Local Pensions Partnership Investments

Responsible Investment and Stewardship Annual Report

2020/21

Contents

Welcome

As Head of Responsible Investment it is my pleasure to introduce our Annual Report on Responsible Investment and Stewardship for the year ending 31 March 2021.

"We recognise the need to extend our knowledge, skills, capabilities and analysis to navigate the investment context created by growing impetus to slow global warming through rapid, radical and permanent decarbonisation."

FRANCES DEAKIN
Head of Responsible Investment

In publishing our first Responsible Investment Report (2019/20) back in October 2020, our focus was on expanding the information we share on this important area of our work. For this (our second) annual report, our objective is a comprehensive, informative and engaging publication for clients and stakeholders which also meets disclosure standards under the UK Stewardship Code (2020), the Shareholder Rights Directive II (SRDII) and the Taskforce on Climate-related Financial Disclosure (TCFD).

Retaining readability whilst also meeting specific external reporting requirements is a tough balancing act, but our solution is to include signposting as a navigation aid. A key to the disclosure labels you will see included throughout the report appears on page 10 including an index of page locations. A short guide to each of the external standards we are disclosing against appears on page 66.

The last 12 months were challenging and busy for LPPI. Our entire staff and business operations transitioned to remote working in response to the risks and restrictions arising from COVID-19. We shaped approaches and developed solutions to support the physical and mental wellbeing of our staff as we collectively addressed the challenges of continuing to achieve core delivery objectives under practical constraints. Key processes of sourcing, evaluating and underwriting new investments, monitoring current managers and portfolio assets, assessing and reporting on performance, supporting our clients, growing our team and collaborating as responsible investors and stewards have all continued and indeed progressed through adaptation and co-operation born out of remote working arrangements.

Collective experience of global pandemic has included challenge and restriction, but also ingenuity, co-operation and rapid progress under the stimulus of a universal emergency. COVID-19 has shone a brighter light on known social inequalities and the negative impacts of human activity on a fragile global ecosystem. Questions about what a truly sustainable economy and society entail have galvanised calls for recovery planning to "build forward better" and grasp broader sustainability challenges. Examples of how LPPI has begun to engage on some of these important themes feature later in this report.

We hope you enjoy these insights into our activity in 2020/21 and our look forward to what we are prioritising in 2021/22. Our aspiration to achieve net zero portfolio emissions by 2050 stands out. Fulfilling this commitment is a significant multi-decadal undertaking. We recognise the need to extend our knowledge, skills, capabilities and analysis to navigate the investment context created by the growing impetus to slow global warming through rapid, radical and permanent decarbonisation. Equipping ourselves to make informed investment decisions will be increasingly critical to successful long-term stewardship in a transitioning world.

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

About us 1

Who we are

LPPI is responsible for managing around £20.5 billion of pension fund assets including six investment pooling vehicles and three funds in Authorised Contractual Schemes. Each of our funds has an emphasis on long-term viability and returns.

In addition to our Local Government Pension Scheme (LGPS) fund clients, LPPI is the Alternative Fund Manager and portfolio manager for GLIL Infrastructure, a £2.5 billion fund which works with UK pension funds investing in infrastructure assets spanning renewable energy, water and ports, trains, hospitals and schools.

We are also the portfolio manager for The London Fund, a collaboration with the London LGPS CIV pool, investing in infrastructure and real estate opportunities in the capital that create positive social and environmental benefits for Londoners.

LPPI's partnership philosophy ensures all monies generated are used for the mutual benefit of clients and shareholders.

This guiding philosophy ensures we are completely aligned to the needs of our partners and drives a concern for long-term sustainability. As LPPI acts as both asset owner and asset manager, this concern informs how, where and what we invest in, on behalf of client pension funds, and how we act as responsible stewards.

LPPI at a glance

All data to 31 March 2021

£20.5bn
Assets under management

100%
Client assets transitioned

£74m
Cumulative net cost-savings

50+
Investment professionals

7
Major asset classes

8
Investment funds managed in-house

3
Local Government Pension Scheme clients

3
Funds in Authorised Contractual Schemes

Message from our CIO

In 1849, French author Jean-Baptiste Alphonse Karr wrote, *plus ça change, plus c'est la même chose*, the more things change, the more they stay the same.

RICHARD J TOMLINSON
Chief Investment Officer

> "We see our prime role as stewards of our clients' capital and reputations, both today and in the future"

We are living in a time of rapid evolution across many spheres. Technology is evolving at an unprecedented pace. Climate concerns are driving the agenda like never before. And many difficult questions around societal inequality still need answers.

But what hasn't changed, and will not change, is how LPPI puts stewardship at the core of who we are and what we do. We fully embrace the FRC's definition of stewardship as "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".

We view financial sustainability of assets, and therefore their capital value, through a stewardship lens. Stewardship links directly to our fiduciary responsibility to enable our clients to pay pensions as they fall due in the most efficient and economical way.

We see our prime role as stewards of our clients' capital and reputations, both today and in the future. A key foundation is our investment beliefs which evolve in line with our clients' needs and the broad, dynamic investment context.

It is clear that environmental, social and governance (ESG) characteristics are key risk factors driving financial sustainability for all assets. We see engagement on ESG characteristics as a key enabler to drive positive outcomes. These outcomes can be both financial and more holistic, seeking a double bottom line for our clients and society at large. We have taken significant steps forward in how we integrate ESG factors into our core investment process over the last year. Like all investment endeavours, there is no end point where effort plateaus, impetus to keep evolving and building incremental improvements at each opportunity is on-going.

Climate is now a core risk factor for all assets, and deserves special mention here. The future financial sustainability of all assets is in some way linked to climate considerations; since this can be both positive and negative, a clear view of the risk factor loadings and likely future pathways is becoming increasingly important. LPPI and our clients recognise and accept this investment context and want to be part of the planetary solution. In September this year, LPPI made a public commitment to the goal of net zero portfolio emissions by 2050 guided by the IIGCC Net Zero Investment Framework and the IIGCC Net Zero Asset Manager Commitment.

As I am writing, we are continuing to pull through the COVID-19 pandemic and I see many things to be hopeful about. The focus on "build back better" and a "green recovery" are laudable, but we shouldn't forget that many of the issues present pre-pandemic are still there, and in many cases, magnified.

Societal inequality is still significant by historical standards and likely to be a defining issue in the next decade. The impact of technology on certain sectors of the workforce, the question of how to ensure a just transition to a low carbon economy and how the huge investment needed to deliver the "clean energy transition" will be funded present significant challenges without easy solutions. Having said all that, doesn't every generation feel they face major, defining problems their ancestors never faced? *Plus ça change, plus c'est la même chose.*

LPPI and The Stewardship Code at a glance

Below we offer an overview of how LPPI is positioned against each of the 12 Principles of the UK Stewardship Code 2020, summarising the detail we expand upon in this annual report.

PRINCIPLE	OVERVIEW	PARTICIPANTS
Purpose and governance		
1 **Purpose, strategy and culture**	LPPI was formed in 2016 as a collaborative partnership between two Local Government Pension Scheme (LGPS) funds seeking joint benefits from dedicated, cost effective advisory, investment management, and asset pooling capabilities. LPPI's purpose, culture and strategy are infused with the public sector ethos and strong fiduciary responsibilities imparted by our founding shareholders. We aim to convey how our operating model engenders close supportive relationships with each client and our approach recognises that our core purpose is to support, serve and represent them as asset owners.	LPPI Board, management committee, heads of service supported by all operational roles
2 **Governance, resources and incentives**	LPPI's approach to stewardship is through full integration, it translates into everything we do. A report on our stewardship approach, even as a selective summary, involves expansive disclosure to provide this context in full. We aim to convey how our governance, policy, processes, standards, and reporting repeatedly emphasise stewardship as the shared responsibility of all. We structure, resource and incentivise collegiate ownership of our stewardship responsibilities, recognising and expecting everyone will contribute through their conduct, remit and activities.	LPPI Board, management committee, heads of service supported by all operational roles
3 **Conflicts of interest**	LPPI operates in close and supportive partnership with a small number of clients, two of whom are shareholders. The expectation of enduring client relationships creates a strong foundation for long-termism and aligned priorities which play out through our stewardship arrangements and activities. We aim to convey how our partnership model significantly reduces the scope for material conflicts of interest, and those that do arise are managed through a clear policy which requires pre-emption, recognition, recording, management, and openness through disclosure.	All
4 **Promoting well-functioning markets**	LPPI oversees a complex range of asset classes and mandates through pooled investment vehicles managed on behalf of institutional investors. Our interaction with the market reflects the breadth of client interests we represent and the levers we can use to exercise influence unilaterally or in partnership. We aim to convey that LPPI is continuously scanning and considering market wide influences which affect the client portfolios we oversee. Identifying those where it is appropriate for us to take action often involves us joining an existing collaborative initiative and providing our support, or sometimes convening our peers, to discuss common risks and how they can be addressed. In 2020/21 key themes included climate change and the immediate (and future) challenges highlighted by the global pandemic of COVID-19.	Asset class teams, external asset managers, responsible investment team

PRINCIPLE	OVERVIEW	PARTICIPANTS
Purpose and governance		
5 **Review and assurance**	LPPI recognises the importance of articulating our stewardship approach and demonstrating our stewardship activity. We do this in two ways: **1)** By adopting appropriate industry standards as benchmarks. The standards we apply include the Principles for Responsible Investment, the UK Stewardship Code, and the Taskforce on Climate -Related Financial Disclosure. **2)** By regularly reporting to our clients on what we are doing, being accountable, listening, and working on the areas they ask us to evolve. We aim to convey that we are a learning organisation. We challenge standards, identify gaps and foster the self-reflection needed for continuous improvement. Objective external assessment gives our clients assurance and provides us with actionable feedback on progress. When existing standards evolve and introduce a higher bar for stewardship, they are sometimes ahead of our current abilities, and present challenges for LPPI to address and overcome. We are open about this and about our direction of travel.	LPPI Board, heads of service, stewardship committee, responsible investment team, asset class teams, external asset managers
Investment approach		
6 **Client and beneficiary needs**	Our three main investment clients are public sector LGPS funds who have placed 100% of their assets under LPPI's oversight. Our clients are mainly invested in LPPI's seven asset class pooled funds but LPPI also oversees a range of legacy (balance sheet assets) on their behalf. Each client sets a strategic asset allocation. LPPI has full delegated authority for implementing the strategy by selecting, appointing and overseeing assets, managers and mandates which meet the client's investment requirements. We aim to convey how strong client relationships are the foundation of our partnership and delegated management approach. Clients recognise the importance of efficient processes and support LPPI's calibration of investment policies, approaches and standards to meet their investment needs and fulfil the stewardship responsibilities of asset ownership. LPPI continually consults, liaises, and seeks feedback, and reports quarterly to clients on responsible investment.	Management committee, investment committee, heads of service, asset class teams, responsible investment team
7 **Stewardship, investment and ESG integration**	LPPI operates an integrated approach to responsible investment which reflects the commitment we have made as a PRI signatory to incorporate ESG issues into our investment analysis and decision-making processes. We aim to convey how the consideration of ESG issues infuses our entire investment approach and is present at each key phase and decision point. We also describe how we are working to develop tools which support systematic ESG integration and transplant the skills and experience of our dedicated responsible investment team, by cultivating complementary skills within our specialist asset class teams.	Management committee, investment committee, stewardship committee, heads of service, asset class teams, responsible investment team, external managers, external providers
8 **Monitoring managers and service providers**	LPPI both selects and oversees assets directly (in-house asset management) and appoints and oversees delegate asset managers whose products we select to join our pooled funds (external asset management). Additionally, we work with service providers who support our asset management and stewardship activities. These include a proxy voting provider who supports our retention shareholder voting rights for the LPPI Global Equities Fund, and an external engagement provider who extends the resources we dedicate to engaging with publicly listed companies. We aim to convey how the selection and oversight of external managers is a critical investment discipline. We systematically include ESG considerations in pre-selection investment and operational due diligence (IDD and ODD) within decision-making by our investment committee, and within our ongoing portfolio monitoring and oversight. We meet regularly with our service providers and use the levers available to influence the development of their future service offerings.	Heads of service, asset class teams, responsible investment team

PRINCIPLE	OVERVIEW	PARTICIPANTS
Engagement		
9 **Engagement**	Engagement is a core part of LPPI's ongoing stewardship of assets and involves us communicating with a range of parties including investee companies (direct assets) external managers (assets under delegated management) and wider parties including regulators, standard setters, industry groups and non-governmental organisations. We aim to convey that we use the ownership powers available to us and employ the approach most likely to have a positive influence. We set expectations for managers and service providers who engage on LPPI's behalf, we set priorities for engagement which reflect the materiality of issues to the portfolio we oversee, and we take account of client interests and priorities.	Stewardship committee, asset class teams, responsible investment team, external managers, external providers
10 **Collaboration**	LPPI has a strong track record of collaboration, commencing with the creation of the company as an initiative enabling pension funds to pool their investments. Our collaborative ventures have extended to broader investment management (through our roles in GLIL Infrastructure and The London Fund) and been extensive within stewardship and engagement. We aim to convey that it is a positive preference for LPPI to engage collaboratively in order to place our voice and support behind practical remedies to issues we hold in common with other investors. We share multiple examples of our collaborative activities in 2020/21 and we also indicate new collaborations looking ahead to 2021/22 (Occupational Pension Schemes Stewardship Council, Asset Owner Diversity Charter, IIGCC Net Zero Asset Owner Commitment).	Investment committee, stewardship committee, heads of service, asset class teams, responsible investment team, external managers, external providers
11 **Escalation**	Our approach to escalation is both issue and context specific. Whilst we have set expectations for asset managers that they will engage with investee companies on material ESG issues, we do not dictate their escalation methods, though we discuss specific cases as part of ongoing monitoring dialogue. Escalation by our external provider of engagement services for publicly listed assets reflects the progress of dialogue and an assessment of routes for focussing attention on material asks which can include liaising with us to identify shareholder voting which will reinforce the issues requiring a priority. We aim to convey that LPPI's approach to escalation for internally-managed assets involves working with companies to recognise and remedy concerns and reflects that we are an active manager seeking to hold investments for the long-term. Our ultimate escalation is the power to disinvest where we do not see adequate progress. We provide examples where our processes include supporting managers and companies to make progress beneficial to all asset owners (through a strengthening of their underlying processes) and also of using shareholder voting to emphasise matters where progress is insufficient following initial dialogue.	Heads of service, asset class teams, responsible investment team, external managers, external providers
Exercising rights and responsibilities		
12 **Exercising rights and responsibilities**	An understanding of the multiple ways LPPI actively exercises the rights and responsibilities of asset ownership involves reading our entire report. The portfolio we oversee is under multi-layered management arrangements where a range of parties are involved in holding companies to account and involved in liaising, engaging and decision-making. We aim to convey how LPPI is fulfilling the FRC's definition of stewardship as the responsible allocation, management and oversight of capital on behalf of our client pension funds. We explain how we exercise ownership powers directly, through external managers, through third parties and via broader collaborations, and have identified our requirements for ESG integration and stewardship within contracts and agreements. As an articulation of policy, processes, arrangements, case studies, examples, and interesting insights from such broad ranging activity, our report frustrates the achievement of brevity.	All

Participants

LPPI Board	Chief Executive Officer (CEO), Non-Executive Directors, Chief Operating Officer (COO), Chief Finance Officer (CFO), Chief Investment Officer (CIO)
Management Committee	CEO, CFO, CIO, COO, Chief Legal and Compliance Officer, Chief People & Culture Officer, Chief Risk Officer (CRO), LPP Director of Strategy
Investment Committee	Core: CEO, CIO, COO, Head of Real Assets (HRA), Head of Global Equities (HGE), Investment Director Strategic Partnerships (IDSP) Additional: CRO, Head of Compliance
Stewardship Committee	CIO, CEO, HGE, IDSP, Head of Responsible Investment
Heads of Service (Investment Team)	CIO, HRA, HE, IDSP, Chief of Staff, Head of Investment Strategy, Head of Operational Due Diligence, Head of External Managers, Head of Responsible Investment, Head of Asset Management, Head of Client Management
Asset class teams	Analysts, senior analysts, deputy portfolio managers, portfolio managers, IDSP, Head of Asset Management
Responsible Investment Team	Head of Responsible Investment, three responsible investment analysts
External asset managers	Delegate asset managers selected and overseen by LPPI
External providers	Companies selected by LPPI to provide specific services including proxy voting and engagement

Key to disclosure labels

Purpose and governance

1. **Purpose, strategy and culture**
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2. **Governance, resources and incentives**
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3. **Conflicts of interest**
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4. **Promoting well-functioning markets**
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Investment Approach

6. **Client and beneficiary needs**
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7. **Stewardship, investment and ESG integration**
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8. **Monitoring managers and service providers**
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Engagement

9. **Engagement**
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Exercising rights and responsibilities

12. **Exercising rights and responsibilities**
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Our purpose, our culture 1 2

Our purpose 1

Our statement of purpose articulates why LPPI exists – our reason for being - and is the guiding light for our business. It shapes the decisions we take, how we deploy our resources and how we bring to life the client and employee experience.

