LPP
Local Pensions Partnership Investments

Responsible Investment and Stewardship Annual Report 2021/22

Contents

Foreword by our Chief Executive Officer

We hope this report is a useful exposition of our responsible investment activities.

As this document shows, and as our CIO explains later, we are spending more time and resource on investing responsibly – as pension schemes, investment pools and individuals.

This is partly because there is more to do. Our commitment to net zero is just the most recent reason we must continually build and reinforce our expertise and activity in this critical part of our responsibilities.

But it's also because it is so obviously the right thing to do. Ensuring the members, whose pensions we serve, are able to experience their retirement in a world in which they are able to enjoy is an obvious goal. Doing the right thing is central to who we are at LPPI – this has been one of our corporate values since the inception of the business.

Overall, we have made significant progress to enhance our stewardship of pension fund client assets by integrating ESG more systematically across our portfolios. At the time of writing, we are keeping up the pace and we intend to keep doing so, without going too fast.

Whilst pace is important, so is appropriate calibration and design. Our approach to asset management means we take the time necessary to make careful and considered decisions that are aligned with our clients' investment objectives.

LPPI has significant fiduciary responsibilities that come from managing 100% of our client's assets. Providing the resources to enable pensions to be paid will always be our priority. We believe this priority can be met alongside wider objectives such as net zero and other responsible investment metrics, goals, targets and ideals.

This is what we set out in the following pages.

I believe this report is an example of a sensible, measured fiduciary doing the right thing by its clients, its people, society and the environment.

Chris Rule
Chief Executive Officer

"Doing the right thing is central to who we are and this has been one of our corporate values since the inception of the business."

Welcome

Welcome to our second annual report on Stewardship and Responsible Investment. We were delighted to be confirmed as signatories to the UK Stewardship Code (2020) by the FRC last year when our first report met the high standards for admission. We are building on this positive foundation with our 2021/22 report, which again aims to meet disclosure standards under the UK Stewardship Code (2020), and the Shareholder Rights Directive II (SRDII). It retains a focus on explaining what we seek to do for our clients, how we have performed in the year to the end of March 2022, and what we expect to focus on in the future. I hope you find it informative.

This time last year we set out a three-fold agenda:

- We expected to evolve the way we address climate change in our portfolios.
- We planned to integrate ESG more pervasively into investment decision making.
- We hoped to emerge from the pandemic a more resilient and agile business supporting our people to live our culture.

We passed the third test. As the COVID-19 legacy becomes part of our lives, our business model has transitioned to embrace hybrid working which combines office and home-based working to deliver benefits to both our staff and our business.

Climate change continued to be a dominating priority, reflecting that in the 12 months covered by this report we took the decision to become a signatory to the Institutional Investors Group on Climate Change (IIGCC) Net Zero Asset Manager Commitment and commenced detailed planning.

Our Board-level commitment to net zero is the next stage in the maturation of our focus on climate change as an investment issue. We made the commitment in November 2021 and will publish a **Roadmap to net zero** in January 2023 (downloadable from our website) confirming first targets for increasing the proportion of our portfolio managed in alignment with achieving net zero emissions by 2050 or sooner. Our first targets relate to investments in listed equities which are 42% of our assets under management.

We will be working to expand the proportion of our AUM in scope of our net zero target-setting progressively. But to place targets across our sizeable private assets we will need industry momentum to persist for finding market wide solutions. Here, the availability, quality and veracity of emissions (and other) data lags that available in public markets.

ESG integration is an area where we have moved forward some distance. Thanks to a larger Responsible Investment Team – five staff compared to last year's four – we have developed and implemented tools which give a deeper insight into the ESG positioning of underlying assets (our ESG SatNav) and the quality of ESG integration by external fund managers (our External Manager ESG Rating Framework). Our focus on systematic ESG integration is translating into our reporting, giving our clients greater transparency and understanding.

We've done a lot, but we have plenty of ground still to cover to evolve a comprehensive, effective and efficient framework for ESG integration as part of investment management that helps our clients to deliver on the pensions promise to their scheme members.

I hope you find this year's report insightful. Thank you for reading it.

Frances Deakin
Head of Responsible Investment

1

About us

Who we are

LPPI is an investment business. We work closely with our pension scheme clients to pool and invest their assets diligently, cost effectively and responsibly.

We have three Local Government Pension Scheme (LGPS) fund clients, and we oversee 100% of their assets across a number of different pooled investment vehicles - some managed in-house, and some by delegate managers overseen by LPPI.

We have two other business partnerships

Firstly, we are the Alternative Fund Manager and portfolio manager for GLIL Infrastructure. This venture was set up in 2015 by two local government pension schemes. GLIL now has six member funds, including Nest, the Government-established defined contribution workplace pension scheme, with £3.6bn in committed capital. GLIL invests across renewable energy, water and ports, trains, hospitals and schools.

Secondly, LPPI is the portfolio manager for The London Fund. This was launched in 2020 as a collaboration between LPPI and London-based pool, London LGPS CIV. The goal is to invest in assets, such as infrastructure and housing, which deliver both financial value and social and environmental benefits to Londoners.

There is considerable alignment between us and our clients embodied in our core values of partnership and collaboration, and in our focus on long-term sustainability. As LPPI acts as both asset owner and asset manager, this focus 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

£23.2bn
Assets under management

100%
Client assets transitioned

£113.0m
Cumulative net cost-savings

7
Major asset classes

8
Investment funds managed in-house

51
Investment professionals

3
Local Government Pension Scheme clients

All data to 31 March 2022

A note from our Chief Investment Officer

Things can change quickly in pensions, as in life.

Five to 10 years ago, the CIO's role in many investment organisations was profoundly different. In aggregate, relatively small amounts of time were likely focused on responsible investment issues. It's not that ESG wasn't important. It was just more compartmentalised.

Today, it's grown to around a third of my role and I believe this is usual now. If anything, it's getting proportionately bigger as ESG is increasingly integrated into all investment decisions.

LPPI has evolved from a long-term financial investor that thinks about responsible investment. We're heading towards being a long-term steward through responsible investment and an appropriately calibrated stakeholder capitalist. This transition is essential if we want the money we look after to perform as well as possible over the very long term. We have a fiduciary duty to our clients and, through them, a deep responsibility to help many thousands of hard-working people have a decent retirement.

"One question we need to ask ourselves: can we look at ourselves in the mirror and say we're doing the right thing for the right reasons?"

Our long-term perspective is extremely helpful. It gives us the latitude to think and act in ways that other types of investment organisations might not. For example, we have £1.8bn invested in commercial real estate. This sector is well known as one of the highest emitters of greenhouse gases. But, knowing we will likely own the buildings for a generation, it is in our interests to retain older assets and refurbish them to proper sustainability standards.

We have increasingly better visibility of our carbon exposure across real estate and indeed other parts of our portfolio. This comes thanks to acquiring better data to measure carbon to back our net zero pledge. Take global equities. By 2030 we are saying we expect to have no more than half (most likely even less) of the carbon intensity of the MSCI World index, which is our performance benchmark. And, by 2050, we'll be net zero.

We could have taken a number of routes to achieving our net zero goals. But, as always, it's our fiduciary responsibility to consider what the end game looks like. Over time, listed companies with high carbon exposure and no clear pathway to net zero are likely to look like stranded assets with significant governance issues. Carbon issues are responsible investment issues. And responsible investment issues are financial investment issues.

We like to think ours is a slightly different approach. Our founding story is certainly different. Created by local authorities to serve their pension scheme members, our working culture and sense of purpose brings genuine meaning to what we do. This report includes some details about our culture, purpose, values and ethos.

For me, there is only one question we need to ask ourselves. Can we look in the mirror and say we're doing the right thing for the right reasons?

I think we can. It's because we don't just manage money. We are custodians, or stewards, of our client's capital and their reputations.

Things can change quickly in life.

A decade ago, my life was profoundly different. But the arrival of children and becoming a parent changed everything. Now, I think in a multi-generational context in my personal life as much as I do in my professional one. Being a good ancestor is extremely important to me - something I'm sure many others empathise with.

