decisions against a global requirement to achieve carbon neutrality by 2050. In this space, scenarios must imagine the constraints and opportunities likely to be associated with delivering significant global emissions reduction within a 30-year time span.

2019/20 Disclosure

The information we provide on the following pages offers insights on our current arrangements and work to date. It supplements the details we included in our most recent reporting to the Principles for Responsible Investment (2020) which incorporated detailed disclosure against a range of mandatory climate change indicators.

Click **here** to find out more.

Governance

A

Describe the board's oversight of climate-related risks and opportunities.

The LPPI board has oversight of the governance of LPPIs RI approach through receiving and considering reports, papers, policies, terms of reference, and statutory and other public reporting on our stewardship and RI activities.

The LPPI board members are aware of and supportive of the priority being given to climate change as a material investment issue. They execute responsibilities for climate-related oversight via their approval of the key climate-related policies and disclosures that LPPI publishes. These disclosures include annual reporting, PRI reporting and TCFD reporting. In the process of reviewing and approving documents, the board has oversight of climate-related activities at LPPI and the information from which to form and ask questions about the approach and activities underway.

The LPPI board has agreed LPP's strategic plan for the period 2020-2025 which includes an objective to mature LPPI's RI strategy and assume a leadership role within RI. The board's oversight of progress against the strategic plan objectives will include these priorities which will incorporate continuing work on climate change.

B

Describe management's role in assessing and managing climate-related risks and opportunities.

The LPPI board has delegated operational oversight of LPPI's RI policy (including climate change) to the LPPI Stewardship Committee which meets quarterly under the chairmanship of LPPI's Chief Investment Officer. Members include the Chief Executive Officer, Head of Responsible Investment, and portfolio leads representing public and private market perspectives. Stewardship Committee members consider and contribute to the development of RI Policy by LPPI and oversee its practical implementation under the aegis of their wider roles and responsibilities.

LPPI's Investment Committee (IC) is its investment decision-making body.

Chaired by the CEO it comprises the Chief Investment Officer, Chief Operating Officer, Chief Risk Officer, Head of Private Markets, and Head of Public Markets. As part of a two-stage investment process, IC members receive reports and papers relating to proposals for individual investments (for directly managed assets) and the selection, appointment, and performance of external managers (where assets are managed externally). IC members are gatekeepers in relation to the investment procedures which implement RI policy in practice.

Initial papers (stage 1) and detailed proposals (stage 2) to IC are required to include information on material ESG issues identified as part of detailed operational and investment due diligence processes. Research incorporates the use of an RI Due Diligence Questionnaire which includes specific questions on the identification of material climate change risks and the approach of prospective managers to identifying and mitigating investment risks arising from climate change.

Supported by the Head of Responsible Investment, IC members have supervisory oversight of RI matters including whether climate change has been adequately addressed within the investment proposals presented to them.

Strategy

A

Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

We have identified climate change as a material, systemic and idiosyncratic risk and have begun to identify and consider transition and physical risks as part of our investment procedures. We are committed to integrating material ESG considerations into our investment decision-making.

Our definitions and examples of transition and physical climate risks are based on Bank of England, TCFD and industry reports including the Inevitable Policy Response.

As a long term investor, our evaluation of the risks and opportunities posed by climate change considers the time horizon of current and prospective investments as part of assessing drivers of value and disruption for markets, sectors, asset classes, funds and individual companies.

We recognise transition risk will primarily impact energy, transport, real estate, and other industries with high carbon emissions. The time horizon for risk materialisation is influenced by numerous factors including the availability of alternative technologies, the existence of regulatory and policy initiatives and general and specific consumer preferences. As legislation and policy focused on decarbonisation proliferate, this will increasingly influence how and when transition risks will crystallise for specific sectors and jurisdictions and indicate where and what lower carbon alternatives represent potential investment opportunities.

Our consideration of the sectors most likely to be impacted by transition risk has prompted an explicit policy focus on extractive fossil fuel companies. We have excluded pure play thermal coal and placed conditions on investments in the extraction and transportation of fossil fuels in recognition the sector faces a significant direct impact from a global transition to lower carbon. These require that there is adequate evidence of appropriate planning for the business and operational risks faced from climate change.

Technologies which reliably displace a reliance on fossil fuels or significantly reduce net carbon production across the manufacture and use of goods and services are transition positive and present investment opportunities if well-matched to the investment requirements of our client pension funds. Our portfolio includes infrastructure investments in renewable energy generation, district heating, and lower carbon transport. We routinely assess the energy and resource efficiency of prospective physical assets in our infrastructure and real estate portfolios.