"LPPI delivers first class, value for money, investment outcomes aligned to clients' interests. We bring our expertise and spirit of collaboration together to help our clients invest sustainably in better futures."

Our culture 1 2

LPPI's Strategic Plan 2020-25 includes the objective of "creating an empowered, supportive, diverse and inclusive culture".

Our people and culture strategy is based around creating policies, processes, tools and ways of working that support us delivering this cultural aspiration.

Investment management is a highly competitive market. So attracting and retaining the right individuals needs to go beyond simply remuneration and standard benefits.

In this section we include some other examples of what we're doing to build our desired culture, and to attract, nurture and develop our talent.

Flexible working

COVID-19 led LPPI to accelerate its shift to flexible working. Our employees were already working 100% from home ahead of the national lockdown in March 2020, with systems access, and hundreds of individual pieces of IT and office equipment delivered to their homes so that they could work effectively and successfully.

Through regular employee surveys and good management, LPPI was able to ensure its people were supported from both a work and, more importantly, health and wellbeing perspective. A focus on work-life balance has been emphasised with all employees.

As we emerge from the pandemic, LPPI is encouraging a flexible approach, with employees dividing their time between home and office, and the company continuing to listen and learn from our employees' experience.

Real conversations around diversity and inclusion (D&I)

Promoting and nurturing a truly diverse and inclusive culture takes time and hard work, and a concerted effort from the top down, and from all levels of an organisation. LPPI takes D&I very seriously and has introduced the following:

- Published our company-wide D&I objectives, shaped by our employees who were asked to score and provide commentary on LPPI's culture and its strengths and weaknesses
- Track progress by periodically surveying our people and measuring the change in scores over time both internally and against peer benchmarks
- Provide regular lunch and learn sessions to educate and encourage debate – most recently around inclusion of the LGBT+ community led by The Diversity Trust
- Encourage networks and small group discussions such as senior female leaders, and LGBT+ Chatham House rule discussions around how it feels to work at LPPI, facilitated by senior managers.

Focus on wellbeing

The COVID-19 pandemic highlighted how we all experience situations differently ranging from the individual (mindset, health and experiences) to the environmental (support networks, community, home and finances). Encouraging employees to focus on their physical and mental health is not only good for business in terms of engagement and productivity but simply the right thing to do.

LPPI is taking a diverse approach to wellbeing, for example:

- Significantly increasing the availability of support for colleagues internally by sponsoring seven volunteers from across the business through the Mental Health First Aid certification programme run by MHFA England
- Bespoke mental health awareness training for managers
- Relaunch of the Employee Assistance Programme including access to counselling support and information
- Regular employee surveys and follow up with individuals raising concerns

Remuneration and reward

From the 2020/21 performance year, all employees of LPPI have become eligible for the performance-related reward scheme as part of their total remuneration, which is linked to performance against objectives and to conduct in line with the LPPI values.

Our values and behaviours 2

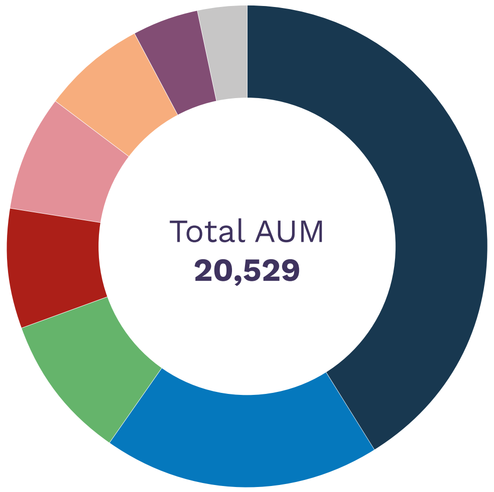
Our employees share a common purpose. We have articulated values, behaviours and beliefs as the framework for a common business planning and performance management approach which supports objective setting, employee development and training, remuneration and career progression.

Our values translate into eight behaviours which personalise what we are striving for as a business and as a community of colleagues.

OUR VALUES	OUR BEHAVIOURS
Working together	I will treat every person in the firm with the level of respect I would want to receive in return and view difference in others as an opportunity to learn.
	I will ensure that individuals have the right information to deliver their role successfully and give feedback in a timely manner with a positive intent.
Committed to excellence	I will take individual accountability for delivering 'the basics' in my role to the highest possible standard and actively seek feedback to measure success.
	I will always look to improve the client experience, whether internal or external, and keep things as clear and simple as possible.
Doing the right thing	I will consciously consider whether each piece of work contributes towards the firm's strategic objectives and challenge where there appears to be misalignment.
	I will take personal responsibility to challenge behaviours in myself and others that do not reflect LPPI's values.
Forward thinking	I will bring in all the relevant collegues as early as possible when planning new work and provide context, be clear on the outcomes and agree timelines.
	I will create processes that are fit for purpose over the medium term and avoid short-term fixes wherever I can.

LPPI as an asset manager 3 6

Our assets under management



	£m
Global Equities	8,443
Other	3,833
Credit	2,001
Infrastructure	1,678
Real Estate	1,596
Private Equity	1,410
Diversifying Strategies	912
Fixed Income	656

Source: LPPI to 31 March 2021

Our investment clients

Our clients are institutional investors. As LGPS funds, they have placed their portfolios under pooled investment arrangements and have appointed LPPI as their investment advisor and asset manager.

LPFA your pension our world! Lancashire County Pension Fund The Royal County of Berkshire Pension Fund

We operate under a partnership and delegated management approach, our clients have retained their strategic responsibilities, but have fully delegated the implementation of investment management to LPPI.

LPPI maintains a continuous dialogue with each client pension fund via regular interactions which include:

- regular client meetings
- quarterly reporting
- attendance at pension fund committees and boards
- an Investor Forum twice a year
- issues-based assistance on demand

We work hard to listen, support, advise and deliver valued services to our clients and place strong emphasis on treating all clients fairly by ensuring we consider, recognise and manage potential or actual conflicts of interest or areas where client interests diverge.

Our LPPI Conflicts of Interest Policy is available to all clients and forms part of initial (induction) training and periodic refresher training for all investment staff. Requirements and arrangements for managing conflicts of interest feature in our Compliance Manual which all investment staff review regularly.

We recognise the scope for conflicts to arise between the Firm (including its members of staff) and our clients as well as between one client and another client. Client pension funds share multiple responsibilities, interests and concerns in common but also have local priorities and perspectives. Ensuring we manage assets fairly for the equal benefit of all clients involves consistently seeking to promote the long-term value and success of the companies we invest in and to take the course of action most likely to support value creation, risk management and resilience.

Our Conflicts of Interest Policy includes a specific section on stewardship which recognises the potential for conflicts to arise from the exercise of the ownership rights attached to investments and identifies the following examples:

- decision-making on the direction of shareholder voting for the Global Equities Fund,
- participation in shareholder litigation,
- decision-making on the focus of engagement actions

LPPI's investment beliefs and policies emphasise supporting and serving clients. Our approach, practices and outlook combine asset owner sentiment with asset management discipline and procedure. This strong alignment of purpose with our clients reduces the potential for stewardship-related conflicts and in practice they are rare. In all cases they are managed in line with a policy which requires pre-emption, recognition, recording, management, and openness through disclosure.

Examples of potential conflicts

Transparency 3

More generally, LPPI regularly considers proposals for new regulations, guidance, or practice standards affecting regulated firms. Often these seek to improve the position of investors either through new approaches, enhanced protections or improved access to information. Where proposals give inadequate consideration to practical constraints, underestimate resourcing costs, or ignore material obstacles to implementation, LPPI may express opposition by addressing shortcomings (within a direct response or by contributing to a collective consultation response). In these circumstances LPPI will be open with clients and actively share our insights and reasoning.

We routinely disclose our involvement in investment industry forums and practitioner networks. We also explain our stance on new requirements for stewardship and responsible investment affecting us or our clients and confirm any input we have had to collaborative consultation responses within our quarterly reporting to clients on responsible investment.

Stewardship priorities

The LPPI Stewardship Committee considered a recommendation to approve a future engagement theme focussed on in-work poverty. The proposal worked up by the responsible investment team was completed by a responsible investment analyst previously employed by an organisation with an active interest this space. There was the potential for the appearance of a conflict of interest related to priority being given to this theme over others.

Full details of the analyst's involvement with the organisation (an NGO) were disclosed to the stewardship committee and recorded in the agenda and papers. The head of responsible investment provided an objective rationale for the prioritisation of the theme, confirmed it as appropriate, and recommended the proposal to the committee. The analyst was not directly involved in the decision to agree the theme.

Our active portfolio management

9 10 11 12

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.

Our responsible investment 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.

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.

The LPPI approach 1 6

Our approach to investment management is shaped by our investment beliefs, which in turn are guided by our core principles of responsible investment.

A Our purpose, values and behaviours page 14

B Our goals and core principles page 20

C Our investment beliefs page 22

D Our RI beliefs, processes and benchmarking page 25

↓

Foundations of LPPI stewardship

B Our goals and core principles 6

We are here to help our pension fund clients:

- Achieve their funding strategy goals through improved investment outcomes
- Manage their assets and cash flows to meet future benefit payments
- Invest sustainably.

Our approach focuses on investing in assets that offer attractive, long-term, risk-adjusted returns, which can be delivered cost-effectively.

To achieve our goals, we are committed to managing investments according to four key investment beliefs.

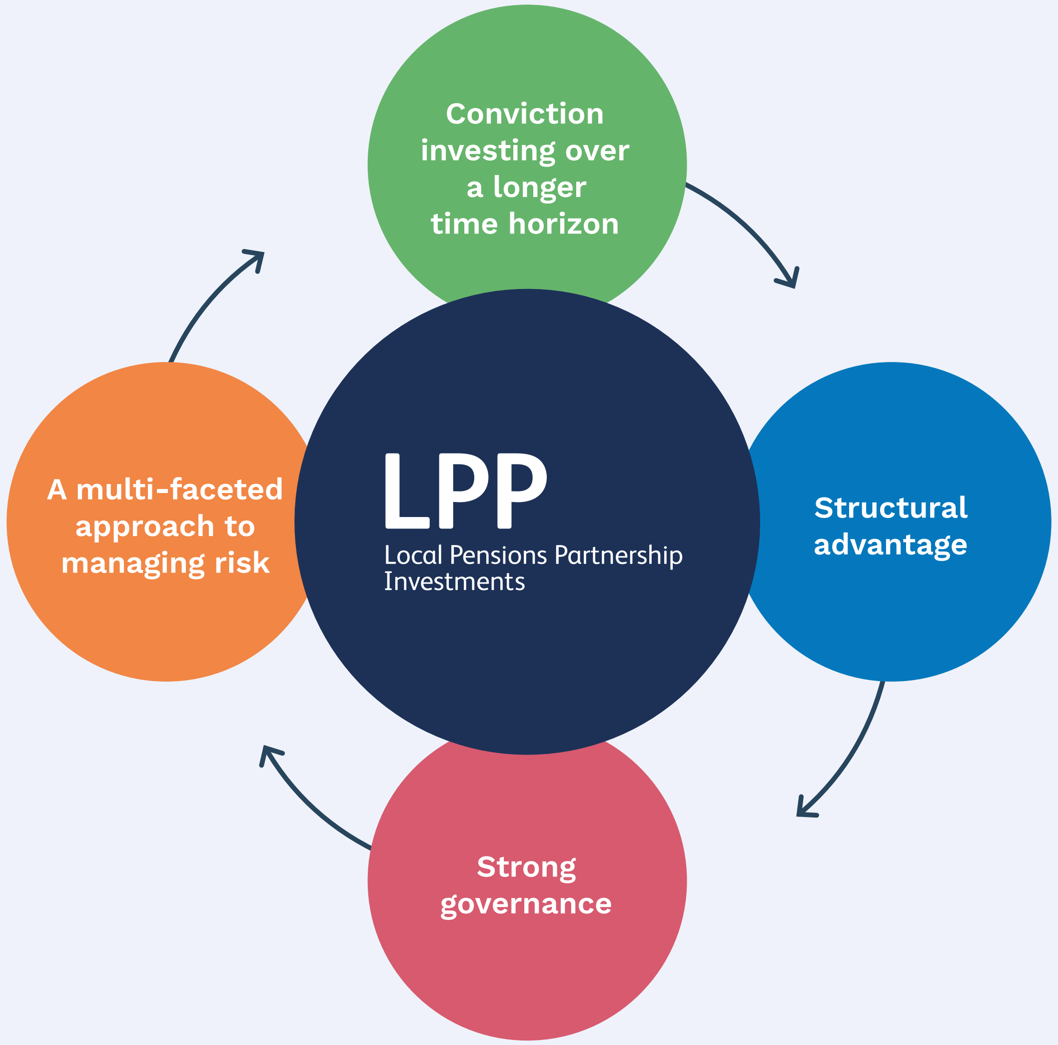
Our investment philosophy reflects the context and position of client pension funds as long-term asset owners. Our responsible investment and stewardship arrangements address the rights and responsibilities flowing from the asset ownership we undertake on their collective behalf. The long-term nature of pension fund liabilities translate into long-term investment horizons that require a focus on future sustainability and portfolio resilience. ESG integration forms part of looking forward and seeking to understand the interplay of different future value drivers and detractors, and how they will take effect.

B We are guided by these core principles 6

Long horizon investing underpinned by solid governance	Focus on generating liability aware long-term investment performance, managed in strong governance structures.
Stable ownership	Structure is aligned with scheme sponsors.
Experienced, collaborative team	Seasoned senior team having held leadership positions in global asset managers, investment consultants and investment banks in a team based, collegiate culture.
Lowering costs without compromising on quality	Ability to select appropriate areas to internalise investment management, alongside partnering with third party managers, to drive down unit operating costs without compromising the risk-reward profile of the portfolio.
Investment beliefs aligned to client needs	Investment beliefs based on international evidence of long-term investment and pensions management success.

Our investment beliefs

Stewardship is an integral part of LPPI's approach to investment, a discipline guided by a clear set of goals, investment beliefs and principles, which we have articulated within a dedicated guide we make publicly available from our website.



Conviction investing over a longer time horizon

We believe that our long-term investment philosophy provides us with the ability to target outperformance against benchmarks.