Richard J Tomlinson
Chief Investment Officer

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 this heritage in mind and the 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 also our owners. 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, mitigation 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 issues 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 2021/22 key themes included climate change and the systematic integration of ESG practices into our investment decisions.	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 investment 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 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

Investment approach

Principle	Overview	Participants
7 Stewardship, investment and ESG integration	LPPI operates an 'ESG Integration' 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. We've also sought to transplant the skills and experience of our dedicated responsible investment team, by adding additional resources and 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 exercise of 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

Engagement

Principle	Overview	Participants
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

Engagement

Principle	Overview	Participants
10 Collaboration	LPPI has a strong track record of collaboration, not least via 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) as well as thematic stewardship and engagement initiatives. 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 2021/22.	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 engagement partner (who supports our engagement with publicly listed assets) reflects the progress of dialogue and an assessment of routes for focussing attention on material asks. This can include liaising with us to identify shareholder voting which will reinforce the issues requiring priority attention. 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. Here, we provide examples where we have escalated our expectations of managers to priority areas for improvement using formal reviews and monitoring dialogue, and used 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

Principle	Overview	Participants
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. To do justice to the policy, processes, arrangements, case studies, examples, and interesting insights from such broad-ranging activity, brevity is a challenge.	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 and 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, CRO, HGE, IDSP, Chief Legal and Compliance Officer, Head of Responsible Investment, Responsible Investment Manager
Heads of Service (Investment Team)	CIO, HRA, HGE, 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, Responsible Investment Manager, 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

Investment approach

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Exercising rights and responsibilities

Our purpose

LPPI exists for the following reasons:

We deliver 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.

This is important to us. It shapes the decisions we take, how we deploy our resources and how we bring to life the client and employee experience. We consider ourselves a purpose-driven organisation because we are an investment management firm created through a partnership with local authorities, serving the public sector and their hard-working employees.

1 2

Our culture

To quote our strategic plan (2020-2025), we want “an empowered, supportive, diverse and inclusive culture”.

Our culture has evolved significantly since April 2021 and it can be summarised as follows:

- Our people and culture strategy is based around creating policies, processes, tools and ways of working that support us in the delivery of our cultural aspiration and business strategy. We want our people to be clear on what is expected from them, feeling both accountable and empowered to deliver in their specific role.
- Attracting and retaining the right individuals needs to go beyond simply remuneration and standard benefits. It is about delivering an employee experience that feels personal, is flexible for individual needs and provides the opportunity to learn and grow.
- Having an open and collegiate culture is of central importance. For example, our senior executives are not squirrelled away in offices – they sit on open plan desks along with everyone else.

In this section we include some examples of cultural developments and their outcomes.

1

Diversity

We signed up to the #10,000BlackInterns initiative in September 2020 and received our first intake in July 2021. As a firm with 135 employees the intention was to take one individual. We found the experience so rewarding we increased that number to three during 2021/22. Our aim is to increase, maintain or grow this number in 2022/23.

We joined the #BreaktheBias campaign, run as part of International Women’s Day. Three female employees shared their experiences to illustrate the social, economic, cultural and political achievements and contributions of women around the world, and the gender challenges they have faced throughout their careers.

We also celebrate a broad range of events across the year and use these as an opportunity to educate around religious beliefs, sexual orientation etc. Examples include a piece by a Muslim member of staff about Ramadan and how to support colleagues of this faith during fasting, as well as a lunch and learn event during Pride month, by The Diversity Trust, on becoming a LGBT+ advocate.

1

Inclusion

We honed our flexible working policy to enable people to fit work around families, care responsibilities and other important priorities. Trust is the key to any successful working relationship, therefore LPPI has chosen to set principles rather than rules in relation to flexible working. Our approach to flexible working helps bring different perspectives into the work we do for clients by not excluding people who have challenging life priorities. We ask our people to attend the office two to three days per week on average and leave managers to discuss how this will work in practice with their teams. We encourage the use of the office for collaboration and for social well-being reasons. If people want to spend more time in the office, they can. We don’t compel them to.

LPPI has also become a member of the Inclusive Employers (IE) organisation, which is a network of companies seeking to create an inclusive workplace across a broad range of themes. During the reporting period, we partnered with IE to refresh our entire people policy suite, ensuring clear and inclusive language and fit for purpose content. New policies were introduced covering menopause, gender reassignment and surrogacy to name a few.

1 2

Remuneration and benefits

We offer an appropriate and competitive reward structure. It aims to counterbalance the greater firepower available to many, more explicitly commercial companies in the investment management sector.

All roles are now eligible for variable pay, which strengthens the link between pay and performance. We think this is important for two reasons. Firstly, we believe it is fair that all roles should be measured for their individual contribution and those outperforming should be recognised and have the potential to earn larger awards. Secondly, female representation is lower at the senior levels of the company and we want to encourage women to progress their careers.

During this year, the Chief People and Culture Officer also received approval from the Remuneration Committee to introduce private medical cover for all employees. This was a key feature missing from our benefits offering and a gap to the market we have been keen to close for some time. From a well-being perspective, it was very pleasing that LPPI will be introducing cover at the "all family" level. This was launched in summer 2022.

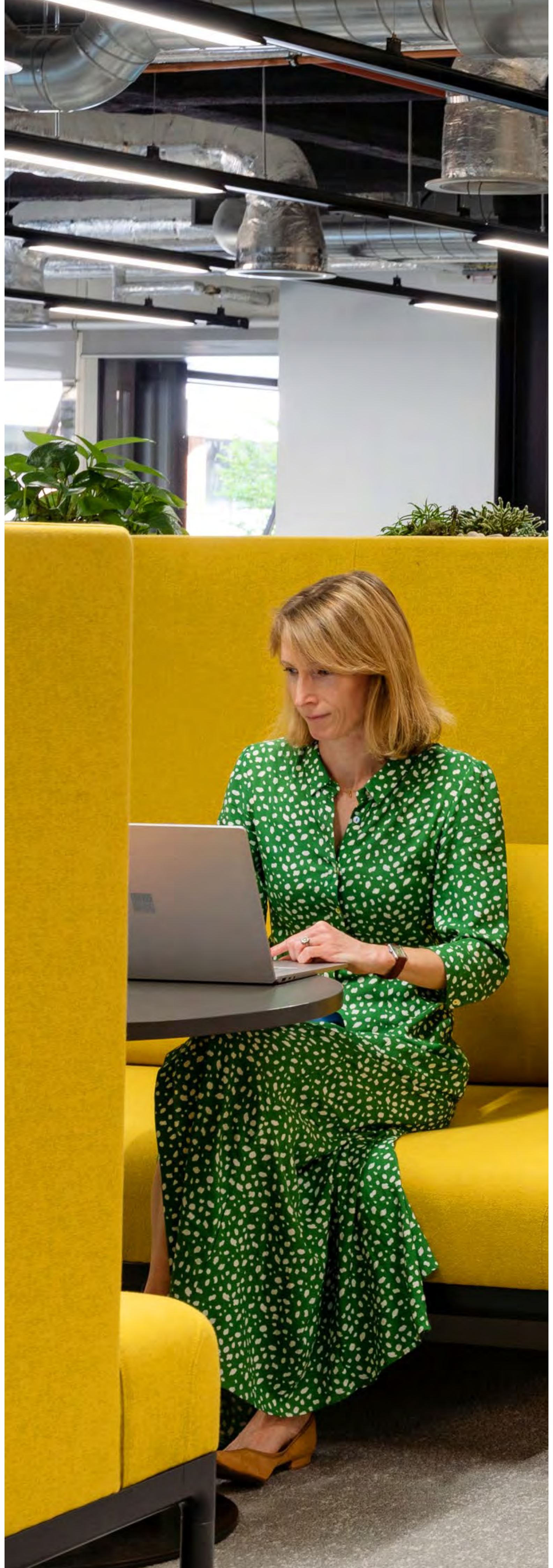
1

Well-being

We enhanced what we see as a considerable focus on well-being in the reporting year.

We increased the number of trained mental health first aiders to nine via an externally recognised qualification with Mental Health First Aid England. Mental Health First Aiders are drawn from across the whole business – not just in HR roles but Investments, Operations and the Executive Offices. We think this is a strong offering for a business of 135 full-time employees and know that the Mental Health First Aiders are both appreciated and accessed by our employees.

We added a concessionary holidays policy. This means employees can take an additional two days' off for important things – such as religious holidays, school events, and so on.



1

Learning and development

LPPI signed up to the Learnerbly online learning platform in the summer of 2021, which offers a range of solutions to suit individual learning preferences. Every employee is given an individual budget of £300 per year and they can choose how this is invested; 40% of the content on Learnerbly however is free of charge and also accessible to colleagues. Learnerbly covers professional, technical and well-being topics so purchases we have seen range from a subscription to the "Calm" well-being app through to Excel webinars and books on leadership.