The location of assets and the markets they serve determine the immediate vulnerability to disruption from the physical risks of climate change. Both severe weather events (storm/flood) and longer-term chronic risks (temperature increase, sea-level rise, water scarcity) can potentially impact business continuity and interrupt, reduce or remove access to critical supplies, affecting production costs, business viability and market stability.

We recognise our portfolio may be adversely impacted by physical risk events both through directly owned assets (within our real estate and infrastructure portfolios) and through wider interests in companies who derive value from natural and physical capital either directly or via their supply chains. The resilience of individual companies, sectors and markets to climate change risks will influence the future valuation of both equity and debt positions.

Strategy

B

Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

We are fundamentally a long-term investor seeking to protect portfolio value and achieve sustainable investment growth through a diversified portfolio of assets. Our investment approach integrates ESG considerations on a case-by-case basis. Evaluation of the risks and opportunities created by climate change is integral to our investment due diligence and ongoing oversight.

Insights gained from considering the scope and dimensions of climate change have catalysed the evolution of our ESG approach more generally. We have invested in expanding our RI Team and procuring access to systems and data to improve our insights and support our evaluation of the ESG dimensions of the portfolio and its components.

Identifying where and how climate change may impact existing or prospective investments is a complex task and a discipline we will continue to develop over time. Our commitment to this is recognised in our Strategic Plan 2020-25 which includes a priority to mature our RI strategy and deepen our ESG integration.

Our objective is to be able to identify, quantify, measure, act, monitor and report to clients on our management of climate change risk on their behalf. To date, our approach is most granular when assessing the future resilience of physical assets as direct investments (in real estate and infrastructure), and most prolific when reviewing climate change risk exposure for our Global Equities Fund, where we monitor exposure to carbon intensive industries, with a specific focus on extractive fossil fuel companies.

Our RI Roadmap involves shifting and widening this focus to incorporate

- Climate hazards for a broader range of asset classes as part of seeking to progressively model overall portfolio climate risk exposure.
- The evaluation of transition planning by companies making the largest contribution to our carbon footprint within listed equities.
- A clearer understanding of opportunities with attributes matched to the investment needs of our client pension funds.

C

Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Our strategy is to assess and manage the risks faced from climate change as an integral part of our investment decision-making, asset management, and portfolio monitoring approach.

This strategy suits

- The complexity of climate change and the multi-dimensional challenge it poses for strategy integration.
- The scope of our investment portfolio and its diversification across multiple asset classes, managers, and investment products.
- Our focus on ESG integration within active management as part of robust investment procedures.
- LPPI's investment style (based on fundamental analysis) and our understanding that climate risks can vary materially between assets or companies even within the same sector.

Our strategy centres on evaluating risks and opportunities as part of informed investment decision-making. It incorporates using ownership influence to encourage companies to recognise and plan for the impact climate change will have on their business model including the new opportunities it may present. These attributes are similarly relevant under all scenarios, whether 2°C or lower.

The physical and transition risks our investment portfolio faces will differ in severity under different temperature scenarios and will be continually evaluated on this basis. Our direct focus is on selecting investments resilient to climate change within the specific context they will operate within. Our onus is informed due diligence coupled with strong asset management (when making investments directly) and a robust evaluation incorporating appropriate evidence of climate risk management capabilities when scoping mandates and selecting, appointing, and monitoring delegate managers.

Risk Management

A

Describe the organisation's processes for identifying and assessing climate-related risks.

The way risks are identified and assessed is influenced by factors including asset class, sector, time horizon and whether an investment is internally or externally managed.

Where investments are made directly, climate change risks and opportunities are assessed as part of the detailed due diligence process which precedes decision-making by Investment Committee. Informed by the TCFD framework, consideration is given to risks relevant to the asset, the sector it belongs to, and the applicable investment period. Company specific due diligence follows, identifying material climate risks specific to the context, with insights shaping direct questions about the assumptions included in financial forecasting. Transition and physical climate risks relevant to the investment case will prompt direct questions and (where practicable) stress testing to understand the potential impacts of different scenarios.

Where assets are under external management, diligence, evaluation, and decision-making is by delegate managers on LPPI's behalf. We routinely evaluate all prospective managers on their approach to assessing and addressing climate risks as part of our selection process and include conditions (where appropriate) in investment management agreements and side letters.

In common with other investors, we face data challenges around the identification and evaluation of physical and transition risk factors for assets not owned and managed directly. The range of investment vehicles in our portfolio, the degrees of separation where investments are through funds or fund of funds, and the extent and quality of climate disclosure by companies are all contributing factors.