- Long-term investment horizons provide superior opportunities that align with the duration of our clients' liabilities
- We invest in strategies where the sustained execution of thoughtful and disciplined processes provides the best probability of achieving superior long-term returns
- Achieving sustainable, long-term returns requires judicious assessment of all factors that can influence future investment value drivers, including material ESG factors
- LPPI's long-term ownership mentality provides a more effective means of implementing and achieving our stewardship and engagement objectives
- Our patient approach provides us with the ability to capture any illiquidity premium, where appropriate.

Structural advantage

We believe our scale, market presence and structured internal resources allow us to access attractive investment opportunities.

- Internal investment management can provide better aligned, more focused client outcomes at lower cost
- Where we do not have internal resource, we look to partner with like-minded and exceptional external investment managers
- Our scale and presence should be used to form partnerships that reduce costs and establish wider, valuable relationships beyond simple investment of capital
- We try to learn from our partners and understand our mistakes to continually improve the services we provide to clients.

Strong governance

We believe that high quality investment governance and discipline underpin our investment processes.

- Strong and effective investment governance is a key requirement for long-term investment performance and broader organisational success
- Clearly defined and articulated objectives regarding investment risk, return and portfolio liquidity needs are essential to the consistent realisation of good outcomes.

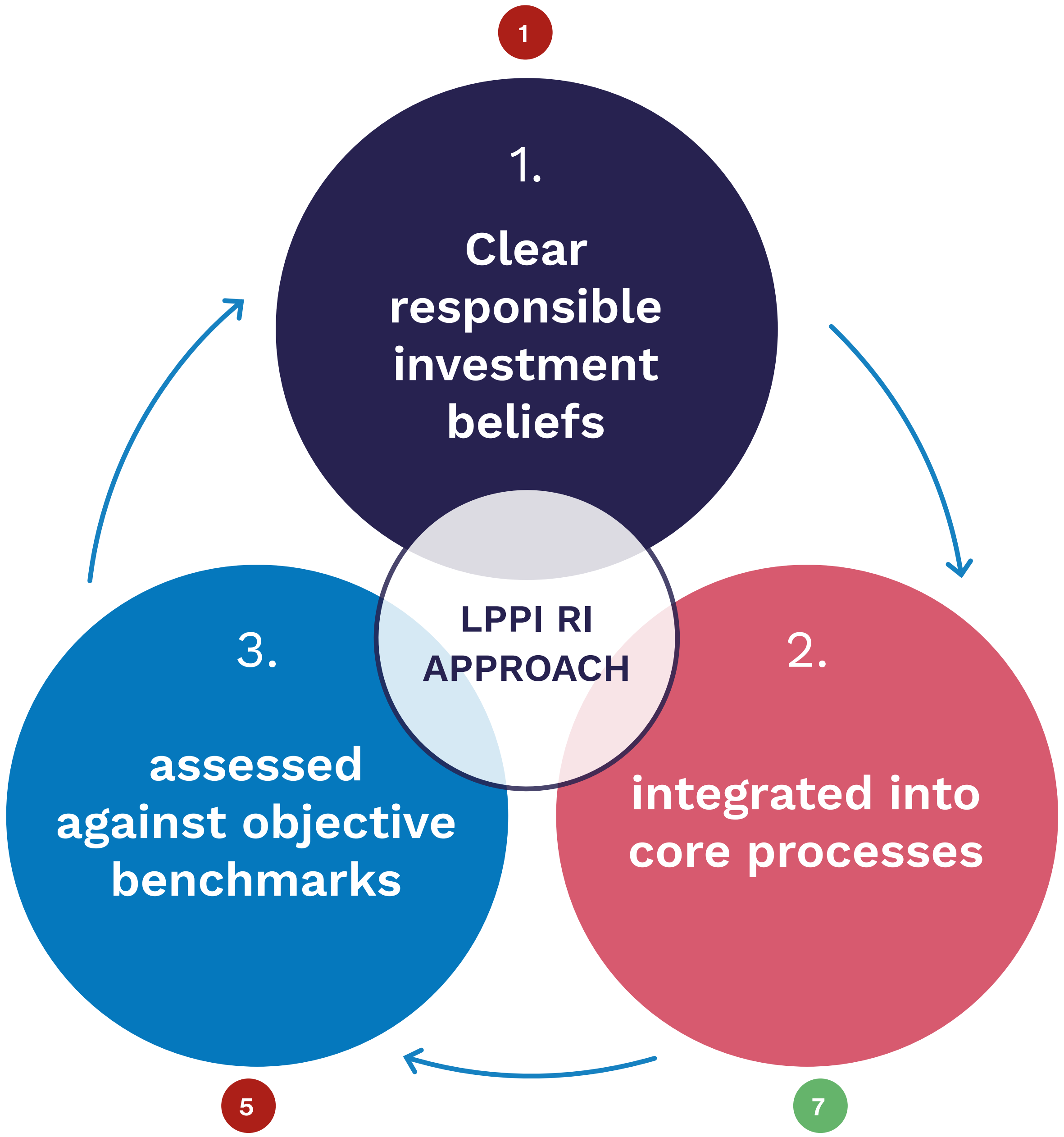
A multi-faceted approach to managing risk

We believe a multi-faceted approach to managing risk that it is regularly calibrated against a portfolio's objectives will deliver better outcomes.

- Investment risk reporting and risk management procedures are carried out at all levels of the investment process with discipline and with stringency
- Risks are qualitative and quantitative – effective risk management lies in the confluence of thoughtful analysis of both.

Our approach to responsible investment 1 5 7

Our responsible investment approach and beliefs are an extension of the strong fiduciary focus expressed in our core investment beliefs and articulated in a responsible investment policy and dedicated thematic annexes.



1. Clear responsible investment beliefs

1

Our approach to responsible investment provides a strong foundation for prudent investment management.

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

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 effective management of investment risks is essential 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 protect the long-term financial interests of beneficiaries.

2. integrated into core processes

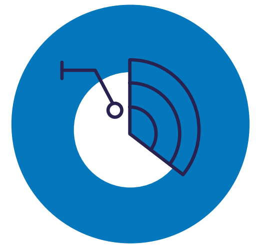
5 7 10 11 12

To integrate our responsible investment beliefs with our day to day investment activities, we have identified six target outcomes for our core processes.

Six 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.



Sustainably commercial

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 ESG 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.

Processes cont.

2 8 12

Our core investment processes are those which direct and implement our:

- **Identification and selection of assets, investment products, managers and service providers well matched to the investment requirements of our clients**
- **A close working relationship with client funds ensures we are aware of their stewardship priorities and the influences which are driving them and can integrate these insights into our planning**
- **Oversight of directly owned assets and our monitoring of delegate asset managers (and their portfolios) to identify and address material issues capable of influence through engagement.**

The insights and learning we gain from undertaking core activities (underwriting and portfolio oversight) have an influence on strategy, capital deployment, and ongoing stewardship activity through a continuous feedback loop.

How do we ensure effective stewardship and engagement?

- Our responsible investment team is an integral part of the Investment Team and provides dedicated support in person and through the ESG tools and frameworks integrated into our processes.
- Our underwriting process includes a detailed evaluation of the stewardship and ESG capabilities and experience of prospective managers and their processes.
- We set minimum standards during manager selection to ensure prospective managers can meet our expectations for responsible investment.
- Post selection, our operational due diligence process ensures incumbent managers remain under review via a refresh cycle.
- We sustain a monitoring dialogue with delegate managers to discuss their portfolio management, identify material issues, align engagement activities and share best practice.
- We expect fund managers to be assessing potential risks and engaging with investee companies on material ESG issues, as well as engaging on wider thematic issues we identify as important to our clients. Our requirements feature formally in investment management agreements.
- We have authority to remove mandates if fund managers do not meet our expectations.
- Our policies and processes help us identify and manage stewardship conflicts of interest.
- Shareholder voting rights for our Global Equities Fund are retained and exercised centrally by LPPI to ensure consistency of approach and application, but we regularly confer with delegate managers to gain their insights on material matters.
- We use a proxy voting provider to oversee an efficient voting process at scale. Vote management and execution are via an online platform which supports monitoring and reporting. We receive meeting notifications, research, and voting recommendations in line with sustainability voting guidelines which incorporate ESG considerations.
- Our stewardship and engagement arrangements have senior oversight. Our stewardship committee is chaired by our Chief Investment Officer and assembles responsible investment practitioners and investment staff overseeing core investment processes (manager selection, investment due diligence, asset, manager and portfolio oversight).
- The stewardship committee oversees a co-ordinated approach to stewardship prioritisation in line with our investment beliefs, the principles and priorities outlined within our responsible investment policy, the investment procedures we have in place or are seeking to develop, and the priorities arising from the portfolio we are managing.
- We are members of investment industry groups which challenge and update our understanding of evolving best practice and how to adopt this into our core processes.
- We are active in stewardship networks which offer platforms for information sharing and collaboration to achieve a greater collective influence on companies, asset managers, standard setters and broader stakeholders.
- The insights we gain from core activities combine with regulatory horizon scanning, peer review, and market intelligence to ensure our engagement accommodate thematic, asset class specific, company specific, jurisdictional, and issue specific dimensions.

Our stewardship and engagement activities span:

- The dialogue we have with companies we invest in directly
- The dialogue we have with the delegate managers who are monitoring and engaging with the portfolios they manage on our behalf
- Our exchanges with regulators and standard setters
- Our participation in focussed investor groups
- Our asset owner advocacy as an LGPS pool representing the interests of local government and wider UK public sector pension funds.

We have appointed an external provider of engagement services for our public market assets. Robeco Active Ownership services enhance our engagement capacity across global equities and corporate fixed income holdings, meaning we benefit from dedicated stewardship resources including specialist climate and human rights professionals.

Robeco undertakes engagement on our behalf through two main categories: value engagement and enhanced engagement. Value engagement is a proactive approach focussing on long-term, financially-material ESG opportunities and risks that can affect companies' ability to create value. This typically takes place through three-year structured engagements across themes determined by Robeco and their clients to be the most pertinent risks identified in the assets under engagement. Robeco seeks to improve ESG risk management across these areas, creating and protecting value across our investments.

Enhanced engagement focuses on companies that severely breach normative standards in areas such as human rights and environmental management. The primary objective of enhanced engagement is to address reported shortfalls against internationally accepted codes of conduct, for example, the UN Guiding Principles on Business and Human Rights. By nature, enhanced engagement takes a more ad hoc approach.

3. assessed against objective benchmarks

5 6

We assess ourselves against external benchmarks of good practice for responsible investment and stewardship, which provide our clients with assurance that we are applying leading industry standards.

THE UK STEWARDSHIP CODE 2020

Signatory of:

PRI Principles for Responsible Investment

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

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

IIGCC The Institutional Investors Group on Climate Change

Climate Action 100+ Global Investors Driving Business Transition

The first two of these standards are externally assessed and require detailed disclosure of arrangements, policies, activities and outcomes annually. Our public disclosure summarises and contextualises the quarterly reporting our clients receive from us on responsible investment and stewardship activities for their portfolios.

We encourage our clients to provide feedback on the stewardship reporting we provide and are responsive to suggestions for improvements. We directly support client funds in their stewardship activities as asset owners which routinely includes assisting them to:

- Review the responsible investment and stewardship aspects of scheme policies and strategy documents (Investment Strategy Statements)
- Grow the knowledge and understanding of the Pension Fund Committee and Board members through workshop training from our responsible investment team
- Prepare information for Fund Member Forums
- Answer Freedom of Information requests
- Respond to member queries
- Produce stewardship content for inclusion in members' annual reporting
- Understand and access further information about topical matters and issues arising.

Priorities and planning 6 7

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

Our priority themes for 2020/21

Climate Change

4 6 7 12

Systematic ESG Integration

7 12

COVID-19 Resilience and Recovery

4 8 9 11 12

Climate Change

Each of our client pension funds has identified climate change as a priority theme, creating requirements and expectations for evidence and assurance that portfolios are being managed to address the risks and capture the opportunities that climate change poses.

Climate change is a systemic risk. All markets, sectors, and geographies will be affected but to an uncertain timeframe of short, medium, and long-term impacts. Physical disruption and the broader consequences of rising temperature and changing weather patterns, regulatory and policy interventions, market sentiment, and technological advance and obsolescence will all feature.

In this context, our focus in 2020/21 has been on reviewing:

- Existing information sources and how they can support our understanding and measurement of portfolio risks and opportunities and enhance our investment decision-making and engagement planning
- Whether new regulatory requirements for European asset managers (Sustainable Finance Disclosure Regulations) offer useful methodologies for identifying portfolio sustainability as part of risk identification, measurement, monitoring and reporting
- How our voting and engagement activities reinforce the importance of adequate climate change planning by investee firms and encourage progress towards the Paris Agreement goals (supportive government policy, clearer expectations of companies, an adequate emphasis from asset managers)
- How we can evolve our knowledge, expertise and capabilities to anticipate, identify and address portfolio climate change risk, recognising that it arises from strategy and investment decisions by multiple parties (both internal and external investment managers) at multiple points across multi-layered investment arrangements
- A growing industry focus on net zero emissions as an appropriate goal and commitment for focussing decisions and prompting actions aligned with an orderly transition to a carbon efficient global economy.

Systematic ESG Integration

Our fourth responsible investment belief articulates the conviction that the consideration of ESG factors is relevant at every stage in the investment cycle - within investment strategy, investment selection, and within the stewardship of assets in ownership.

We have made considerable progress in ESG integration by focussing on specific decision points and ensuring relevant ESG considerations are routinely incorporated, but the broader outcome we are working towards is systematic ESG integration. Ours is a large and diverse portfolio invested across multiple asset classes, geographies, investment products and managers. Implementing efficient, consistent, repeatable and evidenced ESG integration at every key touchpoint (decision or review stage) will take time.

Our near term priority is equipping our internal asset class teams with tools and frameworks which support the consideration of ESG factors as an integral part of assessing the risks associated with current and prospective investments. The tools will also be used to evaluate the capabilities of external managers by considering the adequacy of ESG integration processes relative to risks implicit in the manager's thesis and approach, since these will determine the assets selected to join the portfolio under management.

Systematic ESG integration within our shareholder voting approach is assisted by LPPI retaining and exercising voting rights centrally for the LPPI Global Equities Fund. We recognise that by engaging with companies and managers on the standards we may seek to address and escalate through voting at company meetings would be assisted by a concise guide to the practices and standards we are looking for and will address in our voting approach.

COVID-19 Resilience and Recovery

COVID-19 was an unforeseen stewardship priority. It demanded resources and attention throughout 2020/21 focussed on assessing the resilience of client portfolios and the performance of delegate managers and underlying companies in addressing immediate issues, and meeting investor requirements for information and assurance about a risk management and remediation strategy. The global pandemic placed investee companies and asset managers in unprecedented situations, testing the resilience of corporate governance business continuity and operational resilience, and the strength and adaptability of employee, supply chain, and stakeholder relationships.

Review of the year

2 5 6 7 8 9 10 11 12

2020/21 proved logistically challenging for all UK businesses due to COVID-19

In LPPI's case it involved significant operational adaptation as we navigated substantial yet fluid restrictions from the UK Government, and prioritised the physical and mental wellbeing of LPPI employees and business continuation. Working remotely from home, employees were supported and kept up to date by corporate communications and regular engagement and interaction from their line managers. Staff responded positively, adapted quickly and co-operated effectively to form a co-ordinated and efficient virtual team focussed on maintaining our business plans and achieving delivery objectives.

The progress we prioritised fell into four main areas:

Continuing to build resources, increase capacity and embed expertise

Continuing to review regulatory developments, integrate new requirements and adopt appropriate best practice.

Developing and participating in collaborative partnerships

Developing our stewardship reporting

Continuing to build resources, increase capacity and embed expertise

Our in-house investment managers engage with companies directly, while a large portion of the portfolio is under management by delegate (external) managers appointed and overseen by LPPI.