A refresh of the learning proposition is due to be launched in the autumn of 2022. This will include a calendar of learning events, individual talent profiles for colleagues to share their ambitions, specific programmes aimed at our female population and a broad focus on leadership development.

2

Our values and behaviours

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.

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 colleagues 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.

3 6

LPPI as an asset manager

Our assets under management

Fig 1: Total assets under management

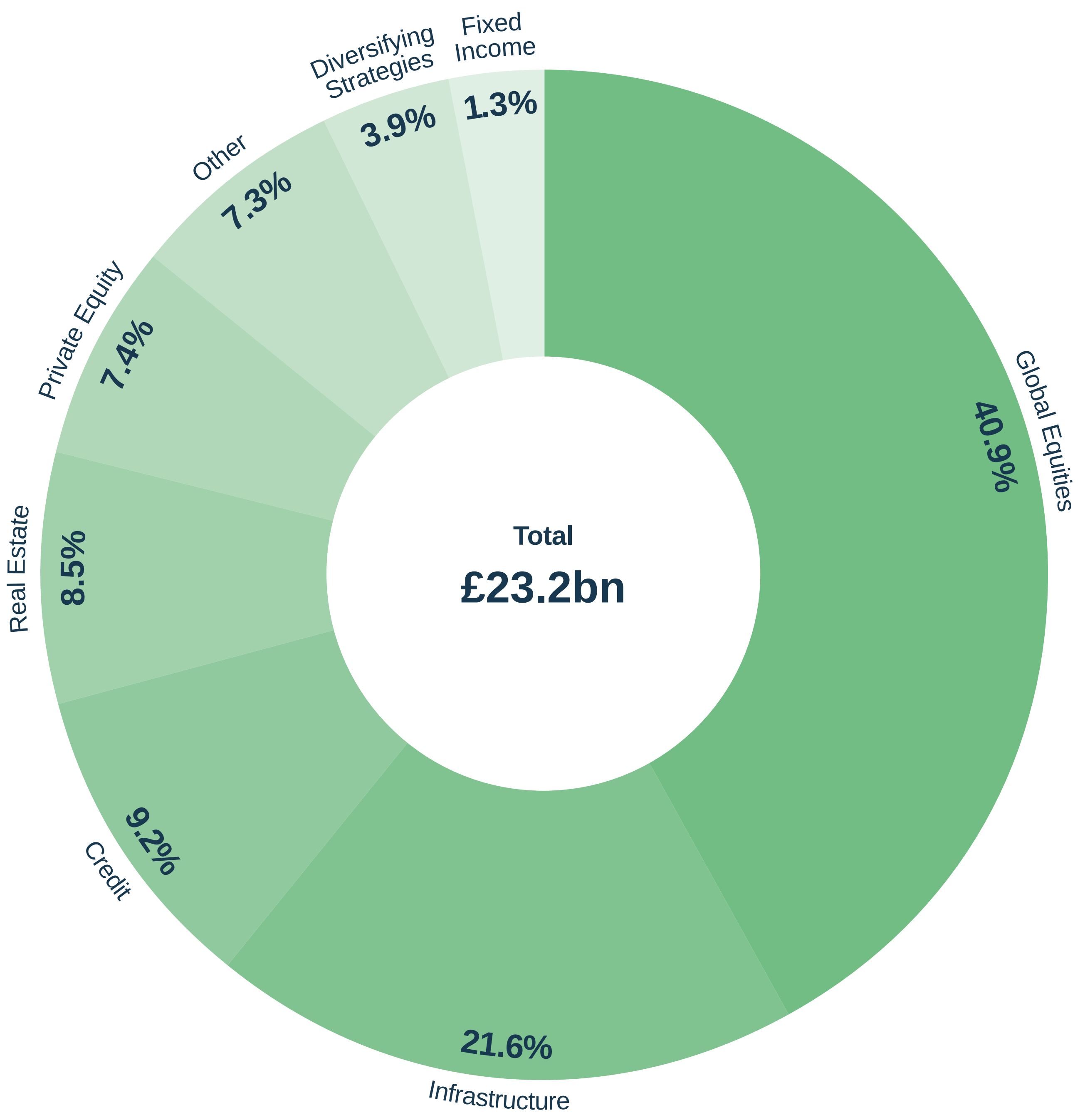


Fig 2: Assets under management by geography

Figures present an aggregated summary for the asset classes comprising LPPI's assets under management.

15.3% of assets are in instruments not readily identifiable with a specific geography and are shown as unclassified on this basis.

Source: Local Pensions Partnership Investments as at 31 March 2022

Source: Local Pensions Partnership Investments as at 31 March 2022

2 5 6

Working with and for clients

We are the investment adviser and asset manager for our UK based LGPS client funds: the London Pensions Fund Authority, Lancashire County Pension Fund and the Royal County of Berkshire Pension Fund. We work with them as partners and also for them as their delegated investment manager.

As you might expect, this is a close relationship, based on mutual trust.

These relationships start with an investment management agreement, which documents the overall strategic direction and targets. Clients retain their strategic responsibilities while LPPI is accountable for investment decisions and implementation.

We speak to and meet with our clients regularly. This contact covers market performance, asset allocation, portfolio performance, responsible investment and other material issues.

Key contact points include:

- Regular client meetings
- Quarterly reporting
- Attendance at pension fund committees and boards
- Annual client conference
- Issues-based assistance on demand

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). For example, over the past year we supported two of our clients to update their Responsible Investment policies by attending their Responsible Investment Task and Finish working groups and providing advice on best practice and implementation considerations.
- Grow the knowledge and understanding of the Pension Fund Committee and Board members through workshop training from our responsible investment team and deep dives into specific asset classes
- 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.

3

Identifying and managing conflicts of interest

Our Conflicts of Interest Policy is now in its fourth version, most recently issued in March 2022. We would expect to review and update it over the medium term, as appropriate.

The policy is owned by LPPI's Chief Legal and Compliance Officer. It is reviewed and approved at board level.

A copy is available to all internal staff on our intranet and to clients and other external stakeholders on request.

In our line of work, there will always be the potential for conflicts of interest. They could happen between an asset manager and a client, for example in the timing and nature of holding a given security. They could also occur between clients. Our clients may share responsibilities, interests and concerns but they also have local priorities and perspectives. The latter may not always align.

Maintaining an effective conflicts management framework will help us mitigate the risk of damage to the interests of LPPI or one or more of its clients. We also have a regulatory duty to take all reasonable steps to avoid conflicts – and, when this isn't possible, to manage, monitor and disclose (where applicable) and to ensure that clients are fairly treated.

Our policy starts by defining conflicts of interest:

"…a situation where one or more persons or entities have competing interests which may (actually or potentially) damage the interests of a client."

Examples of such situations are where:

- the interests of LPPI (including its managers, employees and wider LPP group) and our clients differ which may damage the interests of a client; or
- the different interests of two or more clients which may damage the interests of a client.

"An interest is the source of any advantage, direct or indirect, of whatever nature, tangible or intangible, professional, commercial, financial, non-financial or personal. An advantage is not limited to making a gain, as it also includes the avoidance of a loss."

The policy provides examples of LPPI activities and services that could give rise to conflicts of interest and their mitigation arrangements.

Overall, we seek to have appropriate measures in place that identify and manage conflicts to avoid any adverse impact on the interests of clients. A summary of these measures is as follows:

- *Identification of Conflicts*
  All employees are responsible for identifying and managing conflicts on an ongoing basis. Potential conflicts are documented in the LPPI Conflicts Register, maintained by the LPPI Compliance Team. Employees are expected to assess potential impacts of the activities they undertake. The LPPI Compliance Team also has the authority to investigate potential conflicts that have not been declared.
- *Recording of Conflicts*
  Employees have a responsibility to raise potential conflicts with their manager and the LPPI Compliance Team. Employees must also provide relevant documentation.
- *Management of Conflicts*
  Conflict management tools include (but are not limited to):
  - Using the organisational arrangements in place
  - Refraining from taking an action or executing a transaction
  - Avoiding the service/activity giving rise to the conflict where it cannot be prevented or managed effectively
  - Disclosing to the affected parties where LPPI has attempted to manage the conflict but is unable to ensure with reasonable confidence that risks of damage to the interests of a client(s) will be prevented.
- *Disclosure of Conflicts*
  We share our Policy with clients before we start work with them. If, in a given situation, there is any doubt about the likely success of us managing a potential conflict, we escalate it to the LPPI Board.