As a responsible investor, we are engaging with asset managers and investee companies to gain improved climate disclosure. Examples of our efforts include:

- Requiring delegate managers to provide information on the sectoral composition of their portfolios and to identify any holdings in the extraction or supply of fossil fuels.
- Voting to support shareholder resolutions which urge companies to improve the disclosure of climate related information.
- Working collaboratively with other investors through initiatives including Climate Action 100+ and IIGCC to engage companies and explain clear requirements.

The shareholder voting headlines included in this report confirm that in 2019/20, LPPI voted on 11 shareholder proposals on climate change and supported ten (91%). Eight of the 11 proposals called on companies to set (and publish) greenhouse gas emissions reduction targets or to make better information available within corporate disclosure.

In our corporate engagement case study we have featured the example of Exxon Mobil, a climate change engagement that called on the board to meaningfully engage with shareholders on the company's planning for transition and to report on short, medium, and long-term emissions targets aligned with the emissions reduction goals of the Paris Agreement.

To support and enhance portfolio analysis and monitoring we are continually seeking tools and data sources which can improve our insights on the types of risk faced, the sectors most exposed and the quality of corporate climate change risk management. Our approach incorporates information from IIGCC, TPI, Climate Action 100+, Carbon Tracker, CDP, and MSCI, and is influenced by thinking and frameworks developed by the Sustainability Accounting Standards Board.

Our RI Roadmap includes

- The implementation of a more standardised approach to identifying material climate related issues as part of ESG integration at a granular level.
- Generally improved data visualisation for our existing portfolio holdings, to improve our capacity to consider climate scenario analysis from a top down perspective.

B

Describe the organisation's processes for managing climate-related risks.

Ultimately, our objective is to maximise risk-adjusted returns on behalf of client pension funds rather than to avoid risks altogether. We integrate ESG considerations, including climate change, on a case by case basis to ensure we can achieve adequate assurance that we are taking well informed investment decisions and being appropriately rewarded for the risks we accept.

The TCFD framework informs our approach to assessing material climate risks for current and potential direct investments and to reviewing the capabilities of prospective managers when appointing them to manage new investment mandates.

Where we identify specific risks for current investments, we introduce quantification and monitoring to help us understand, evaluate, and plan an appropriate response.

We are continuing to develop data on the scale of renewable energy generation and transition positive activities versus investments in the extraction, transportation, and supply of energy from fossil fuels to track their respective proportions over time.

Our investment approach generally supports an open universe without artificial restrictions on the sectors and opportunities that may be considered, but as an extraordinary step, we have moved to exclude new investments in pureplay thermal coal (public and private markets).

C

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

Climate change risks are identified, assessed, and managed through ESG integration at key points before a decision to invest is made and thereafter as part of monitoring portfolio attributes including levels of exposure to carbon intensive sectors, and to identified sources of physical or transition risk.

Identifying and quantifying climate related investment risks in a form suitable for integration into portfolio level risk management routines is hugely challenging. It requires methodologies for identifying and valuing climate risks across a variety of asset classes, time horizons and climate scenarios. This is an area for further work and, to support progress, our RI Roadmap includes convening a cross disciplinary Climate Risk Panel to bring together representatives from the Risk, Investment Strategy, Responsible Investment, and Investment teams to collaborate on the identification of potential methods, preparatory to developing a pilot for consideration, and testing.

Metrics and Targets

A

Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

We use a variety of metrics to assist us identifying and quantifying climate related risks and opportunities. Due to the richer range of data sources readily available, the analysis of listed companies predominates.

We review the carbon intensity of our Global Equity Fund (GEF) versus its benchmark and monitor the contribution of different sectors and companies to the total.

We review the proportion of the GEF within coverage of management quality ratings from the Transition Pathway Initiative as an indicator of the GEF's exposure to the largest emitters globally. We monitor the breakdown across TPI rankings and track the proportion of extractive fossil fuel companies achieving our target that they rate TPI 3 or above (100% at 31 March 2020) **(FIG 1)**.

We have begun to review how much of the GEF's overall carbon intensity is from companies within scope of TPI assessment as an indicator of how much relates to global high emitters, and what proportion is generated by companies being objectively assessed against clear criteria addressing the quality of their transition management **(FIG 2)**.

At 31 March 2020, 13% of the GEF was in TPI coverage (by value) and TPI rated companies produced 61% of the GEFs carbon intensity, clearly demonstrating the concentration of carbon production within key sectors.