Manager selection and oversight are a critical investment discipline and during the past 12 months we have focussed on reviewing our approach to investment due diligence and underwriting, with the objective of achieving systematic assurance that prospective managers have the culture, governance, skills, processes, capabilities and investment expertise to meet our requirements.

Developments include:

- a new senior leader overseeing investment due diligence and a full review/refresh of our processes
- updated procedures and pro formas for our two-stage process for investment recommendations and decision making by the LPPI Investment Committee
- operational due diligence increasingly undertaken in-house, overseen by a dedicated head of operational due diligence (recruited Q4 2019) and in compliance with a disciplined assurance process.

Case study 4 5 7 8

Evolution of operational due diligence

Operational due diligence (ODD) provides essential insights into the status, governance and practices of delegate investment managers. Understanding how firms are run (not only in terms of their investment process, but as employers and businesses) supports our evaluation of their operational capabilities and whether these meet LPPI's requirements as a responsible investor.

ODD encompasses multiple aspects of the manager's operations including compliance, risk, and the integration of ESG. LPPI's approach for mitigating potential risks involves retaining an industry recognised external consultant and embedding internal expertise through a dedicated head of ODD. In 2020/21 a robust and systematic process has been designed, piloted and implemented with a clear remit to establish whether potential investment managers or products are safe, secure and unlikely to result in a negative outcome before we enter into a legally binding contract.

Our ODD review process operates under an active veto where significant negative findings can result in an investment proposal being halted, precluding its consideration by LPPI's Investment Committee. In practice, where it is appropriate to do so, LPPI will work with an investment manager, explain the issues identified and establish a mitigation plan which can assist them to achieve the standards and controls required to allow the investment proposal to be considered. In this way we are both identifying concerns and seeking to address them for the benefit of all investors which is a direct contribution to building better market practice standards through our interactions.

As a discipline, ODD has evolved beyond the use of standard checklists to confirm procedures and documents are present. LPPI's process is at the leading edge of this evolution. We consider and evaluate a significant number of legal and procedural documents for fitness, assessing whether they reflect current market standards or best practices closely aligned with our expectations.

Our ODD process has been designed by a full time dedicated ODD professional to be transparent, consistent, achievable and give a level of assurance calibrated to our risk appetite.

ODD forms part of a wider due diligence approach scheduled and controlled via a centrally managed investment pipeline process. The investment pipeline is a control function managed by the head of ODD, which ensures control reviews have been completed by all internal functions (operations, legal, risk, responsible investment, compliance) before an investment is submitted for approval by investment committee.

With a robust ODD process implemented and operating efficiently, our focus has moved to the ongoing assessment of incumbent managers and regularising refresher assessments on a cyclical basis, with the flexibility to accelerate a review where portfolio monitoring identifies material issues.

Focus on systematic integration of ESG 5 7 8

Practical tools

Our responsible investment team has undertaken a review of existing frameworks and methodologies for identifying material ESG and sustainability issues and the scope for integrating these into our investment procedures. The objective was to identify practical tools suitable for use by investment staff who are not ESG professionals. The challenge is a systematic and intuitive approach that immediately assists effective ESG integration, but is capable of supporting ongoing learning and growing confidence and sophistication over time.

Research established a range of helpful frameworks but confirmed tools would need to be developed in-house, and that the focus should be on 2 projects:

ESG SatNav
An entry framework supporting investment staff to identify the most likely ESG considerations for an industry, activity or scenario, the materiality of relevant factors, and the issues they should consider, to understand potential risks and opportunities.

Manager ESG Rating Framework
A standard approach for evaluating ESG capabilities (experience, commitment, procedures integration arrangements) which directly assists the due diligence process and supports an objective judgement of the adequacy of the prospective manager's approach given LPPI requirements.

The responsible investment team has developed both tools into prototypes which are being piloted pending roll-out in 2021/22.

Shareholder Voting Guidelines 5 11

LPPI's shareholder voting policy describes our arrangements for shareholder voting for the LPPI Global Equities Fund and how we approach voting as part of stewardship and engagement. The policy does not cover how we will vote on key issues.

We recognise that engaging with companies and managers on the standards we may seek to address and escalate through our voting at company meetings would be assisted by a concise guide to the practices and standards we are seeking from them and set an objective to draft guidelines during 2020/21.

Working directly with the global equities team, the responsible investment team have produced a draft set of shareholder voting guidelines for our global equities fund which are designed to complement and sit alongside our shareholder voting policy.

The guidelines cover LPPI's core priorities, our expectations of companies, and how we are likely to vote where these expectations are not being met, or where companies are unresponsive to dialogue.

The guidelines are subject to review and approval from our stewardship committee before their adoption and publication in 2021/22.

Additional Dedicated Resources 2 7 9 11

Our internal global equities team was expanded in 2020/21 to include a dedicated ESG analyst supporting the internal team's capacity to integrate ESG within investment analysis, oversight and direct engagement. Since joining LPPI in January 2021 the ESG analyst has focussed on identifying engagement priorities for our two internally-managed portfolios, as the basis for formulating and executing an engagement plan in 2021/22.

Case study 7 11 12

Developing an engagement plan for internally-managed listed equities

Scoping commenced with a bottom-up materiality assessment for the two global equity portfolios LPPI manages internally, with a focus on identifying ESG factors with the greatest potential to impact portfolio companies' competitive advantages or the durability of their cash flows over the long-term. Having identified these priorities, the engagement objective was narrowed to:

a) gaining a better understanding of whether the portfolio company has adequately identified material ESG risks and how effectively these are being managed

b) communicating areas for improvement and encouraging positive change over the medium and long-term.

The review identified three overarching engagement themes: management compensation, data security and cyber protection, and packaging and recycling. For each theme, three target companies were identified where these ESG factors are considered most material. An engagement plan with key milestones (medium- and long-term) has been scoped for each company and, depending on each firm's receptiveness to dialogue, we will consider escalation routes including opportunities for collaborative engagement that will amplify our influence.

Real Assets Project–Real Estate and Infrastructure 5 7

Under our objective to achieve systematic ESG integration, we commenced a review of key touchpoints for integrating sustainability considerations within our selection and oversight of real assets in 2020/21. The workstream commenced with an external consultant reviewing status and processes within infrastructure and real estate, with a remit to advise us on the areas we should focus upon initially and progress to over time, plus the standards and frameworks most appropriate for incorporation into the approach we go on to develop.

The recommendations and insights we gained in 2020/21 are foundations for an ongoing real assets project which will continue in 2021/22. We will develop a plan for implementing recommendations from the initial review and updating our processes accordingly, to include specifying and integrating clear standards (what we will measure) and sourcing appropriate metrics (how we will measure) as a basis for gaining assurance or receiving warning signals from the portfolio measures we monitor (oversight).

Continuing to review regulatory developments, integrate new requirements and adopt appropriate best practice.

Shareholder Rights Directive II 5

A new engagement policy which ensures LPPI is compliant with requirements under Shareholder Rights Directive II was reviewed by stewardship committee and approved by the LPPI Board in Summer 2020. SRD II introduced the requirement for a clear policy on engagement to be displayed on our website and for annual disclosures which provide:

- a general description of our voting behaviour
- an explanation of the most significant votes
- reporting on our use of proxy advisors.

Rather than a separate disclosure document the information required of us under SRDII is included in this annual report and indicated by labelling. The main insights on voting for our Global Equities Fund appear on pages 53 to 56 of this report.

Regulatory Change Working Group 2

In Autumn 2020 LPPI established a cross-disciplinary Regulatory Change Working Group to improve the efficiency with which regulatory horizon scanning produces clear actionable insights on impending measures and ensures all significant changes are registered by the business well in advance of deadlines for compliance.

In 2020/21 the working group reviewed new disclosure requirements flowing from the Sustainable Finance Disclosure Regulation (SFDR) and how these were likely to affect LPPI as an FCA regulated asset manager if they applied post Brexit. The group developed a briefing paper for Management Committee on the key requirements of SFDR but UK Government subsequently confirmed this European standard would not be adopted (onshored) and an equivalent UK standard would apply (on which an announcement is still awaited).

Developing and participating in collaborative partnerships

10 11 12

LPPI's responsible investment approach recognises 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.

Beyond the seven asset class specific pooled funds LPPI is now managing under delegated arrangements, there are further investment collaborations where LPPI is supporting pooled investment and fulfilling stewardship responsibilities on behalf of a wider consortia of pension funds. GLIL Infrastructure and The London Fund are two examples.

Collaborative Investment

THE LONDON FUND

The London Fund is a unique partnership between local government pension schemes and pools aimed at addressing London's anticipated population growth challenges through large scale real estate investment and infrastructure projects in the Greater London area.

Sustainable risk-adjusted investment returns, combined with positive social and environmental outcomes for Londoners, aim to create a double bottom line – a responsible investment principle which drives the search for investment opportunities that generate a social benefit in Greater London through job creation, regeneration and providing positive environmental impact.

GLIL INFRASTRUCTURE

GLIL Infrastructure Fund partners with UK pension funds to invest in Britain's future, creating jobs, supporting communities and helping to power UK plc towards a sustainable economy. GLIL seeks opportunities for its members to tap into the stable, inflation-linked returns that infrastructure investment can provide.

Since 2015 GLIL has raised £2.5bn of committed capital, and deployed £1.6bn into a diverse portfolio of infrastructure assets embracing renewable clean energy, water and wastewater, ports and logistics, transport modernisation, community regeneration such as hospitals and schools, and energy infrastructure such as smart meters and energy storage.

Collaborative Engagement

It is one of our core responsible investment beliefs that we should be active in ownership as an institutional investor on behalf of client pension funds, and it is one of our six targeted outcomes to be 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.

Examples

Local Government Pension Scheme

LGPS Scheme Advisory Board Responsible Investment Advisory Group (SAB RIAG)

LPPI's head of responsible investment is a member of the inaugural SAB RIAG, one of two pool representatives nominated to join the group convened in early 2021 to provide the Scheme Advisory Board with advice on responsible investment.

Thematic - Climate Change

Transition Pathway Initiative (TPI)

Our involvement: Long-term supporter and funding provider. Member of the TPI Steering Committee.

Institutional Investor Group on Climate Change (IIGCC)

Our involvement: Member of the corporate programme. Participant of the Paris Aligned Investment Initiative, and supporter and signatory to multiple collaborative investor initiatives.

Climate Action 100+

Our Involvement: Participant and advocate. Member of the investor group engaging Nestle.

CDP (formerly Climate Disclosure Project)

Our Involvement: Member and investor signatory to letters under CDP Annual Disclosure Campaign.

Transparent Disclosure

Workforce Disclosure Initiative (WDI)

Our involvement: Member. We are engaging directly with investee companies urging disclosure through completion of the detailed annual questionnaire.

Examples of collaborative engagement 2020/21

COVID-19 – Advocacy on resilience and sustainable recovery

LPPI immediately took steps in February 2020 to communicate a clear stance on addressing the emergencies caused by COVID-19 and confirmed a priority focus on safeguarding employees' resilience and recovery.

LPPI was a signatory to an **Investor Statement on Coronavirus Response**, addressed to the Boards and management teams of investee companies, which articulated our support for practical steps they could take:

- Provide paid leave
- Prioritise health and safety
- Maintain employment
- Maintain supplier and customer relationships
- Exercise financial prudence

Subsequently (June 2020) LPPI joined 200 businesses and investors calling on the UK government to deliver a recovery from the pandemic which builds a more sustainable, inclusive, and resilient UK economy for the future. Our advocacy was as a signatory to an investor letter to the Prime Minister conveying 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.

Additionally (June 2020) LPPI signed an open letter to EU leaders urging planning for a sustainable recovery from COVID-19 which:

- Prioritises human relief and job creation without locking in high carbon pathways.
- Supports the Green Deal and upholds the Paris Agreement.
- Ensures COVID-19 support addresses climate risk.
- Prioritises climate resiliency and net zero emissions within economic solutions.
- Embeds investor participation in recovery planning.

Developing our stewardship reporting

5 6

We have worked hard to evolve the format and scope of our reporting on responsible investment and stewardship in 2020/21. This incorporated a planned upgrade to the existing quarterly reporting we provide to client pension funds and preparations for the challenges posed by material changes to two of the three external standards we report against.

Client Reporting

At the beginning of 2020 we launched a new reporting approach. We provide a responsible investment dashboard which headlines information and metrics including shareholder voting and engagement, portfolio composition and examples of real world outcomes. This is accompanied by a narrative report with more detailed information and case studies on LPPI's activities plus news and initiatives directly relevant to LGPS funds. This dashboard style of presentation was developed by LPPI in response to client requests for bite-sized insights and information which enabled comparison over time. We will continue to develop and seek to expand the information we can quantify and summarise in a form compatible with a dashboard format and we welcome feedback from our clients on the information they find most useful.

External Reporting

Principles for Responsible Investment

As a signatory to the Principles for Responsible Investment, LPPI reports annually against a detailed questionnaire which produces transparency reports as a public reporting outcome. 2021 was a pilot year for a revised PRI reporting approach and our responsible investment team dedicated significant planning, effort and resources to the preparation and co-ordination of data, contextual information and examples. Technical problems and teething issues made reporting a more challenging experience in the pilot year than previously and difficulties requiring remediation have been publicly acknowledged by the PRI in response to feedback from signatories. It has subsequently been confirmed that the release of reporting outcomes for the pilot year will be significantly delayed due to the need for additional testing and verification, and signatories have been advised that they will not report in 2022 to allow an appropriate period for the PRI's full review.

UK Stewardship Code (2020)

In January 2020 a revised and significantly more demanding UK Stewardship Code came into force. The scope of information required to report against 12 detailed principles involves considerable planning and co-ordination, but also forces a decision on reporting format. The choice is between a disclosure report specifically dedicated to demonstrating compliance with the code (principle by principle) or a stewardship report ostensibly seeking to be informative to clients and stakeholders as an engaging account of LPPI's stewardship which also addresses the required principles.

Our decision in this first year was to retain the reporting format introduced in our inaugural Responsible Investment Report 2019/20, expanding this to incorporate the range of disclosures mandated by the new Stewardship Code. We will review this approach in light of first year experience and the Financial Reporting Council's (FRC) assessment of the quality of our report.

We will continue to evolve and seek to improve our reporting on stewardship and responsible investment over time and we welcome advice and feedback from the FRC and from our clients and stakeholders on how successfully their needs were met by our Responsible Investment and Stewardship Report 2020/21.

Engagement insights 8 9

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.

Assets owned through funds require a more collaborative approach and we place a strong focus on evaluating, selecting and appointing external fund managers whose approach aligns with our responsible investment requirements and meets our core standards. As part of ongoing portfolio monitoring we pose questions of our managers about material ESG issues affecting the portfolio they are managing and how these are being addressed in practice. We also communicate a strong priority for responsible investment and active stewardship which incorporates ESG integration.

Private Equity

LPPI routinely engages delegate managers to encourage evolution in their ESG reporting capabilities, and where possible the inclusion of quantitative as well as qualitative insights. We find our ability to influence managers is strongest at the time of fundraising for a new fund. This is also a natural time for the manager to commit to rolling out improved reporting.

Due diligence on a new fund from an incumbent asset manager in the second half of 2020 involved an evaluation of the manager's ESG policy, internal processes, ESG templates, existing reporting format and responses to a detailed responsible investment due-diligence questionnaire. Collectively the review identified scope for improved disclosure, particularly in relation to metrics to assist LPPI's portfolio oversight and reporting to clients.

Our private equity team held several conversations with senior executives, explaining the evaluation and framing a request for greater focus on ESG reporting. The manager was open to dialogue and received insights and practical recommendations on how ESG reporting could be improved to better meet our ongoing needs.