3

Applying the conflicts of interest policy to responsible investment

It is acknowledged that conflicts may arise in connection with LPPI exercising voting rights on the collective behalf of investors in the Global Equities Fund. There is potential for voting decisions to not be in the best interests of clients where LPPI:

- Has a business relationship with the company subject to the vote.
- Has staff who have personal relationships with individuals in the company subject to the vote.
- Has a proxy vote in respect of a company who have investments managed / administered by LPPI.

An actual conflict of this type has so far not been recorded, and the following general mitigations are reflected in the LPPI Conflicts of Interest Policy should this eventuality occur:

- In overseeing, protecting and exercising voting rights and relationships, LPPI always seeks to act in accordance with sound principles of good stewardship and specifically in line with standards prescribed by the UK Stewardship Code.
- LPPI Conflicts of Interest Policy and associated procedures are in place covering key business areas and processes, including the LPPI Responsible Investment Policy (with policy annexes relating to Climate Change and Controversial Weapons), the LPPI Shareholder Voting Policy, and the LPPI Shareholder Rights Directive II Engagement Policy.
- Monitoring of potential conflicts of interest and associated mitigations by independent and competent functions within LPPI.

We make the utmost efforts to ensure our staff know, understand, and feel empowered to act on the policy. It is one of the first things we train new colleagues on, in their initial induction. Moreover, investment staff also receive refresher courses on a periodic basis.

We also have a double lock in that the LPPI compliance manual includes a section on requirements and arrangements for managing conflicts. This manual is owned by the Compliance Team and is reviewed on an annual basis.

The policy details 12 examples of possible conflicts – including the way they could arise and the measures, tools and processes LPPI has to combat, prevent or avoid them. In situations not covered by these worked examples, we would expect LPPI employees to follow the letter and spirit of the policy, as we resolve them.

Two additional examples follow:

Type of conflict: Remuneration

Nature of conflict: Conflicts may arise between an employee, the firm and a client where the firm may compensate the employee to act in a manner that is beneficial to the firm which may result in the employee not acting in the best interests of clients.

LPPI mitigations in place: LPPI has a remuneration policy detailing the firm's approach to remuneration arrangements. Pay and bonuses are linked to various metrics and the remuneration policy ensures that incentives are consistent with the provision of fairness and avoids the creation of conflicts.

- Directors and senior management emphasis on effective conflicts management
- Monitoring of potential conflicts of interest and associated mitigations by independent and competent functions
- Assurance over the adequacy and effectiveness of the LPPI control environment through oversight from internal audit

Type of conflict: Delegate Managers

Nature of conflict: Conflicts may arise where a delegate and investor in an LPPI managed Alternative Investment Fund (AIF) are members of the same group or that another contractual relationship exists, and where there is any likelihood of a delegate manager making a financial gain or avoids a financial loss at the expense of an LPPI AIF or investors in an LPPI AIF, or having an interest in the outcome of a service or activity provided to LPPI as AIFM or any LPPI managed AIF, or has a financial or other incentive to favour the interest of another client over the interests of an LPPI AIF or investors in an LPPI managed AIF.

LPPI mitigations in place: None of the delegate managers utilised by LPPI is a LPP group entity. They are also subject to robust legal agreements and ongoing oversight.

Monitoring of potential conflicts of interest and associated mitigations by independent and competent functions.

9 10 11 12

Our active portfolio management

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

As a long-term investor we believe we should use our ownership powers to protect the long-term financial interests of client funds and their beneficiaries.

At LPPI, we do this by monitoring how our investee companies and assets are managed. When we see something that may not align with our clients' long-term interests we intervene.

This intervention can take different forms, depending on the nature of our investment.

Engagement incorporates the range of interactions we have:

Direct discussion

Direct discussion with companies where we invest directly. Here we can introduce priority issues and influence management thinking via 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.

1 6

The LPPI approach

As long-term stewards of our clients' capital, responsible investment and stewardship are fundamental to the way we invest. Our approach to investment management is shaped by our investment beliefs, which in turn are guided by our core principles of responsible investment.

This section is a summary of a detailed – and downloadable – guide to Our investment principles and beliefs, available on our website.

Foundations of LPPI stewardship

Our purpose, values and behaviours p. 16–23	Our goals and core principles p. 39	Our investment beliefs p. 40–42	Our responsible investment beliefs, processes and benchmaking p. 44–45

6

Our goals and core principles

We are here to help our pension fund clients achieve three objectives:

1. Meet their funding strategy goals through improved investment outcomes.
2. Manage their assets and cash flows to meet future benefit payments.
3. Invest sustainably.

When we think about how we achieve those goals, we are guided by five core principles.

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 provision translates into long-term investment horizons that require a focus on future sustainability and portfolio resilience.

Long horizon investing underpinned by solid governance	Focus on generating liability aware long-term investment performance, managed in strong governance structures.
Stable ownership	We are structured to align with scheme sponsors. We serve their schemes – and their underlying members.
Experienced, collaborative team	Staffed with experienced professionals who have held leadership positions in global asset managers, consultancies and investment banks and understand what it means to work collectively, for the long-term interests of clients.
Lowering costs without compromising on quality	An ability to select where to build internal investment management teams and when to partner with third party external managers in order to drive down the costs per client 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.

1

Our investment beliefs

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

Conviction investing over a longer time horizon → Structural advantage

Structural advantage → A multi-faceted approach to managing risk

A multi-faceted approach to managing risk → Strong governance

Strong governance → Conviction investing over a longer time horizon

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

A multi-faceted approach to managing risk

We believe a multi-faceted approach to managing risk that 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

Strong governance

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

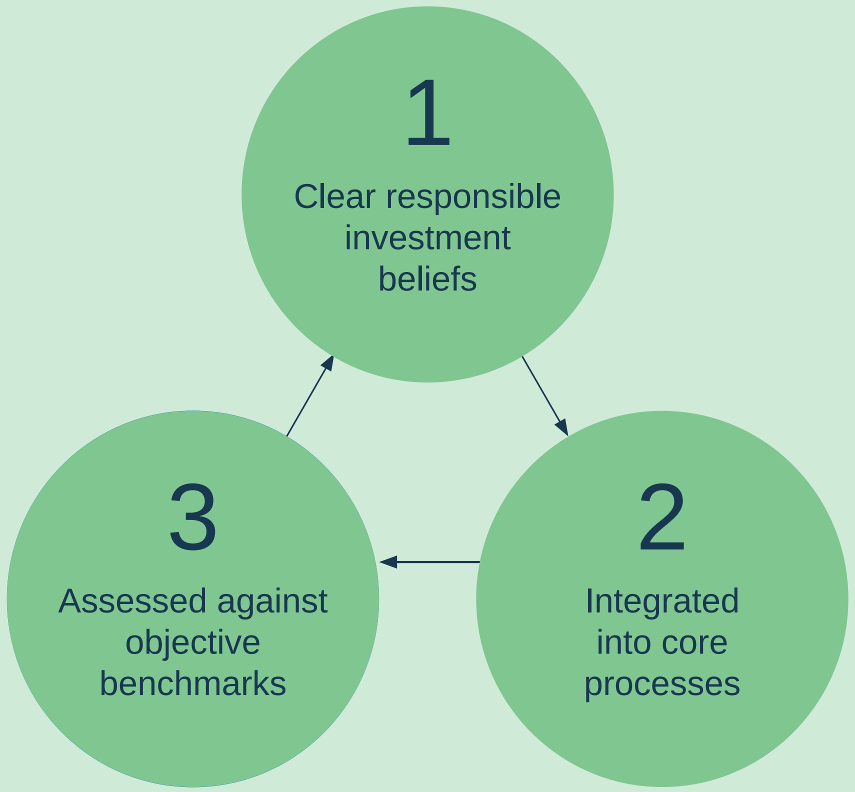
- Strong and effective investment governance is a key requirement for long-term investment performance and broader organisational success
- Clearly defined and articulated objectives regarding investment risk, return and portfolio liquidity needs are essential to the consistent realisation of good outcomes

1 5 7

Our approach to responsible investment

We have a straightforward approach to responsible investing that provides a strong foundation for prudent investment management.