We have begun to review the proportion of the GEF's carbon intensity produced by companies under engagement by Climate Action 100+ as an indicator of whether high emitting companies are already in an existing dialogue with investors on clear outcomes regarding their management and disclosure of climate change risk, which is an assistance to our prioritisation of stewardship activity **(FIG 3)**.

On an annual basis we review external analysis of the GEF's position against Paris aligned pathways. Analysis by Engaged Tracking (renamed Urgentem) indicates emissions are positively aligned with a 1.5°C trajectory (under the specific method they have applied). Beyond providing a status check, the analysis confirms significant decarbonisation is required by investee companies for the portfolio to maintain in alignment with Paris targets for less than 2°C of warming. **(FIG 4)**

We continue to develop data and insights on the quantum and makeup of existing investments in "green" and "brown" sectors, initially focusing on our listed equity, private equity and infrastructure portfolios (where green denotes renewable energy and transition supporting activities and brown denotes fossil fuel-based activities including extraction/transportation, energy generation and utilities). Our process will be shaped by the approach to identifying transition aligned activities outlined by the EU Green Taxonomy.

We regularly review data on sustainability characteristics for our direct real estate portfolio including Energy Performance Certification (EPC ratings), renewable energy generation, and flood risk ratings.

B

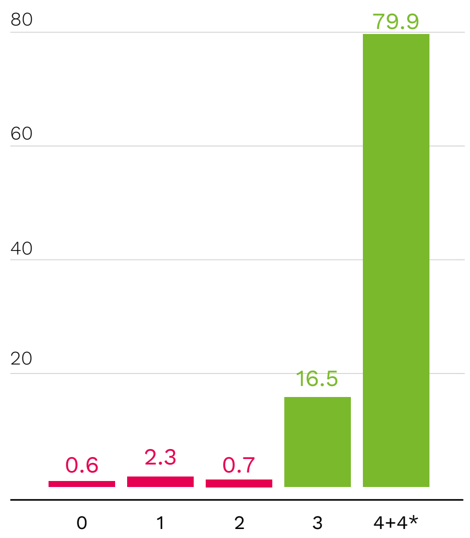
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

Below, we disclose the scope 1 and 2 GHG emissions of our Global Equity Fund. **(FIG 5)**

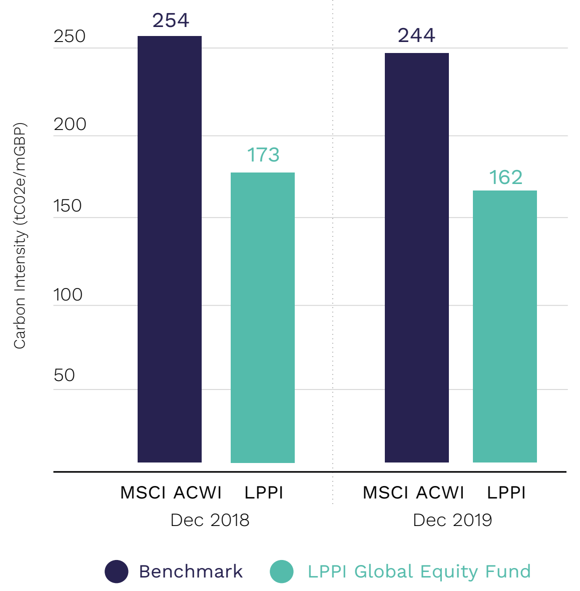
The comparison across time confirms a reducing level of carbon intensity for the GEF which is maintaining a significantly lower carbon footprint than its benchmark (MSCI ACWI).

The lower emissions intensity reflects that the GEF is underweight in typically carbon intensive sectors (energy, materials, and utilities). The observable decline is principally reflecting a reducing exposure to energy over the period featured.