At the Limited Partner Advisory Committee (LPAC) in the first quarter of 2021 the manager confirmed an expanded team through the addition of a dedicated ESG role. Key tasks for the new hire include the development of common ESG metrics for each company in the portfolio which will be aggregated to fund level as part the establishment of a systematic framework supportive of a stronger focus on ESG in day-to-day operations. At the same LPAC the manager also announced the firm's achievement of B Corp certification.

Global Equities

As an active owner, LPPI's ongoing regular dialogue with delegate managers includes enquiries about responsible investment and stewardship matters. In practice this means standing questions about any materially significant ESG risks feature within quarterly portfolio monitoring meetings. Additionally, the responsible investment team ask each manager to present a prepared answer to a targeted question on a topical ESG issue notified in advance. Subjects featured in 2020/21 included the impact of COVID-19 on workforces at investee companies, cybersecurity, and enhanced human rights due diligence. Receiving responses to prepared questions allows the responsible investment team to compare how different delegate managers are approaching, managing, and monitoring common risks, and offers comparison with the approach taken by internal portfolio managers.

The ESG questions posed as part of quarterly meetings are in addition to a scheduled annual review meeting with each manager which looks back on the prior year and considers headline engagement statistics, representative case studies, and process improvements.

Infrastructure case study
Semperian

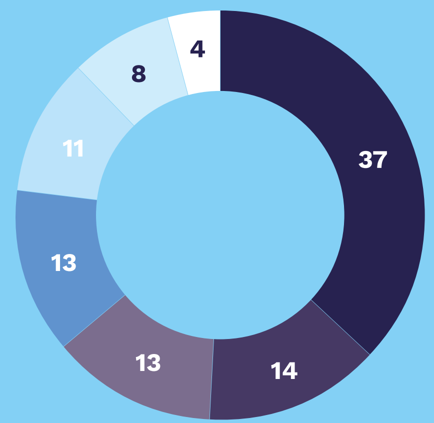
Semperian is a UK-focused social infrastructure company with £1.9 billion invested in 95 assets, providing essential public services to local communities. An LPPI client acquired a minority equity stake in 2012 and was joined by GLIL Infrastructure (managed by LPPI's investment team) in 2018 which acquired a further stake to support the future growth of the business and its portfolio.

Semperian's portfolio consists of 2.8 million square metres of accommodation, 15,000 hospital beds, 1,600 car parking spaces, 163 schools, more than 764 kilometres of road, and it manages more than 750,000 tonnes of waste. About 80% of the value of the assets is in Public-Private Partnerships.

LPPI interacts directly with Semperian, our support and engagement on material matters being exercised through our head of asset management who is a director on the board of the company.

Our priorities have included a sustained emphasis on strong governance and processes which identify material ESG issues. We have directly supported a focus on improving board oversight of ESG issues with the aim of securing information which provides a clear understanding of the risks and opportunities faced and supports action planning to address these.

LPPI provided the leadership, process and support to develop an ESG strategy and policy for the business. This included defining the appropriate metrics and identifying what should be measured and reported to the board. Time and resources invested included engaging an external consultant to undertake a Materiality Review and assist the company with the development of an ESG Policy and Key Performance Indicators. Progress has been good and the board has now adopted a policy and agreed metrics (KPIs) which will be implemented and monitored during 2021/22.



TYPE OF ASSET	% OF PORTFOLIO
Health	37
Accommodation	14
Education	13
Waste and utility	13
Community health	11
Transport	8
Prison/SA	4

Source: Semperian to 30 June 2021

Active ownership in practice

9 10 11 12

Engagement Examples

Case study

LPPI internal mandate - Nestle say on climate

LPPI is a member of the Climate Action 100+ group engaging with Nestlé.

As part of a direct engagement conducted by the group (which is led by Ethos Foundation) LPPI signed a letter to the Board Chairman in December 2020 asking the company to voluntarily submit its climate transition plans to a shareholder vote.

Whilst initially hesitant to support the request for a "Say on Climate" the company reconsidered in response to further dialogue and a shareholder resolution filed by Ethos and seven other Swiss pension funds. The board of directors announced on 16 March that it would support an advisory vote based on plans set out under Nestlé's Net zero Roadmap published in February 2021. Following this welcome decision, the shareholder resolution was withdrawn. At the AGM on 15 April 2021 LPPI voted to approve Nestlé's Climate Action Plan which sets clear milestones for achieving net zero by 2050 under a detailed, timebound roadmap. 95% of shareholders voted in support of the climate plan.

The engagement with Nestlé involved encouraging an acknowledged leader to be an exemplar for the broader market by voluntarily opting to allow investors a direct say on the adequacy of net zero planning. LPPI's support for asking this of Nestlé was an early step in what has subsequently become support for the benefit of companies allowing shareholders to consider and vote on the quality of climate planning. LPPI has contributed insights to work underway by IIGCC on the articulation of investor expectations for evaluating the quality of corporate net zero planning and disclosure, which includes allowing shareholders to vote on the quality of planning through a "Say on Climate".

Other engagement examples from LPPI's internally-managed listed equity portfolio

1. LPPI's internal equity team engaged with a medical devices producer to manage ESG risk. Analysis suggested management's capital allocation decisions appeared to be progressively focussing on short term projects, rather than centred around preserving long term sustainability of the business model. As an active, long-term owner, LPPI is engaging to encourage the company to adopt a more long-term approach.

2. LPPI's internal equity team engaged with a portfolio holding to manage governance risk. The team grew concerned about the lack of transparency displayed by a US manufacturer of industrial equipment with a significant presence in emerging markets, specifically with regards to its large overseas operations. LPPI engaged with the management team on several occasions with the aim of better understanding the growth drivers behind its emerging market business which, at the time, was struggling and materially underperforming the overall industry. However, the company was always reticent to candidly discuss their challenges in those emerging markets. In the end, the company admitted some operational issues and execution missteps that arguably could have been avoided. Given the company's lack of transparency, our decision was to exit the position due to diminished confidence in the management team.

3. LPPI is an investor signatory to the Workforce Disclosure Initiative (WDI), which seeks to generate new data on workforce management through an in-depth survey. In support of the coalition, LPPI wrote to six investee companies who had yet to confirm their disclosure to the 2020 survey. Following LPPI's letter campaign, three of the six companies disclosed to the WDI.

Working with our engagement partner (public markets)

In February 2020 LPPI engaged an external partner to support and supplement the engagement activities we conduct in-house across public markets (listed equities and corporate fixed income). We have worked closely and productively with the Robeco Active Ownership team, liaising directly with the extended team involved in planning and conducting engagements with target companies to establish a strong dialogue through regular meetings and shared insights. We have agreed detailed and summary reporting formats which support our commitment to transparent disclosure to our client pension funds, and which allow us to feature engagement headlines and an update on progress within our quarterly reporting to them.

We have held quarterly meetings and an annual review meeting with the Robeco Team which allowed us to ask questions, seek clarification and share our insights and requirements on the issues of importance to us and to our client pension funds. We actively participated in the Annual Client Panel (November 2020) by both preparing written input in advance and openly discussing with Robeco and other clients the issues we wished to put forward as priorities for our portfolio. We were able to see that some of these were taken forward for further consideration and have helped to shape the engagement themes subsequently selected and confirmed to clients by Robeco.

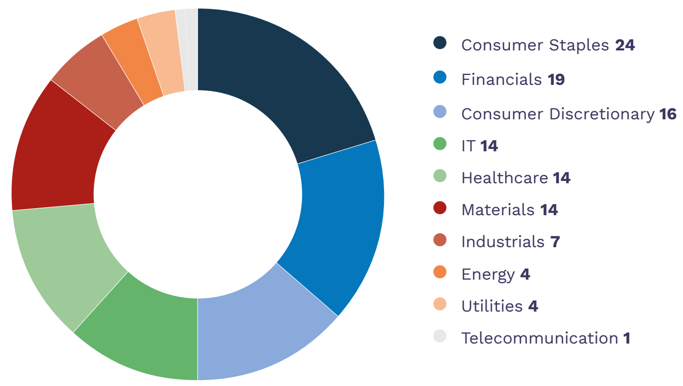
For the year in review, our partner engaged with 117 holdings over 24 separate themes. Engagement cases were roughly evenly split between our credit (corporate fixed income) and equities holdings across the following sectors and markets. (FIG 1 & FIG 2)

Engagement progress against detailed targets is diligently tracked by Robeco and the results made available to LPPI through online reporting and quarterly reporting and meetings. Overall progress for each of the themes actively engaged on during 2021/21 can be seen in the following chart (FIG 3)

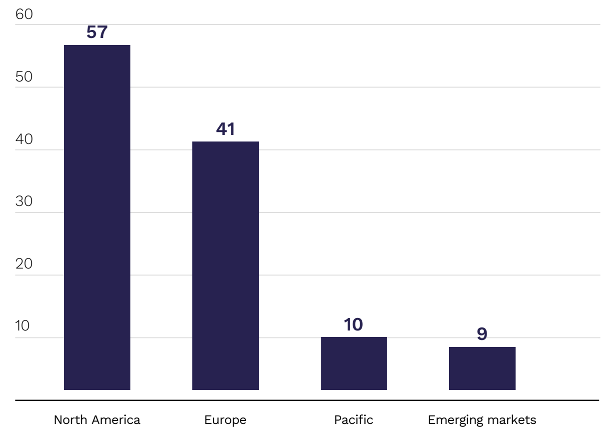
In this period, five themes closed and six new themes were added. Engagements under Reducing Global Waste and Climate Change and Well-Being in the Office Real Estate Sector closed successfully, with our holdings meeting the majority of objectives set at the start of the three-year engagement period. Climate Action saw more mixed progress across our equities and credit holdings. At the majority of companies engaged under this theme there was insufficient progress for the engagements to be determined a success at closure, however positive progress was achieved at every company against some of the target outcomes, and Robeco is continuing to undertake climate focussed engagement with the introduction of new themes on Net-Zero Carbon Emissions and Climate Transition of Financial Institutions. Further details about engagement activities and progress are available from our website.

Going forward, LPPI will be monitoring and discussing the progress of the new engagement themes added in the past year (including biodiversity and responsible executive remuneration) and will contribute to the prioritisation of future themes via the annual client forum. As our partnership evolves, we aim to learn from and incorporate the best practice we observe within the planning, targeting, monitoring and execution of corporate dialogue and the tracking of progress and engagement outcomes by our provider Robeco.

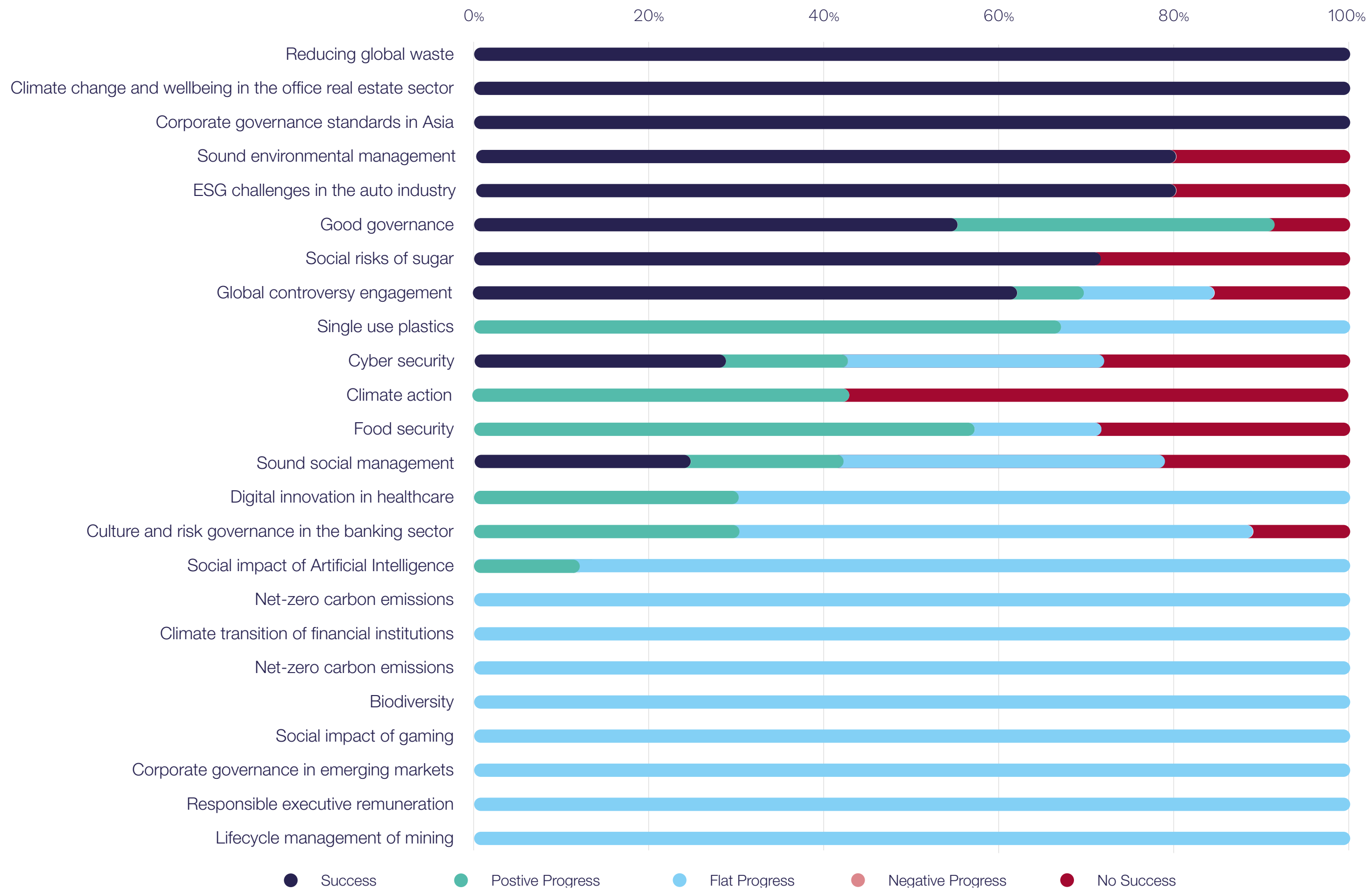
Engagement cases (sectors) (FIG 1)



Engagement cases (markets) (FIG 2)



Progress of actively engaged themes 2021/21 (FIG 3)



Source (FIG 1, 2, 3): Robeco Active Ownership Team

Shareholder Rights Directive II disclosure for 2020/21

Shareholder voting headlines 12

For shares in listed companies, the right to vote at company meetings provides a 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.