We have a clear set of responsible investment beliefs which stem directly from our strong focus on fiduciary duty to the pension fund members we serve. We've codified our thinking into a high-level responsible investment policy and dedicated thematic annexes which provide the necessary detail for staff, clients and other stakeholders.



LPPI responsible investment approach

1

1. Clear responsible investment beliefs

We have a responsible investment policy, available here. It details five responsible investment beliefs and explains how we turn theory into practice.

Fiduciary duty

LPPI has a contractual responsibility to act in the best long-term interests of our clients – namely both the client pension funds and their beneficiaries.

ESG factors

Environmental, social and governance (ESG) factors can have a measurable, direct financial impact on the value of securities, assets, markets and portfolios.

Optimum returns

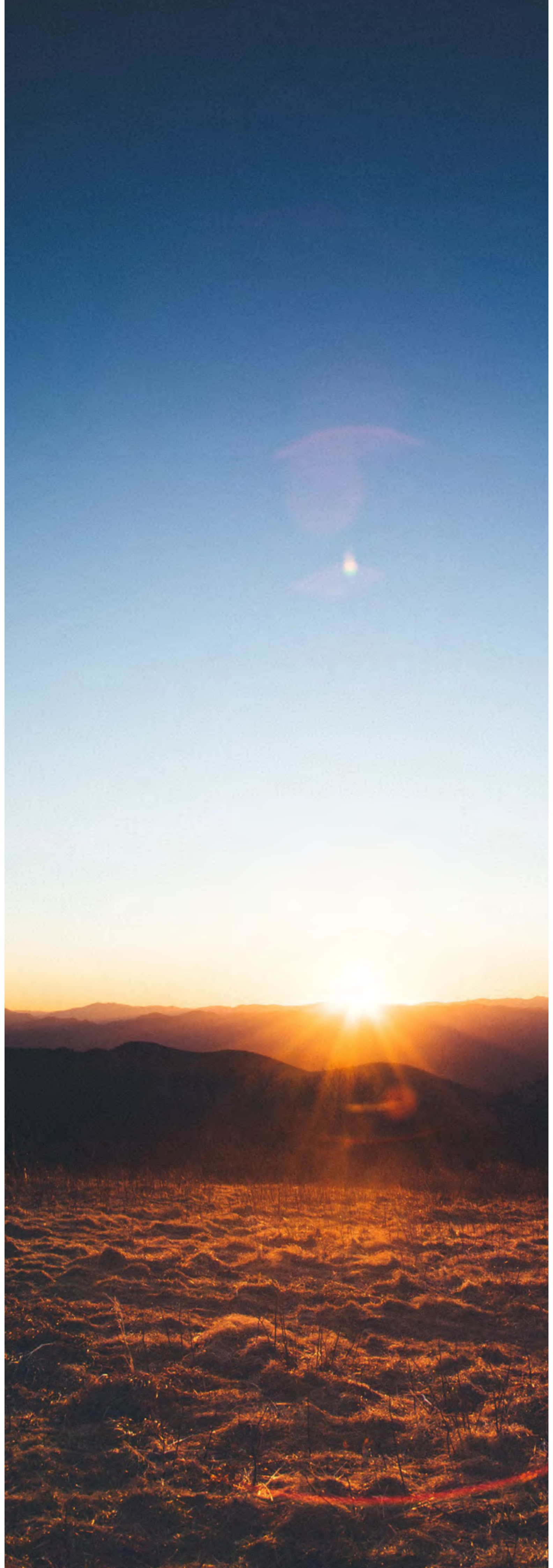
We must focus on optimal returns in the long-term, at an acceptable level of risk, to describe ourselves as responsible investors.

Active ownership

Ownership rights have a value and investors have influence. Institutional investors have a duty to use their ownership powers to protect the long-term financial interests of beneficiaries.

Sustainable basis

The effective management of investment risks is essential to achieve optimum risk-adjusted returns on a sustainable basis.



Further detail on specific themes within our responsible investment policy and how they are implemented in practice can be found in the following policies:

- Responsible Investment Policy – Annex on Climate Change
- Responsible Investment Policy – Annex on Controversial Weapons
- LPPI Shareholder Voting Policy
- LPPI Shareholder Voting Guidelines
- LPPI Shareholder Rights Directive II Engagement Policy

Existing policies are updated annually by the Responsible Investment Team. Minor edits can be approved by the Head of Responsible Investment. If any major updates are required, the policy will go through approval by the Stewardship Committee. All new policies are reviewed by the Stewardship Committee and any high categorised policies, such as those connected to the Responsible Investment Policy, go through approval by the Board.

5 7 10 11 12

2. Integrated into core processes

When we blend responsible investment beliefs with day-to-day investment activities, our focus is on future sustainability and portfolio resilience.

Integrating ESG factors is part of looking forward and seeking to understand the interplay of different future value drivers and detractors and their effect. As a result, systematic ESG integration is a key priority at LPPI.

We have six target outcomes in view for our investment processes.

Responsive to clients

Responsible investing is a way of serving clients effectively. We understand their circumstances and aim to meet their needs. This all comes within our understanding of our fiduciary duty to clients, employers and scheme members.

Diligent in selection

Selecting suitable assets on appropriate terms is a critical investment discipline and requires a holistic appraisal. We routinely integrate ESG considerations within our evaluation of opportunities.

Active ownership

We engage, we vote and we make our expectations of high standards known to investee companies and third parties. This is to encourage behaviours more akin to our beliefs and more aligned with our – and our clients' – needs.

Sustainably commercial

LPPI takes a resolutely commercial approach to asset selection and ongoing asset ownership. As a commercial enterprise, LPPI has a deep understanding of market, sector and client contexts. This backdrop informs the way we identify, select, analyse and hold investments to build value over the long term. Protecting and enhancing the value of our clients' investments involves prudence in selecting and managing assets.

Committed to collaboration

LPPI is an active member or participant in numerous investor organisations. We actively support initiatives which identify common concerns and deepen our understanding of responsible investment issues and their likely solutions. They assist us to share resources, work together and achieve more through co-ordinated collective effort.

Continuous improvement

Responsible investment remains under constant evolution as new themes and best practice emerge. At the same time, national and international expectations are continuously growing and changing. We aspire to evolve as well. We make progress by questioning our processes, policies and practices, and through mutual challenge with clients we aim to develop and improve.

These six target outcomes sit across three core investment processes:

Identify

We seek and select assets, investment products, managers and service providers that match our clients' requirements.

Collaborate

A close relationship with clients helps us understand their stewardship priorities – which means we can more easily integrate them into our planning.

Oversee

Our oversight of directly owned assets, and monitoring of delegate asset managers, enables us to identify engagement opportunities.

These processes combine to form a feedback loop because our investment professionals have a learning mindset. It means new findings or experiences in underwriting and portfolio management create inputs into strategy, capital deployment and stewardship activity.

2 8 12

How we ensure effective stewardship and engagement:

- Our responsible investment team is an integral part of LPPI's investment team. Its members participate in investment decision making meetings. The team also provides the ESG tools and frameworks that form an integral part of LPPI's investment processes.
- When we assess external fund managers, we evaluate their stewardship and ESG capabilities as well as their experience, processes and performance.
- We set minimum expectations during manager selection. This ensures prospective managers have the utmost clarity on our standards for responsible investment.
- Once we have started work with each external fund manager, we review them regularly through our operational due diligence process.
- We sustain a monitoring dialogue with delegate managers. These discussions enable us to focus on their portfolio management, identify material issues, align engagement activities and share best practice.

- We require our external fund managers to engage. This is enshrined in our investment management agreements with them. They must assess risks and engage with investee companies on material ESG issues, as well as engaging on wider thematic issues we identify as important to our clients.
- 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. We also confer with delegate managers regularly 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 on 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 LPPI's chief investment officer and comprises responsible investment practitioners and investment staff overseeing core investment processes (as above).
- The stewardship committee oversees a coordinated approach to stewardship prioritisation. They are guided by our investment beliefs, responsible investment policy, the investment procedures we have in place or are seeking to develop, and the priorities arising from the portfolio(s) we are managing.
- We are members of seven investment industry groups. This helps us learn and evolve – and it also challenges our understanding of best practice.
- We are active in five stewardship networks. These help us share information and collaborate with peers to achieve a greater collective influence on companies, asset managers, standard setters and broader stakeholders.