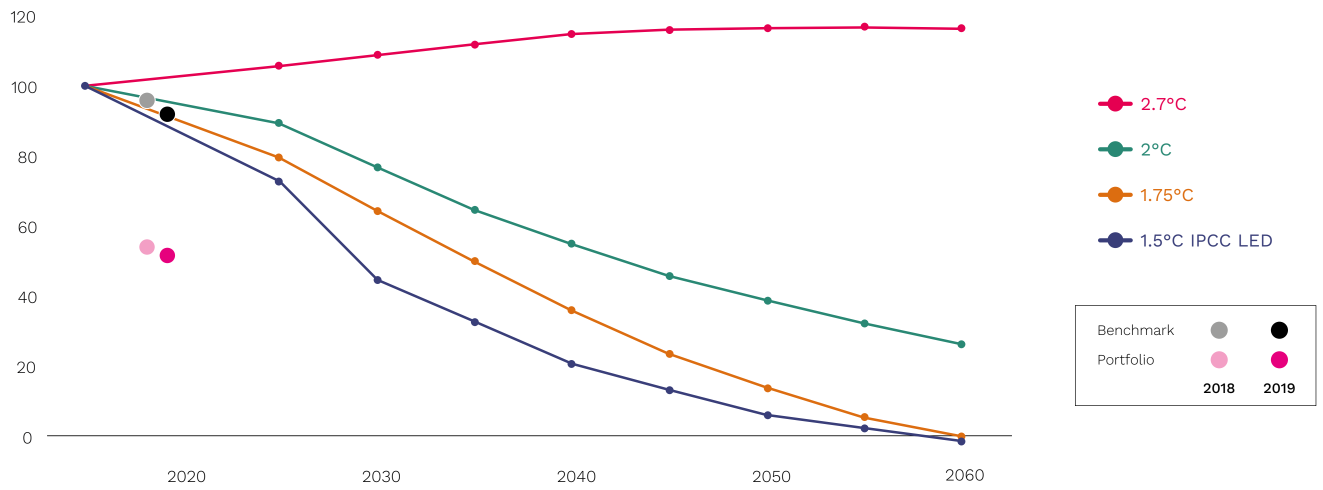
Transition Pathway Initiative Ratings (FIG 1)



Scope 1 and 2 emissions tCO_2e/£m revenue (FIG 5)



Alignment with Emissions Reduction Pathways (Listed Equities) (FIG 4)



Transition Pathway Initiative Coverage (FIG 2)

13% Investment Weight

61% Portfolio Carbon Intensity

Climate Action 100+ Coverage (FIG 3)

12.5% Investment Weight

55% Portfolio Carbon Intensity

Metrics and Targets

C

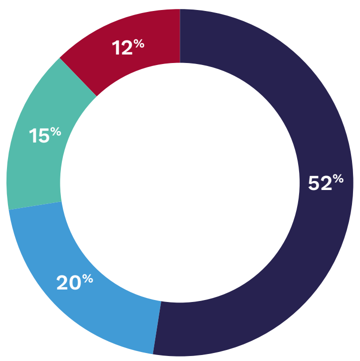
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Our focus is on identifying metrics to provide insights and make progress with an assessment of portfolio climate risk that incorporates quantification and will continue as a monitoring process whilst we are improving our understanding of how the portfolio is positioned.

We have set an explicit target for any investments in listed extractive fossil fuel companies based on TPI Management Quality Scores. We expect companies to achieve at least TPI 3 (integrating climate change into operational planning) and where quarterly monitoring indicates this is not being achieved a dialogue with the manager and expectations around remediation are triggered.

Insights from monitoring portfolio emissions intensity will continue to inform our evaluation of key sources by sector and company and influence our stewardship priorities for engagement and voting.

Greenhouse Gas Emission Disclosure Status (FIG 1)



- No public data
- Public, complete Scope 1 and 2 data, no third-party assurance
- Public, complete Scope 1 and 2 data, third-party assurance
- Incomplete Scope 1 and 2 data, no third-party assurance

From 2020 we will begin to monitor the proportion of companies disclosing their GHG emissions, with findings influencing engagement activities for the GEF around requirements that investee companies:

- Provide transparent disclosure on current emissions.
- Set and disclose emissions reduction targets aligned with the Paris Agreement goals.
- Maintain transparent reporting on their progress against emissions reduction targets.
- Report on their ongoing governance of climate change.

Currently, complete scope 1 and 2 emissions are being publicly disclosed for 72% of the GEF, 52% is third party assured data. (FIG 1)

Within our Real Estate Fund, we have mandated a maximum flood risk threshold for all new UK assets. Acquisitions are only permitted in areas with less than 0.1 per cent (1 in 1000) chance of flooding each year as assessed by the Environment Agency. We are monitoring the flood risk for the existing UK portfolio on a quarterly basis.

We have set minimum Building Research Establishment Environmental Assessment Method (BREEAM) standards for both new construction (Very Good, Excellent where commercially viable) and refurbishments (Very Good) to address the ongoing sustainability of buildings and our Real Estate Team are in the process of rolling out green leases for all new lettings which will improve the collection of data around energy consumption and help to identify opportunities for improvements in energy efficiency.

LPP
Local Pensions Partnership

For Professional Clients in the UK only

2nd Floor
169 Union Street
London, SE1 0LL

@LPPPensions

lpppensions

Local Pensions Partnership

localpensionspartnership.org.uk

info@localpensionspartnership.org.uk

020 7369 6000