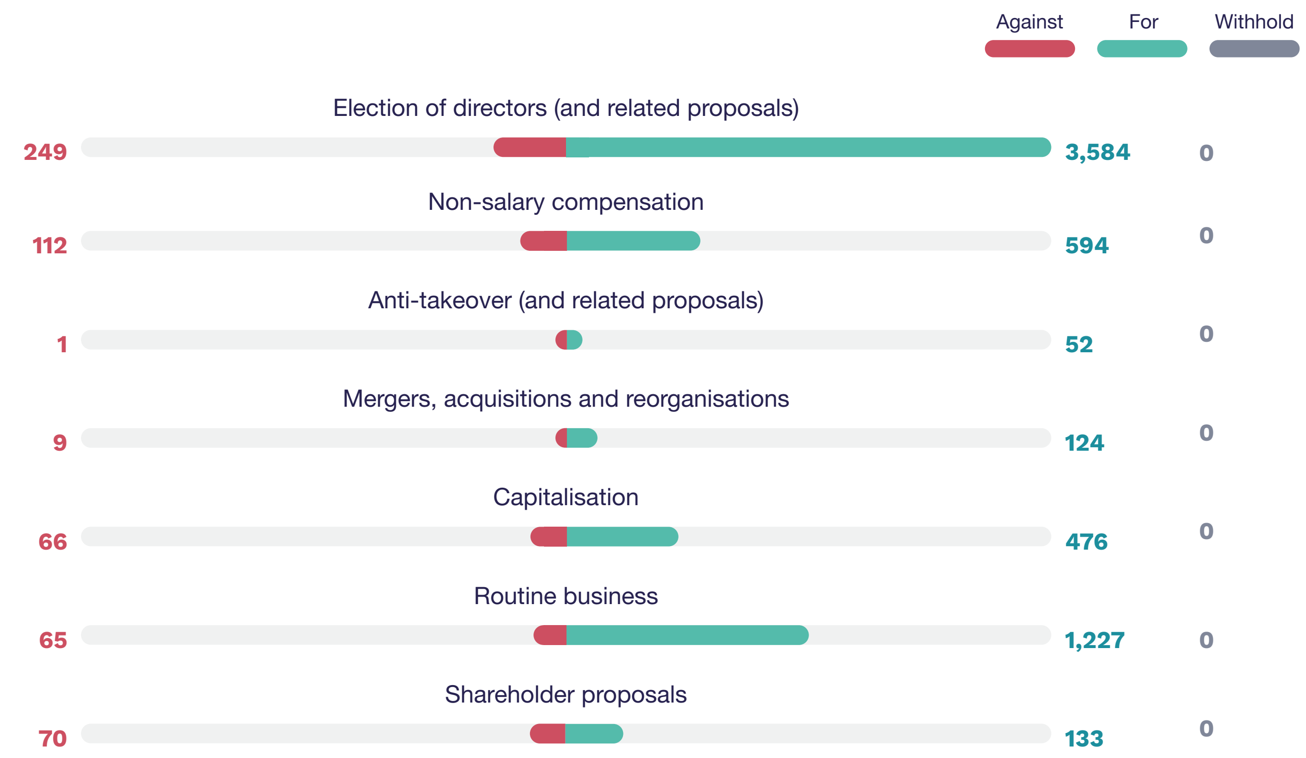
We publish detailed information on each company meeting and every resolution we have voted via quarterly **Shareholder Voting reports** available on our website. These reports meet the commitment we have made to transparent reporting on our stewardship activities, but in this (our annual report) we also address disclosures required of us annually under the Shareholder Rights Directive II which, in addition to a general description of our voting behaviour includes an explanation of our use of the services of proxy advisors and the most significant votes.

Our use of proxy advisers

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 portfolio managers, our engagement partner, and our proxy voting provider as needed to reach final voting decisions which are those we consider best aligned with our priorities for strong governance, and decision-making which incorporates a holistic evaluation of current and future drivers of sustainability, which include sources of enduring competitiveness, and a continuing social licence to operate through attention to corporate citizenship.

General voting behaviour (by theme)

In the 12 months from April 2020 to March 2021 LPPI voted at 574 company meetings on 6,762 separate resolutions as follows:



92% Company Proposals

66% Shareholders Proposals

39% Meetings with a vote against Management

LPPI supported 92% of company proposals and 66% of shareholder proposals. We voted against management (on at least one resolution) at 39% of company meetings in the period.

In summary, LPPI voted:

- Against 15% of management resolutions and in support on 44% of shareholder proposals on remuneration
- In support of 89% of shareholder proposals on human rights issues
- In support of 50% of shareholder proposals related to gender and/or racial diversity (proposals requesting clear targets or specific information to be reported)
- In support of 100% of shareholder proposals on the health impact of products (e.g. sugar, antibiotics)
- In support of 100% of shareholder proposals on climate change (proposals seeking greater information on how companies are managing risk).

Source: All metrics by LPPI, derived from reports drawn from the ISS Voting platform

Shareholder Rights Directive II disclosure for 2020/21 cont.

Examples of LPPI supporting shareholder proposals on priority themes 12

Human Rights

LPPI's engagement services provider co-filed a shareholder proposal at Alphabet's Annual General Meeting requesting the company establish a human rights risk oversight committee at the board level, comprising independent directors with relevant experience. They were concerned about Alphabet's failure to engage around this issue and to provide meaningful disclosure around how it ensures appropriate oversight is afforded to this vast and expansive issue by the Audit Committee. LPPI voted in support of the shareholder resolution. In total, the resolution received 16% of votes in favour. Subsequently, our investor requests have been substantially implemented by the addition of human rights responsibilities to the Audit Committee's Charter.

Western Union and Diversity

Shareholders filed a proposal at The Western Union Company requesting the company enhances reporting on political contributions. LPPI is minded to support well written and proportionate shareholder resolutions seeking greater action on materially relevant topics. Further, we know a client has a specific interest on political lobbying. Having met this criteria, LPPI supported the resolution, and welcomed it passing with majority support.

P&G and Deforestation

The Procter & Gamble Company faced a shareholder resolution requesting the company report on their efforts to eliminate deforestation from its supply chain. LPPI is minded to support well written and proportionate shareholder resolutions seeking greater action on materially relevant topics. LPPI supported the resolution, having met this criteria, and welcomed it passing with majority support.

MOST SIGNIFICANT VOTES

Climate change 12

LPPI views climate change as a systemic risk with the potential to destroy value and we recognise the importance to all markets globally of a successful transition to a low carbon economy in line with targets under the Paris Agreement. Company meetings provide an avenue for engaging with investee companies on their management of the risks and opportunities arising from climate change. LPPI uses shareholder voting rights to encourage companies to align their activities with targets for global decarbonisation and to disclose transparently on their planning, target setting, and progress, plus their advocacy and lobbying.

During 2020-21, LPPI supported 100% of climate-related shareholder resolutions at investee companies. The majority of resolutions sought improved disclosure on how the company is managing the risks it faces from climate change and how this translates into concrete plans which are measurable via clear targets.

Case study

At the Procter and Gamble Company (USA: Household Products), LPPI supported a shareholder resolution requesting the company report on its efforts to eliminate deforestation from its supply chain. The resolution passed with an impressive 68% support. Media reports indicate Procter and Gamble has subsequently commenced engagement with one of their suppliers on deforestation.

Shareholder Rights Directive II disclosure for 2020/21 cont.

MOST SIGNIFICANT VOTES

Pay 12

Ensuring the alignment of management and long-term shareholders is one of LPPI's stewardship priorities. The individuals leading a company (its Chair, Board members and Executive Committee) set corporate culture and hold ultimate responsibility for generating sustainable, long-term value. Attracting and retaining high calibre individuals and ensuring their interests and performance align with long-term company success is critical.

During 2020-21, LPPI cast 101 votes against management on pay-related matters, equating to 15% of all management proposed pay-related votes

Case study

Apple (USA: Technology Hardware, Storage & Peripherals) stated an ESG modifier has been added to their management incentive programme for FY2021. This follows a shareholder resolution at the 2020 AGM, which LPPI supported, pushing the company to assess the feasibility of including sustainability components within executive compensation. The vote only received 12.1% support which shows that votes do not need majority support to be influential.

After dissent for Oracle Corporation's (USA: Systems Software) say on pay in 2018 and 2019, the company enhanced disclosure of dialogue with shareholders on the matter of pay. They also made commitments to maintaining the existing terms of outstanding front loaded awards, despite executives not meeting targets for tranches to vest. Problems remain in Oracle's pay practices so, despite improvements, LPPI withheld support in 2020.

MOST SIGNIFICANT VOTES

Diversity 12

Company meetings provide a direct opportunity for LPPI to hold companies accountable on the diversity of their Boards. Through shareholder resolutions and management resolutions on the election of Nomination Committee members, LPPI is able to express a view on the company's status, approach and progress.

In 2020/21, LPPI casted dissenting votes against 23 management resolutions at 15 companies due to a lack of gender diversity on the Board. Additionally, LPPI supported 50% of shareholder resolutions relating to diversity. LPPI is minded to support votes seeking greater transparency around company practices on diversity, or further action where company process is believed to be in sufficient. However, each vote is taken on a case-by-case basis, and this year saw a high number of diversity-related resolutions that did not meet our quality threshold. For example, by including asks that would not produce meaningful information on employment practices.

Case study

At Expeditors International of Washington (USA: Air Freight & Logistics), LPPI supported a resolution requesting the Board adopt a policy to improve Board and top management diversity. Specifically, to ensure that women and ethnic minority candidates are included in future searches. The resolution passed with majority support. In response, the Board published an updated Policy on Director Nomination in August 2020 containing the commitment to instruct any search firms to include qualified female and racially diverse candidates.

Shareholder Rights Directive II disclosure for 2020/21 cont.

MOST SIGNIFICANT VOTES

Lobbying 12

Shareholder resolutions on political lobbying, predominantly in the US, encourage companies to comprehensively disclose their direct activities as well as the influence and efforts through trade associations and other third parties. Improved transparency on the nature, extent and priorities of company lobbying can foster improved corporate and accountability. These factors lead to them being a priority for one of our client funds.

In 2020-21, LPPI supported 100% of shareholder resolutions on lobbying.

Case study

At The Western Union Company (USA: Data Processing & Outsourced Services), LPPI supported a shareholder resolution seeking additional information regarding the company's direct and indirect political contributions, including payments to trade associations. Implementing the resolution's asks would enhance the company's reporting in this area. The vote passed with majority support.

MOST SIGNIFICANT VOTES

Human Rights 9

Many pertinent topics across ESG have a basis in the respect for human rights, such as environmental justice and labour rights. Shareholder voting is one avenue when human rights are directly addressed. For example, through resolutions seeking greater transparency around human rights risk assessments. Over the past year, LPPI supported eight human rights shareholder resolutions at five companies (89% of votes faced).

Case study

At Alphabet (USA: Interactive Media & Services), LPPI coordinated shareholder voting with the activities of external engagement services provider. Their engagement on the social impact of artificial intelligence began in 2019. Due to insufficient responsiveness, our service provider escalated the engagement by co-leading the filing of a shareholder proposal at Alphabet's AGM asking for a Human Rights Risk Oversight committee to be established, comprising independent directors with relevant experience. This request reflected the engagement objectives. Some 16% of shareholders voted in favor of our resolution, which is a substantial part of the non-controlling shareholder votes.

Several months after the AGM, Alphabet announced an update of its Audit Committee Charter, which now includes the review of major risk exposures around sustainability and civil and human rights. This is in line with our request to formalize board oversight, and represents a concrete a first step towards getting this in place on specific sustainability related issues, such as human rights.

Looking ahead

The themes and projects we have identified for prioritisation in 2021/22 place a strong focus on LPPI as an asset manager and concern best practice standards we are seeking to adopt and evolve. As an integral part of our commitment to continuing development we value collaboration, seek to learn from our peers, and will offer support and shared insights to industry initiatives and partnerships which encourage responsible investment practices which add value, promote resilience, and deliver better outcomes for the institutional pension funds we serve.

Asset Owner Diversity Charter 2

In common with other asset owners, LPPI recognises that the investment industry has a poor record of diversity which is not assisted by lack of a regime of disclosure and accountability which demands a consistent focus on actions and outcomes. LPPI has been monitoring the development of an Asset Owner Charter which seeks to recommend a suitable disclosure standard adoptable by the industry at large. We will be giving practical support to the initiative in 2021/22 through a public commitment to its goals and ongoing work to implement the practice standards the Charter encompasses.

Net zero commitment 4

In September 2021 (ahead of COP26) LPPI publicly announced a commitment to the goal of net zero portfolio emissions by 2050 and has commenced the significant work involved in scoping and setting a first interim target (2030) working closely with client pension funds and learning from peers and emergent industry standards and frameworks.

Real assets ESG focus 7

Continuing our focus on the systematic integration of ESG within investment decision-making, we will place specific emphasis on our approach and procedures for the selection and oversight of real assets (real estate and infrastructure), seeking to plan and implement recommendations arising from the review commenced in 2019/20 with consultant support.

Mandatory TCFD (including prescribed metrics) 4 5 6

We will be monitoring and providing input and feedback to proposals for the introduction of mandatory TCFD reporting by asset managers and UK Pension Funds. We will seek to encourage the best possible alignment between the reporting regime that will apply to LPPI as an asset manager and the disclosure requirements proposed for our client pension funds as LGPS administering authorities. Seeking resource efficiency through common metrics and complementary timeframes for disclosure is an important priority for the significant planning and data sourcing involved.

Department for Work and Pensions - Occupational Pensions Stewardship Council 10

LPPI became a member of the Council and will seek to collaborate with peers and the government to raise the bar, share insights, and contribute to initiatives likely to deliver the policy and operating context which will assist us to be effective long term stewards.

Guide to external reporting standards

UK Stewardship Code (2020)

The UK Stewardship Code emerged after the publication of the Walker Report in 2009. This report recommended that the Financial Reporting Council (FRC) should cover and encourage adherence to best practice in stewardship of UK listed companies, regularly review the code on the Responsibilities of Institutional Investors issued by the Institutional Shareholders' Committee (ISC), and ensure the code operates on a 'comply or explain' basis.

The FRC published the first UK Stewardship Code in 2010, which required organisations authorised by the Financial Services Authority (FSA) (now authorised by the Financial Conduct Authority (FCA)) to provide a description of how the principles of the code have been applied, disclosure of the specific information listed under several specific principles, or an explanation if these elements of the code have not been complied with.

Since 2010, the code has been revised twice. It was first revised in 2012 to include the clarification of the respective responsibilities of asset managers and asset owners for stewardship, clearer explanations on conflicts of interest, and for greater assurance of stewardship activities to be provided. There were then substantial revisions in 2020, which split the code into a set of 12 'apply and explain' principles for asset managers and asset owners, and a separate set of six principles for service providers.

In its latest form, the UK Stewardship Code sets high stewardship standards for asset owners and asset managers, and for service providers that support them, allowing organisations to meet the expectations for effective stewardship in a manner that is aligned with their own business model and strategy. Organisations that submit to the FRC a Stewardship Report demonstrating how they have applied the code's principles in the previous 12 months will be assessed and if the report meets the reporting expectations, the organisation will be listed as a signatory to the code.

Shareholder Rights Directive II (SRD)

The European Shareholder Rights Directive (SRD) came into effect in 2007 aiming to improve corporate governance in companies with securities traded on EU regulated markets. Shareholder Rights Directive II (SRD II) amends SRD I and aims to strengthen the position of shareholders and improve engagement and transparency by enhancing the flow of information across the institutional investment community and promoting common stewardship objectives between institutional investors and asset managers, while improving transparency to issuers, investors, and intermediaries. SRD II came into force in June 2017 with most provisions implemented by September 2020.

SRD II is implemented in the UK via Shareholder Rights Directive (Asset Managers and Insurers) Instrument 2019 (FCA 2019/68) which confirms a requirement for regulated asset managers to:

Develop and publicly disclose an engagement policy which:

- Integrates shareholder engagement within investment strategy
- Monitors investee companies on relevant matters, including:
  - › strategy
  - › financial and non-financial performance and risk
  - › capital structure
  - › social and environmental impact and corporate governance
- Conduct dialogues with investee companies
- Exercise voting rights and other rights attached to shares
- Cooperate with other shareholders
- Communicate with relevant stakeholders of investee companies
- Manage actual and potential conflicts of interests arising from its engagements.

Publicly disclose on an annual basis how its engagement policy has been implemented, including a general description of voting behaviour, an explanation of the most significant votes and reporting on the use of the services of proxy advisors.

Taskforce on Climate-related Financial Disclosures (TCFD)

The Financial Stability Board created the Task Force on Climate-related Financial Disclosures (TCFD) to improve and increase reporting of climate-related financial information.

Recommendations published by the Taskforce in 2017 set voluntary disclosure standards for reporting on climate change risk management by companies, asset owners and asset managers.