2 8 12

Our stewardship and engagement activities span:

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

2 8 12

Best-in-class support:

We employ Robeco Active Ownership, an external provider of engagement services to support our stewardship of our public market assets.

This enhances our internal engagement capacity in global equities and corporate fixed income. It means we benefit from experienced and well-resourced stewardship knowledge and expertise that includes specialist climate and human rights professionals.

Robeco undertakes engagement for us through two main categories: value engagement and enhanced engagement.

Value engagement is a proactive approach focusing 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.

5 6

3. Assessed against objective benchmarks

We are required to, or voluntarily, assess ourselves against renowned external benchmarks for responsible investment and stewardship.

This demonstrates our commitment to responsible investment to clients and other stakeholders and provides our clients with assurance that we are applying leading industry standards.

UK STEWARDSHIP CODE

Signatory of: PRI Principles for Responsible Investment

IIGCC The Institutional Investors Group on Climate Change

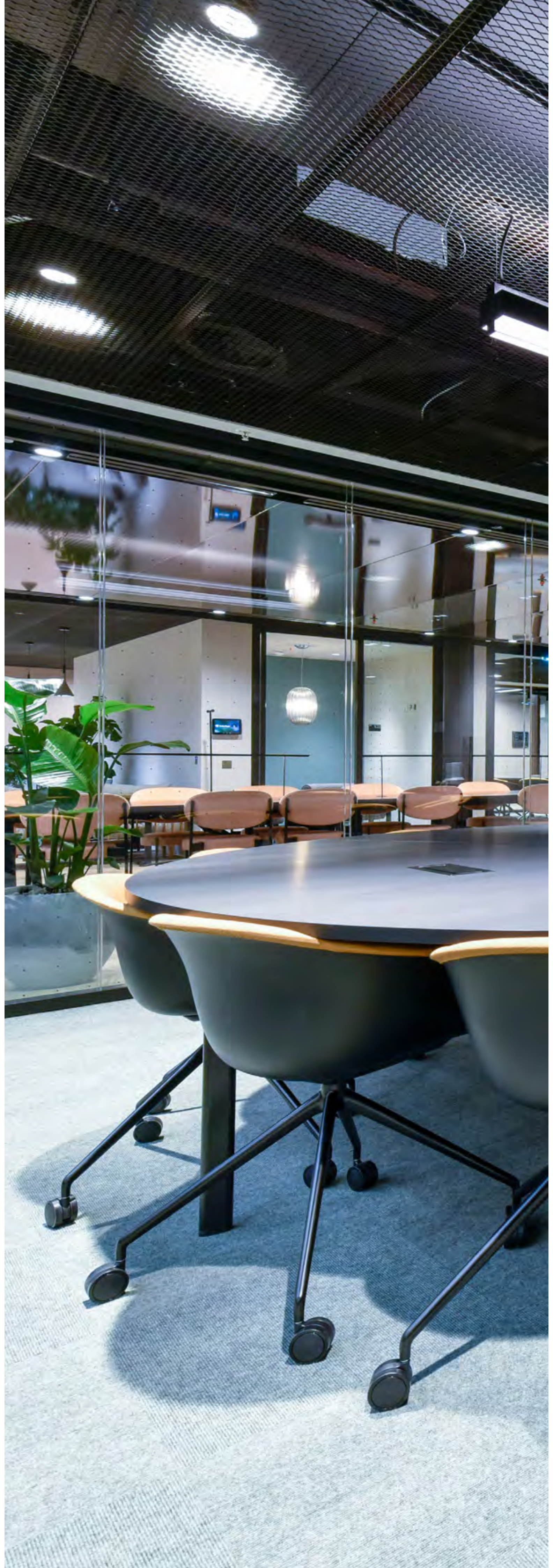
TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Climate Action 100+

The first two of these standards integrate annual reporting commitments which require detailed disclosure of stewardship arrangements, policies, activities, and outcomes annually. These disclosures are then externally assessed for evidence of effective stewardship and integration of environmental, social and governance factors into our investment processes.

The UK Stewardship Code sets a high bar for stewardship efforts in the asset management and pension fund industry within the UK. As a UK based asset manager with purely UK based clients, remaining a signatory demonstrates to our clients that we are being a responsible steward of our clients' assets and ensures we remain in good standing amongst our peers.

We have chosen to also align our responsible investment practices with the PRI as a global standard setter for responsible investment. We use the other three standards to externally benchmark and align our work on climate change risk management, net zero target setting and engagement as the leading frameworks for climate change management, disclosure and engagement.



Outside of formal assessment frameworks, we frequently carry out internal benchmarking exercises and seek expert opinion on specific elements of our reporting, policies or processes. For instance, we internally benchmark our TCFD and responsible investment reporting against industry peers each year. During the past year we also shared an initial draft of a human rights policy annex with our engagement provider in order to leverage their human rights expertise and received valuable feedback which we will reflect in the next iteration alongside best practice from the PRI and industry leaders.

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.

4 6 7 8 12

Priorities and planning

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

Our priorities are shaped by three core influences:

- LPPI's remit and responsibilities
- Regulations and best practice
- LPPI's portfolio

Client priorities feature as part of our remit and responsibilities. These encompass LPPI being a regulated asset manager providing investment services under delegated authority through pooled investment arrangements. LPPI is therefore subject to regulation that effects both asset managers and LGPS, specifically within the UK context given the geography of our client base.

Best practice within responsible investment has been changing rapidly and increasing expectations are quickly being translated into mandatory requirements. The makeup of our portfolio provides a more unique lens still, directing us to focus on themes which are specifically material to the assets we hold.

5 7 8 12

Systematic ESG integration

We believe that ESG factors are relevant at every stage in the investment cycle. As an asset manager our aim is to embed routine consideration of relevant factors related to our investments as we assess and analyse, underwrite, own and eventually dispose of them. The LPPI Board has agreed a Key Performance Indicator for Sustainable Investing which emphasises ESG as a lens for understanding and monitoring portfolio sustainability. We call this process systemic ESG integration (or sESGi). Our focus on this process to date has been on developing resources, frameworks and tools to support sESGi and evolve our existing investment processes which already integrate ESG at key stages.

In our previous annual report, we detailed the groundwork laid over the previous year which saw the responsible investment team develop ESG frameworks and tools to support greater integration and assessment of ESG characteristics across the portfolio. Specifically, these were the ESG risk and External Manager ESG Rating frameworks.

In October 2021, the responsible investment team facilitated and led a workshop of senior management within the investment team including the CIO and head of each asset class. The objective was to assess our progress on ESG integration to date, its effectiveness, and identify the next steps to drive our progress in this area over the next few years.

Feedback and learnings from the initial piloting of our External Manager ESG Rating framework and development of our ESG SatNav were discussed alongside longer-term trends in regulation and industry expectations. The result was the development of a two-year plan and the identification of immediate priority areas which included:

1. Continued rollout of the ESG SatNav and External Manager ESG Rating framework to all asset classes
2. Development of data systems and guidance to improve reporting on portfolio monitoring and engagement
3. Increasing responsible investment experience and resourcing capacity within investment teams
4. Net zero strategy development and implementation of that strategy

Progress updates on this plan were added as a standing agenda item at the stewardship committee which meets quarterly, to be presented by the responsible investment manager, and at regular senior management meetings. Progress was reviewed at the end of the financial year and key priorities for the next year were re-stated and translated into responsible investment team objectives, business wide goals and resource planning for 2022/23.

4 6 7 12

Climate change

Each of our client pension funds has identified climate change as a priority theme within their responsible investment policies. A deeper understanding of climate risk helps us identify securities, assets and strategies unlikely to deliver sustainable financial returns in the long term. Moreover, a wider view of positive opportunities enables us to divert capital into attractive climate investments that can provide the necessary returns whilst also delivering a real-world impact on future emissions. Climate change therefore remains a clear focus area for our business and all areas of our stewardship from data to portfolio monitoring, engagement, and voting.

In 2021/22 our work on climate change was driven by two specific developments, one regulatory and one voluntary.