Recommended disclosures are under 4 pillars and are intended to form part of annual financial statements, deliberately identifying the impacts and implications of climate change as material financial considerations for firms now and long into the future.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Climate Change Disclosure:

TCFD Report 2020/21

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.

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.

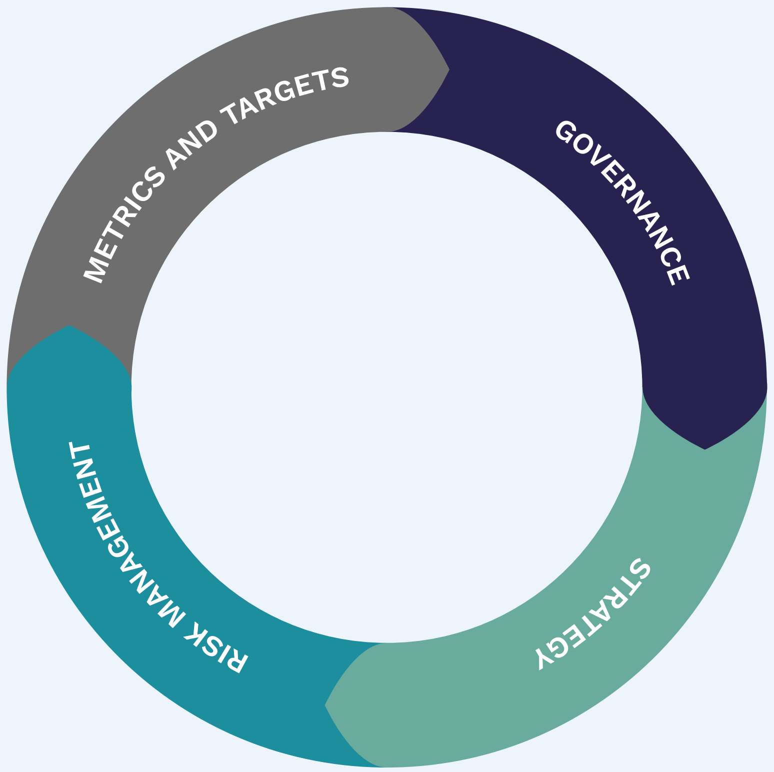
The information we provide on the following pages offers insights on our current arrangements and work to date.

2020/21 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.

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

Governance

A

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

The members of LPPI Board are fully aware of and supportive of the priority being given to climate change as a material investment issue. The Board execute their responsibilities for climate-related oversight through their approval of the key climate-related policies and disclosures that LPPI publishes. LPPI disclosures include annual reporting on responsible investment and stewardship, PRI reporting and TCFD disclosure. 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 Board have identified stewardship and leadership within responsible investment as a strategic priority within LPPI's 2020-2025 business plan. The Board's oversight of progress against the strategic plan objectives will include LPPI's continuing work on climate change. These priorities are monitored and reported upon within Board meetings and in shareholder interaction on an ongoing basis.

B

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

LPPI board has delegated operational oversight of LPPI's responsible investment 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 responsible investment policy by LPPI and oversee its practical implementation under the aegis of their wider roles and responsibilities.

Management-level roles assess climate-related risks through their direct involvement in investment decision-making and their oversight of the policies in place and the investment procedures in operation. Other than where investment decisions are being made under delegated authority (for example, the addition of new stocks to the internally-managed listed equities portfolio) all investment proposals are subject to a 2 stage process which involves the presentation of papers to an investment committee which considers and gives final approval.

LPPI's investment committee 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. Papers presented to the investment committee are required to include information on any material ESG issues identified, which includes risks faced from climate change. The investment committee members perform a supervisory role which includes the consideration of whether climate change related issues have been adequately considered within the investment papers presented to them.

All portfolios and exposures are under periodic review and all decisions (whether via delegated authority or investment committee approval) are supported by written investment papers which detail the risks and opportunities, including climate related where relevant.

Management agree the frameworks developed to integrate ESG into investment due diligence which are used by the investment team for assessing climate related risks in both prospective investments and the approach, capabilities and processes of delegate managers. Senior managers have budgetary approval and maintain oversight of the scale of dedicated resourcing for responsible investment. LPPI has a team of four FTE dedicated to responsible investment who support the investment team on ESG integration, including climate risk.

Strategy

A

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

As a long-term investor, LPPI evaluates the risks and opportunities posed by climate change in its assessment of potential managers and direct investments and within portfolio monitoring. Our definition of climate risks and opportunities are through the lens of transition and physical, as defined by the Taskforce on Climate-related Financial Disclosures.

We recognise transition risk will primarily impact industries that have carbon intensive business models such as energy, transport, and real estate. Where sectors or assets cannot be adapted in line with local and global decarbonisation targets, there is a possibility of stranded asset risk. We monitor sectors that are most likely to be impacted by transition risk and our responsible investment policy requires investment teams to explicitly monitor exposures to extractive fossil fuel companies. We have excluded pure play thermal coal from the portfolio and placed conditions on investments in the extraction and transportation of fossil fuels in recognition that the sector faces disproportionate downside risks from a global transition to lower carbon.

Technologies which replace the economy's reliance on fossil fuels or significantly reduce net carbon production across the manufacture and use of goods and services can help achieve climate goals and present investment opportunities if well-matched to the investment requirements of our client pension funds. Our portfolio includes for example infrastructure investments in renewable energy generation, district heating, and low carbon transport – all of which contribute to successfully achieving a low carbon future. We routinely assess the energy and resource efficiency of prospective and existing physical assets in our infrastructure and real estate portfolios. For example, in our directly managed real estate portfolio we monitor and have a business plan to ensure our properties will meet minimum energy performance targets.

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. Physical assets, such as infrastructure and real estate, are particularly vulnerable if located in regions of chronic and acute climate impacts such as flood risk or extreme weather events.

B

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

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 focus in 2020/21 has been to ensure that relevant climate change related questions are routinely being posed as part of our underwriting process, reflecting that the delegate managers we appoint are taking day to day investment decisions and overseeing assets on behalf of our clients.

Our approach is based on a deliberate consciousness of climate change which extends to all the assets we oversee, reflecting our recognition that climate change will affect all markets, sectors and asset classes and cannot be completely avoided through tilting, exclusion or sectoral divestment, though there are some obvious areas where this approach can be effective. The identification of sectors most likely to be negatively impacted by climate change led us to focus first on the traditional energy sector and specifically our portfolio's exposure to extractive fossil fuels.

Our Global Equities Fund (GEF) is being reviewed to assess the proportion of the asset class 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. Our internal listed equity team has hired a dedicated senior investment analyst specifically focussed on ESG to build in-house capabilities including those focussed on identifying climate risk and opportunity. LPPI has placed restrictions on investments in thermal coal and imposed qualitative conditions on investments in extractive fossil fuel companies, requiring managers to be able to evidence companies are demonstrably planning for the global transition to a low carbon economy and have a strong strategy in place to manage the physical, regulatory and transition risks faced from climate change. We are significantly underweighted in energy and utilities versus the benchmark for our Global Equities Fund.

Within real estate our investment adviser is including green lease clauses within new leases to increase the number of properties ESG data is reported upon and is executing on a long-term work plan to bring the portfolio up to the energy efficiency standards expected to be mandatory by 2030. Within our infrastructure portfolio, we have invested in low carbon solutions such as solar and biomass powered district heating and we are researching sectors that will remain resilient in the energy transition.

LPPI have been working with external consultants for real assets (real estate and infrastructure) who have supported a detailed focus on sector risk and systematic ESG evaluation within core underwriting and monitoring processes. The insights and recommendations flowing from objective external expertise will inform and become integrated into our core processes in the months ahead.

We have observed a growing number of investors making net zero pledges and have given detailed consideration to our own position on net zero, addressing this from the perspective of our client pension funds and their investment needs and the pooled nature of the investment funds we manage on their collective behalf. Our conclusion is that net zero portfolio emissions by 2050 is an appropriate goal for us to aim for in partnership with our client pension funds. A specific focus on assessing the alignment of current and prospective assets to global net zero by mid century will be additive to current processes and insights but is not without unknowns, uncertainties and additional costs. We recognise the need to grow our knowledge, skills, and data, and to evolve our approach. This will include collaborating with our peers and supporting the development of consistent frameworks and tools capable of assisting investors to navigate the way ahead.

Strategy

B

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

Our responsible investment roadmap involves shifting and widening focus from sectors with obvious climate risk to incorporate a wider perspective and analysis which includes

- 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 our portfolio monitoring approach.

This strategy is appropriate given:

- The multi-dimensional impacts from climate change
- 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.

LPPI's strategy centres on evaluating risks and opportunities as part of informed investment decision-making. Our clients have this as a high priority. LPPI, therefore, has had to evolve its current processes to integrate climate change and ESG. Specifically, this has involved material improvements to our asset manager due diligence, direct asset due diligence and client reporting processes. Potentially faster rates of decarbonisation, such as in a 2°C or lower scenario only add to the urgency of investors needing to be aware of the potential transition risks. LPPI has started to engage with managers on transition plans for assets that may be impacted from net zero related transition risks.

Case by case decision-making, a focus on context and an appreciation and recognition of the unprecedented changes net zero will require globally are important elements of our strategy. We are alive to and actively engaged in understanding a new investment context which is dynamic and changing under the stimulus of regulation, public sentiment, technological advance, and increasing demand and stipulation for corporate disclosure focussed on emissions management and radical decarbonisation.

Our evaluation of carbon status and transition management for the internally-managed mandates within our Global Equities Fund provide assurance that the companies we are investing in are well positioned and taking robust steps to manage the risks faced from climate change.

We have no exposure to traditional energy, and relatively low exposure to other high emitting sectors. By value, 97% of emissions are subject to reduction targets, 68% to science-based emissions targets and 88% are in companies where climate-related measures have been incorporated within management incentives (FIG 7).

The revenue-based carbon intensity of our Global Equities Fund is continuing to decline and remains significantly below the intensity of the benchmark with indications (from Paris alignment mapping) that portfolio emissions are aligned with a 1.5° degree trajectory at this point (FIG 4).

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 our 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 LPPI is selecting an external asset manager, LPPI has a two-stage investment process that integrates ESG and climate change considerations. Both initial papers (stage 1) and detailed proposals (stage 2) to the investment committee are required to include information on material ESG issues, including climate change, identified as part of detailed operational and investment due diligence processes. Early in the investment process, all potential managers are assessed for their compliance with LPPI's responsible investment policy, which exclusions investments in assets with material thermal coal exposure. Where potential investments are in higher risk sectors the responsible investment team are involved early in the investment due diligence process. For stage 2, LPPI uses a responsible investment 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 responsible investment team, the investment committee review whether climate change has been adequately addressed within investment proposals presented to them.

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, particularly for private market asset classes. The limited quality and depth of climate disclosure by companies also place limitations on what LPPI can reliably measure, monitor and report.

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+ , Transition Pathway Initiative and Institutional Investors Group on Climate Change to engage companies and explain clear requirements.

The shareholder voting headlines included in this report confirm that in 2020/21 LPPI voted on seven shareholder proposals on climate-related matters and supported all seven (100%). Six of the proposals were on increasing climate-related reporting, whilst the other was in support of setting Greenhouse Gas (GHG) emissions targets. Previously, 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 make improvements to corporate disclosure.

LPPI has placed a focus on developing new tools to support and enhance portfolio analysis and the identification and monitoring of climate change and ESG risks. Our data approach incorporates input from TPI, Climate Action 100+ and CDP, and is influenced by thinking and frameworks developed by the Sustainability Accounting Standards Board and TCFD.

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.

Our process for direct investments involves considering multiple climate hazards (transition and physical risks) that may apply for a given investment and understanding the scenarios in which risks may materialise. For example, for assets subject to transition risk, LPPI conducts research on local and national climate policies and potential low carbon substitutes and stress test for potential downside impacts on IRRs to the investment. Through this approach, any material climate risks that are identified trigger further analysis, including estimating financial impacts within our valuation models. Where potential material climate risks are identified for managed assets, such as transition risk from net zero regulations, business plans and assumptions are adjusted to include mitigation actions.

For all prospective managers we assess ESG risks, including climate-related risks, that may arise through the manager's investment strategy and approach to asset selection. Where climate-related risks are anticipated to be material, the responsible investment team is engaged early on to provide greater ESG focus and scrutiny. LPPI has a two-stage process for selecting prospective managers, ESG due diligence is integrated in both stages. Managers are required to complete a detailed responsible investment due diligence questionnaire and to follow-up on their answers within a dialogue focussed on establishing/confirming their approach, resourcing, competencies and alignment with our beliefs and requirements. Investment papers for each stage specifically require asset class teams to discuss and investigate climate-related issues from physical climate risks and transition-based climate risks for new investments. Where managers are PRI signatories, we review their latest Transparency Report and request their most recent Assessment Report. Our investment management agreements identify our requirements for external managers to support the fulfilment of the commitments LPP has made as a PRI signatory.

LPPI has appointed an external engagement provider for public market assets and is reviewing climate-related engagements with investee companies through detailed reporting and frequent monitoring meetings.

In our proxy voting, we routinely seek to support appropriately framed shareholder resolutions on climate change related issues, specifically where these call for Paris Agreement aligned targets and improved transparency through disclosure and reporting

Our stewardship committee reviews analysis of "brown" exposures and TPI scores for our Global Equities Fund in quarterly meetings. We are continuing to develop climate dashboards that are asset class specific and holistically measure climate risk.

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).

Risk management

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 in the LPPI investment process before a decision to invest is made. Post investment, climate-related risk assessment and management are integrated in our monitoring 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, a cross disciplinary Climate Risk Panel is underway bringing 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 recommendation, and testing.

Areas of focus to date include the production of asset class specific dashboards that summarise a variety of measures of climate risk.

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 in 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 Equities Fund (GEF) versus its benchmark and monitor the contribution of different sectors and companies to the total. Carbon intensity analysis for the portfolio is formally conducted in January each year based on holdings at calendar year-end and is reviewed again in August prior to the publication of our Annual Report on Responsible Investment (which incorporates our TCFD disclosure). In the interim between January and August our data provider updates the database of company emissions, and we recalculate to assess portfolio carbon intensity using the latest available dataset.

We have performed carbon intensity analysis for our Global Equities Fund annually since 2018, and across the three datapoints now available we have observed clear year on year reductions (FIG 8).

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. Throughout 2020/21 and as at 31 March 2021, the GEF successfully achieve its target for extractive companies.

We monitor the TPI rating breakdown of the companies within the GEF covered by TPI assessments.

Approximately 91% of the portfolio weight in companies covered by TPI are rated 3 or above, which indicates at minimum climate change integration into operational decision making (FIG 1).

We also review what proportion of 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 importantly gain insight into the management quality of a material portion of the GEF's portfolio emissions (FIG 2). As at 31 March 2021, 14% of the GEF was in TPI Coverage (by value), normalising for cash, and these TPI rated companies covered 67% of the GEF's Scope 1 + 2 carbon intensity. Approximately 91% of the TPI covered carbon intensity, i.e. 61% of the GEF's portfolio emissions, are from companies rated TPI 3 or above - demonstrating at least climate integration into operational decisions. Previously, as at 31 March 2020, 13% of the GEF was in TPI coverage (by value), normalising for cash, and TPI rated companies produced 61% of the GEFs carbon intensity.

We review the proportion of the GEF's carbon intensity produced by companies under engagement by Climate Action 100+. This is used as an indicator of whether high emitting companies in our portfolio are already in an existing dialogue with investors regarding their management and disclosure of climate change risk, which is an assistance to our prioritisation of stewardship activity. As at 31 March 2021, 12%, normalising for cash, of the GEF and 60% of the GEF's carbon intensity was covered by Climate Action 100+ (FIG 3). Previously, as at 31 March 2020, 12.5% of the GEF and 55% of the GEF's carbon intensity was covered by the CA 100+.