1. Preparation for mandatory reporting against TCFD, both as an asset manager under the FCA regulations and provider to LGPS pension funds under the DLUHC regulations (see ‘Guide to external reporting standards’). This led us to focus on:

   a. reviewing and responding to consultations on proposed legislation

   b. reviewing final guidance and regulations from a legal and compliance perspective

   c. educating internal teams and keeping them updated on what expectations this places on LPPI in terms of data, process updates, reporting and costs

   d. updating our investment processes, specifically around data management and portfolio monitoring, to prepare asset classes across the portfolio for detailed reporting of climate metrics

   e. communicating to our clients through written updates as part of quarterly reporting and at dedicated responsible investment workshops throughout the year on what this will mean for them and how we plan to support them through the change

2. Making a voluntary commitment to reach net zero emissions from our investments by 2050. The commitment requires us to publish short- and medium-term targets for the asset classes in scope within one year of signing up. Our priority for this year has therefore been on:

   a. establishing a project management structure to coordinate our first response using the IIGCC’s Net Zero Investment Framework

   b. reviewing the market for service providers that can deliver the necessary data and analytics to assess our portfolio

   c. internal development and coordination of our first set of targets

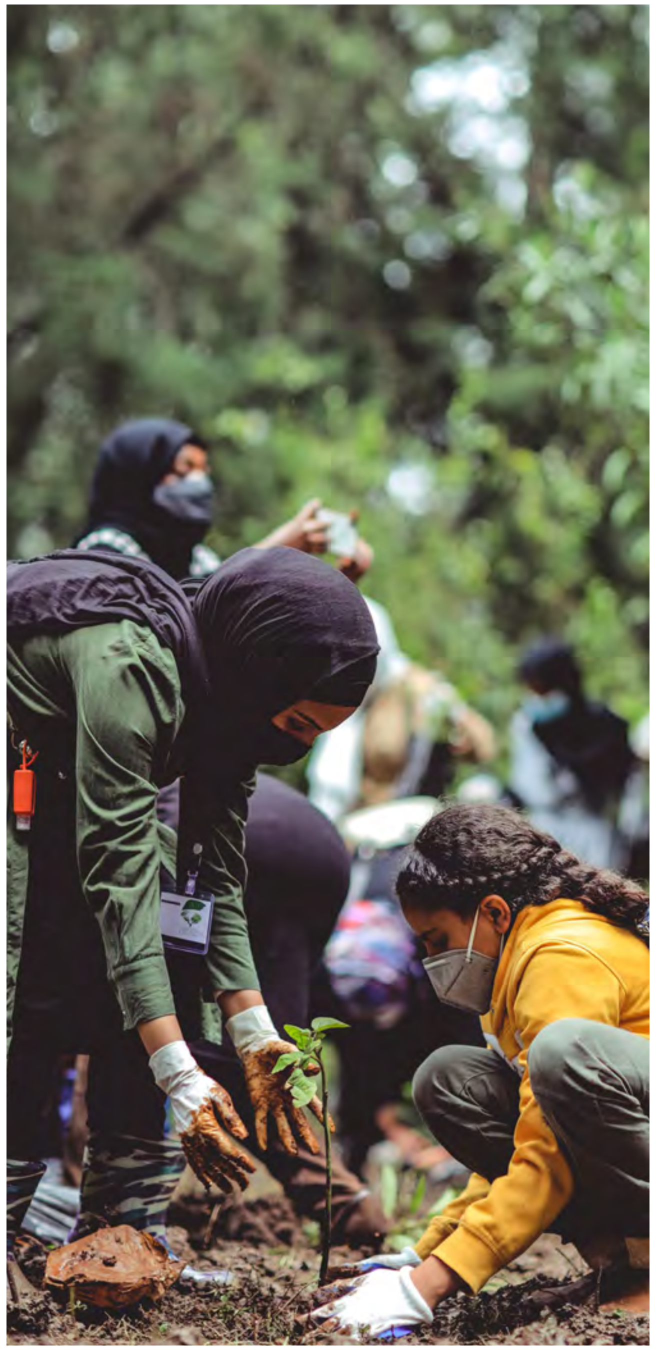
7 12

The ‘S’ in ESG

As a systemic threat, climate change is a dominant responsible investment priority. Social issues have tended to take a back seat by comparison.

COVID-19, however, presented us with the example of a human health crisis which had a visible and devastating impact on the global economy. The effects have reinforced the relationship between the welfare of society, the global economy and the natural environment’s capacity to sustain both. Even through our own work during that period we saw the strength and adaptability of employees, supply chains and their relationships tested, pointing to the need to ‘build forward better’.

We see the human dimensions of corporate sustainability as material ESG factors affecting operational resilience and social license to operate. Over the reporting period this thinking infused our internal work to further develop our culture, purpose and employees’ health and well-being. Labour rights, diversity and human rights have become key themes in our engagement with prospective investments, external managers and our wider industry networks and initiatives.



2 5 6 7 8 9 10 11 12

Review of the year

Moving out of the pandemic enabled us to shift more resources, effort and creative energy away from business continuity and back towards long-term delivery and long-term strategic planning.

This means we focused on six areas:

- An increase in responsible investment resources
- The transition towards net zero investing
- The ‘S’ in ESG
- Integrating responsibility into investment process
- Working with collaborative partners towards common responsible goals
- Incremental improvements in stewardship reporting

7 8

Enhanced resources

The reporting year saw a welcome expansion in the resourcing of responsible investment initiatives across multiple teams. The responsible investment team grew from three to five people and now encompasses:

Frances Deakin
Frances is the Head of Responsible Investment. Frances is an industry veteran, having originally worked with one of our client pension funds, Lancashire County Pension Fund, before joining LPPI at its inception and developing LPPI's responsible investment approach from the ground up.

Yathavan Thanapalan
Yathavan is a Responsible Investment Analyst. His role has moved away from climate change and refocused on developing and rolling out the ESG manager framework, supporting asset classes to integrate ESG into their underwriting and portfolio monitoring processes.

Matthew Hannay
Responsible investment is a firm-wide matter at LPPI. Our focus on systematic ESG integration has also increased the demands on investment teams in terms of research, due diligence, monitoring and reporting. To this end, the internal global equities team appointed Matthew Hannay as a Senior Analyst - ESG, in January 2021. He is devoted solely to the integration and implementation of ESG factors within the global equities portfolio managed by our in-house team – continuing his career as an equity analyst working at leading investment institutions.

Julia French
Julia was recruited as the team's deputy manager and climate change lead focusing on building our net zero strategy and supporting the business to prepare for mandatory TCFD requirements. Julia was formerly a sustainability consultant before specialising in climate finance.

Paul Britton
Paul was promoted to Responsible Investment Senior Analyst. Paul now leads the shareholder voting process and manages our relationship with our voting and engagement service providers alongside supporting ESG due diligence for the Global Equities Fund and The London Fund.

George Cowman
George is a Responsible Investment Data Analyst. An engineer by trade, George is responsible for data and data systems management with a specific focus on climate analysis and client reporting.

Project specific resources were also enlisted to support the coordination and implementation of our net zero commitment. LPPI hired a consultant, Chronos Sustainability (Chronos), to advise us on implementing our net zero commitment. Chronos has a wealth of experience in industry standards on climate change and responsible investment. A project manager was also recruited in the first half of 2022 within the legal and compliance team to manage the net zero and TCFD projects through their initial phases. Ilaria Brachet has extensive project management experience within the financial industry. She has been an invaluable resource helping to coordinate efforts by different teams across the business via regular working group meetings and setting up a steering committee to support decision making along the way.

We have made comparable advances in data as part of our resourcing of stewardship activities on climate change. A core requirement from any data provider we chose was to be able to:

1. Expand our current coverage of climate data from public markets to include private market assets like real estate.

2. Integrate with other data systems across the business.

3. Enhance our climate modelling capability in order to compare our portfolio's emissions profile against a 1.5°C carbon budget to support setting a decarbonisation target.

In early 2022, LPPI purchased the MSCI Climate Risk Reporting model. This well-known tool gives us a richer climate data set, with greater coverage and a more accurate assessment of our holdings, prospective investments and their direct and indirect emissions. MSCI was also chosen as the provider of our risk system at the same time, which means that we are now better able to develop our climate risk management processes in line with TCFD requirements.

During our market review exercise to understand the capabilities of major data providers, we found that many could not yet support our third requirement for a 1.5°C portfolio alignment model, though some confirmed they had tools under development currently, including our climate change data provider MSCI.

We have explained our needs, sought assurances that tools will be available, and placed safeguards into our contract concerning tools under development. The gap led us to take a benchmark-relative approach to setting and monitoring our portfolio against a decarbonisation target, with a plan to supplement this with a portfolio specific pathway based on a 1.5°C carbon budget once this modelling and forecasting capability is available.