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

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. CONT

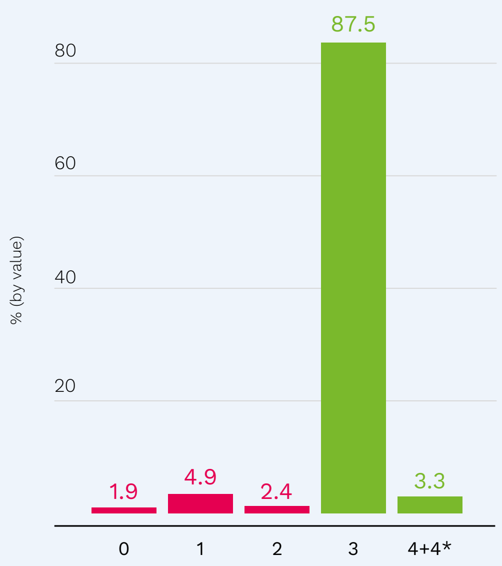
The portfolio alignment approach is based on calculating the global emissions % for the LPPI Global Equities Fund and MSCI ACWI against a reference benchmark, the Bloomberg World. Bloomberg World is used as a proxy for global activity and its carbon intensity. The methodology uses Scope 1, 2 and 3 portfolio carbon intensities and was developed by Urgentem, our carbon data provider. In this report, figures are based on revenue-based carbon intensity. In our previous report (2019/20) figures reflected market-based carbon intensity. The change in method is in line with industry best practice, and recognises the potential flaws with a carbon intensity metric influenced by market volatility. By using revenue, it is intended to reduce the influence of market factors and better isolate corporate carbon reduction. The market for carbon data analysis is evolving quickly and we recognise that there are other approaches to calculating portfolio alignment. It is an ongoing process for our responsible investment team to explore different methods and metrics which can refine analysis and reporting on climate risks and opportunities for our portfolio.

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). Going forward our process will be shaped by the approach to identifying transition aligned activities outlined by the EU Green Taxonomy.

We regularly review data on the sustainability characteristics for our direct real estate portfolio which include Energy Performance Certification (EPC) ratings (FIG 5) and flood risk ratings (FIG 6). This table covers approximately 55% of LPPI's real estate fund. The manager has designed and is in the process of executing improvements to the portfolio in line with minimum energy performance standards.

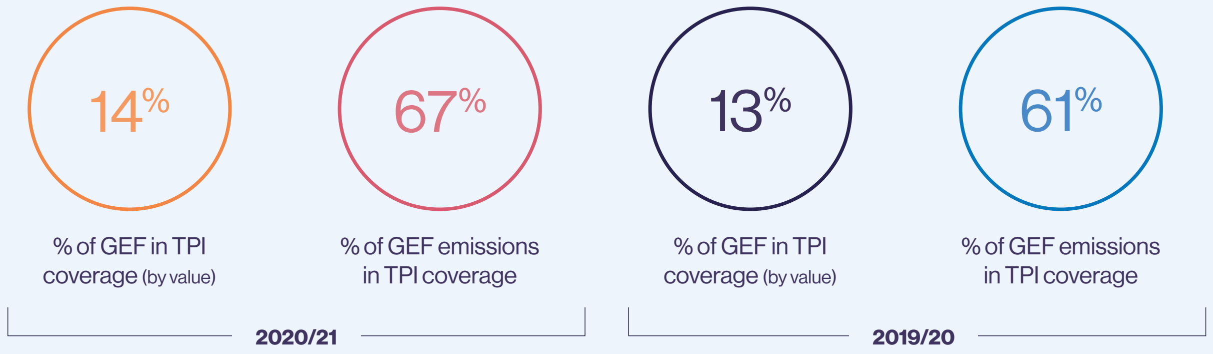
Additional metrics developed during 2020/21 focus specifically on the position of investee companies within the internally-managed large cap mandate within our Global Equities Fund and whether they have planning and targets in place for emissions reduction. The metrics assist our monitoring and engagement planning. (FIG 7) shows most companies in the internally-managed portfolio have set emissions reduction targets, with board level oversight and management incentives on climate issues also strongly present. Over 60% of the targets set are aligned with Science Based Targets Initiative, and 53% of the targets are in line with SBTI's 1.5C Business Ambition Initiative.

LPPI Global Equities Fund - Management Quality Ratings for companies in TPI coverage (FIG 1)

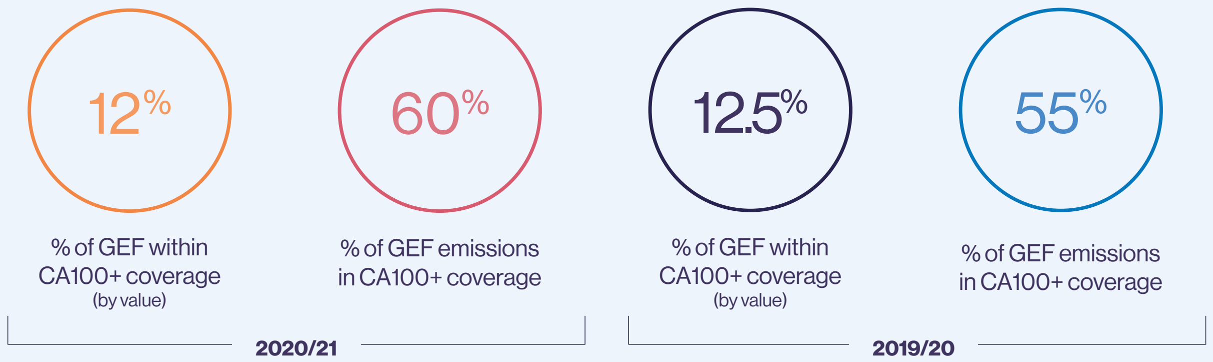


Source (FIG 1): Reflect data from the Transition Pathway Initiative

LPPI Global Equities Fund – Status of companies in Transition Pathway Initiative coverage (FIG 2)



LPPI Global Equities Fund – Status of companies in ClimateAction 100+ coverage (FIG 3)



LPPI Global Equities Fund – Analysis of Paris Alignment by revenue to 2030 (FIG 4)

Source (FIG 2,3): Reflect data from the Transition Pathway Initiative (FIG 4): Urgentem

Direct real estate - flood risk status

Flood risk by capital value plus rental value (flood risk assessments were valid as at 31/12/2020) (FIG 5)

High medium risk
>3.3% chance

1 property

each year, area has a chance of flooding of greater than 3.3%, taking into account effect of any flood defences in the area.

Low risk
0.1%-1% chance

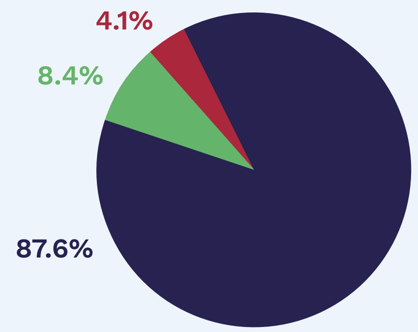
4 properties

chance of flooding is between 0.1% and 1%, taking into account effect of any flood defences in the area.

Very Low risk
<0.1% chance

43 properties

chance of flooding is less than 0.1% and, taking into account effect of any flood defences in the area.



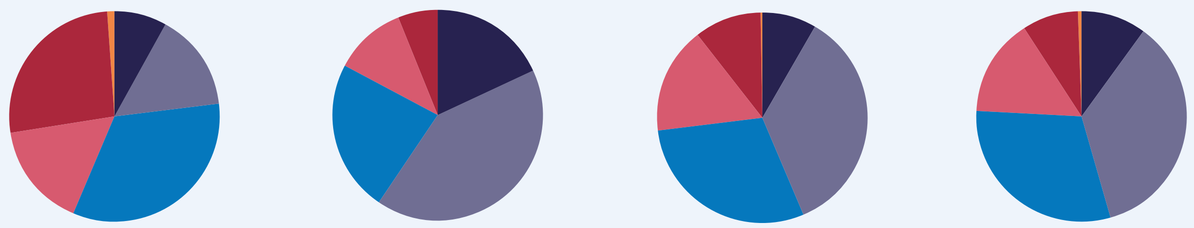
Rental value flood risk

Direct real estate - Energy performance certification status (FIG 6)

EPC rating ● A ● B ● C ● D ● E ● G

EPC by floor area and units as at 31/3/2021

EPC by rent as at 31/3/2021



% of units | % of area | Rental revenue by EPC (passing) | Rental revenue by EPC (ERV)

LPPI Global Equities Fund – Internally-managed large cap mandate

Status of carbon emissions and reductions targets (by sector) (FIG 7)

	internal equity portfolio weight	contribution to portfolio weight	emissions reduction target?	science based emission reduction target	1.5C science based emission reduction target	board level oversight on climate issues	management incentives on climate issues
source	LPPI	2019 emissions	CDP - 2019	SBTI	SBTI	CDP - 2019	CDP - 2019
sector	% sector NAV	% of portfolio carbon intensity	% sector NAV	% sector NAV	% sector NAV	% sector NAV	% sector NAV
Information Technology	34	23	100	74	74	100	91
Healthcare	6	3	100	0	0	49	49
Consumer Discretionary	9	6	62	62	0	62	62
Consumer Staples	23	38	100	100	87	100	100
Industrials	14	29	100	61	21	100	80
Financials	11	1	100	46	46	100	100
Communication Services	3	1	100	0	0	100	100

Source (FIG 5, 6): Knight Frank

Metrics and targets

B

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

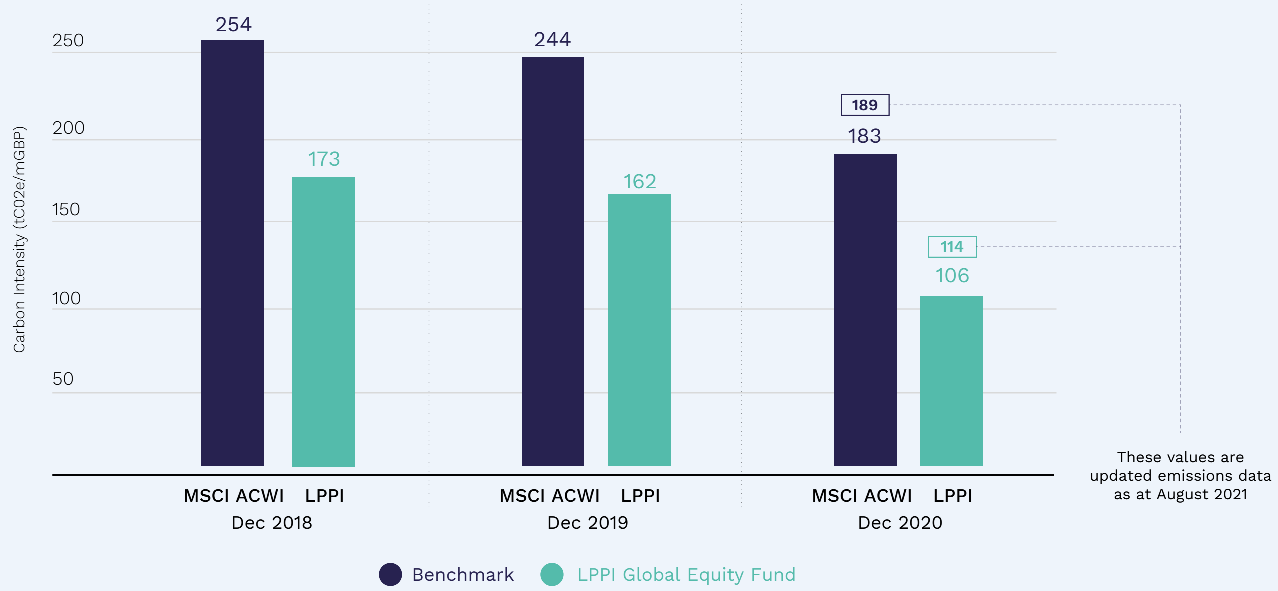
Below, we disclose the Scope 1 and 2 GHG emissions of our Global Equities Fund (GEF). (FIG 5)

The comparison across time confirms a reducing level of carbon intensity for the GEF, which continues to maintain a significantly lower carbon intensity than its benchmark (MSCI ACWI).

The consistently lower emissions intensity reflects GEF's underweight allocations in typically carbon intensive sectors (energy, materials, and utilities) and subsequent overweight in lower carbon sectors such as technology.

LPPI Global Equities Fund – Portfolio emissions intensity

Scope 1 and 2 emissions tCO2e/£m revenue (FIG 8)



Metrics and targets

C

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

As set out in the LPPI Responsible Investment Policy - Annex on Climate Change, we are using the Transition Pathway Initiative Management Quality Tool to assess companies on their climate-related transition governance, planning and actions for our Global Equities Fund. We have set a minimum target for "extractive" fossil fuel companies to achieve a ranking of TPI 3, for companies to demonstrate climate change is being integrated into operational decision making. Where quarterly monitoring indicates this is not being achieved a dialogue with the manager and expectations around remediation are triggered. Our target was 100% achieved as at 31 March 2021.

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

From 2020 we have been monitoring the proportion of companies disclosing their GHG emissions, with findings influencing LPPI engagement and voting activities for the LPPI Global Equities Fund. We expect investee companies to:

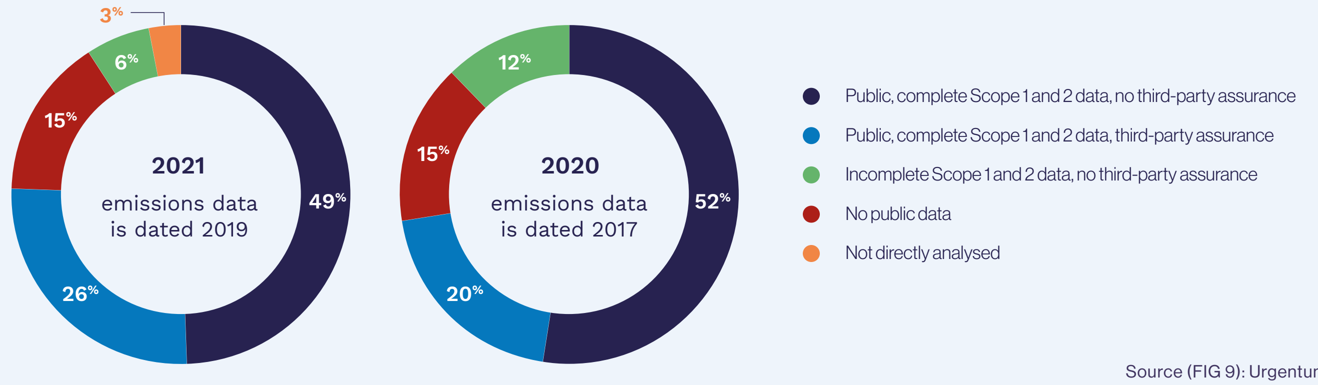
- Provide transparent disclosure on current emissions.
- Set and disclose emissions reduction targets aligned with the Paris Agreement goals.
- Maintain transparent reporting on their progress against emissions reduction targets.
- Report on their ongoing governance of climate change.

As at 31 March 2021, 75% of the LPPI Global Equities Fund had complete Scope 1 and 2 emissions data, with 49% being third party assured. Previously, as at 31 March 2020, complete scope 1 and 2 emissions were publicly disclosed for 72% of the LPPI Global Equities Fund portfolio, 52% was third party assured data. (FIG 8)

Within the LPPI 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 % (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.

LPPI Global Equities Fund – Status of corporate emissions disclosure (FIG 9)



Source (FIG 9): Urgentum

For more information about LPPI, visit our website or contact us to discuss your specific requirements in more detail.

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