The escalation in both human and data resources has enabled LPPI to achieve significantly more in the reporting period when compared to the previous year. We detail these achievements in the thematic sections.

4 5 6 7 12

Climate change and net zero

LPPI signed up to the net zero initiative, led by IIGCC, in November 2021. This encompasses a series of actions, metrics and methodologies to help investors play a part in bringing global net emissions down to zero by 2050 (or sooner).

In specific terms this means we are now informed by the IIGCC's Net Zero Investment Framework and we are a signatory to the Net Zero Asset Managers initiative.

Collectively, these commit LPPI to:

- Set net zero targets and measures and reporting on progress towards portfolio decarbonisation
- Set an interim target for 2030 for the decarbonisation of the initial assets in scope
- Seek to progressively increase the share of assets in scope, with a view to reaching 100% by 2050
- Develop a stewardship strategy and disclose robust net zero targets
- Advocacy for public policy supportive of net zero as a global outcome

Climate change has been a priority within LPPI's stewardship efforts for several years, with a clear mandate from clients to integrate climate considerations into our investment process and engagement efforts. However, this commitment represents a considerable step up for LPPI in terms of expectations placed on us to integrate measurement and set targets. It will be a challenging project to undertake in terms of thinking about and setting targets, but also logistically and in resourcing costs. To ensure we had client support before taking this step, LPPI featured net zero within a client forum, leading a workshop with all three core clients to explain what this would mean for LPPI, the benefits it would bring, and to consult them on their views and answer questions they might have. All three clients were supportive of LPPIs ambition, and one client has proceeded to make an individual commitment to net zero emissions by 2050.

The Net Zero Asset Managers initiative is a commitment that requires us to publish interim targets a year after making the commitment. Our work this year has focused on laying the groundwork for our first set of targets.

5 6 7 9

Key achievements in the reporting year

We appointed Chronos Sustainability to provide expert advice and support to developing LPPI's transition plan and selected MSCI as our climate data and analytics provider.

Our first decision on scope was to focus on listed equities for our first set of targets. This is our largest asset class representing 42% of total assets, across internal and external portfolios.

Achieving coverage of a sizeable first chunk of our assets under management in initial target coverage is due in large part to the quality of data available to us in the public markets space. As we begin to expand into the private asset portion of the portfolio, we are mindful the pace of progress will be slower. Each subsequent asset class is a smaller chunk of our assets under management and data, tools and methodologies are much less developed for private market assets, meaning there will be delays while reporting across the investment chain and the availability of 1.5°C pathways and methodologies catch up.

We have identified changes needed to integrate specific net zero considerations into our policies and investment processes. LPPI's policy on fossil fuels was updated in December 2021 to include an exclusion of extractive fossil fuel companies from the Global Equities Fund, in keeping with the investment strategy of the fund itself and in alignment with our upcoming work to meet our net zero commitment. This is reflected in our updated Annex on Climate Change, available from the LPPI website.

We have begun to reference our commitment (and a requirement to support us in reporting on progress) within our side letters for all new investments. For existing holdings, we have used quarterly monitoring calls and updates to communicate our evolving expectations to external managers within the global equities fund, and our primary external manager within the real estate fund, Knight Frank Investment Management (KFIM). For our Global Equities Fund managers, we have outlined that we expect them to carry out engagements with companies in material high carbon sectors on our behalf and that these should have specific and timebound objectives related to increasing the company's alignment with 1.5°C worth of warming. To guide them in this effort, we have shared with them a template for reporting progress against these engagements to us each quarter.

Our engagement efforts with KFIM have focused on resourcing and prioritised reporting of carbon emissions data over the reporting year. As a result, Scope 1 and Scope 2 carbon emissions were reported by KFIM for the first time in early 2022. This is a huge milestone which means reported data is now available for 55% of the LPPI Real Estate Fund. We will be working with MSCI to develop a baseline of estimated emissions for the remainder of the portfolio, in preparation for real estate assets coming into scope of net zero target setting.

Climate change considerations have always been a core part of our real estate investment strategy, particularly on upgrading existing assets to meet higher EPC ratings and requiring new construction of direct assets to meet a BREEAM 'Very Good' rating as a minimum and 'Excellent' where commercially viable, as in the recent case of Project Wolf Pack which is featured on the following page.

Target setting for the Global Equities Fund began in earnest over the summer of 2022 alongside the development of a detailed net zero engagement and stewardship plan. Details of our targets will be published on the IIGCC's NZAM initiative website in November 2022 and we will share greater insight into our overall net zero strategy and roadmap in a separate report available from our website.

Case study

Building for net zero: Hilton Cross, Wolverhampton

Project Wolf Pack is a logistics development in Hilton Cross, Wolverhampton.

We acquired the site in January 2022 with a view to reaching practical completion in the Autumn of 2022.

The units will achieve BREEAM ‘Excellent’ as well as an EPC ‘A’ rating.

They include a wide range of sustainability features – from air source heat pumps to solar panels. The development also has a number of contributions to both on-site and local biodiversity projects, including financial contribution and wildlife walkways.

The units will be fitted with provision for electric vehicle charging, for employees as well as in the loading bays

Case study

Building for net zero: Eastgate Court, Guildford

Eastgate Court is a development in Guildford, Surrey, constructed in 1989, that benefits from a number of retail frontages as well as an office complex to the rear.

The asset was acquired by LPPI in 2015 and had EPCs of ‘G’ meaning the building did not meet upcoming Minimum Energy Efficiency Standards (MEES) as set by the UK government.

Under current legislation it remains complex for asset owners and landlords to undertake remedial work without the explicit support of the in-situ tenant so it was identified as a target to provide strategic capital expenditure (Capex) when a unit/floor would become vacant.

Knight Frank Investment Management, acting on behalf of LPPI, worked through a systematic process of renovating units as the floor/space became vacant bringing the overall EPC up to a ‘B’ for all units.

The building is now in full compliance with current UK government MEES requirements and much more energy efficient overall.

This project began in 2016 and is concluding in 2022, highlighting the difficulty and timescales involved with upgrading buildings with long-lease tenants, one having been in 26 years with a further three years to expiry at the point of acquisition.

9 10 11

Engagement insights – Collaborating on climate change

Climate change is a systemic risk which will affect every part of the economy.

As investors we want to manage this risk effectively and support solutions, but we are only one of many levers that can effect change in this area. Its systemic nature means we cannot address climate risk on our own. To successfully achieve the targets we have set for ourselves of reaching net zero emissions by 2050, and ensure this has a real-world impact, we are reliant on others in the market taking consistent, aligned and ambitious action as well, be they companies, policy makers or standard setters, and service providers.

Our work to develop our net zero strategy has put this market-wide reliance into sharper perspective. As a result, we have made collaborative engagement initiatives, related to our specific holdings, a major theme of our external engagement with the market. Some examples of these initiatives are highlighted in this section.

Financial Times

A letter signed by a number of asset owners to the editor of the Financial Times, to stress the importance of the position asset owners can bring on sustainability and the drive to net zero. The letter reinforces the position that business commitments to pursue purpose, better manage carbon risks and engage constructively with stakeholders underpin value creation rather than endangering it. It highlights the collective approach to long-term value creation and the importance of understanding what is financially material for honest reporting but recognising this will change over time.

Investor Agenda

LPPI signed the 2021 Global Investor Statement to Governments on the Climate Crisis. The annual statements are co-ordinated by The Investor Agenda and are a collective call to governments to rapidly implement priority policy actions that will enable investment of the trillions in private capital needed to respond to the climate crisis and meet the goals of the Paris Agreement. LPPI has been a signatory to successive Global Investor Statements since 2018 but the 2021 statement was the most ambitious to date, calling for the ambition needed in the lead up to COP26 and was signed by 457 investors representing over USD $41 trillion in assets. The UK presidency for COP later said the letter had been valuable in helping to drive ambition during the negotiations and it has since been name checked in the investment rationale to require greater climate disclosures in the US.

Corporate net zero alignment plans

LPPI joined 52 other institutional investors in a call for consistency on 'corporate net zero alignment plans' and director accountability on climate targets. Whilst at least a fifth of the world's 2,000 largest public companies have committed to net zero targets, a lack of standardisation in the commitments made to date poses a big challenge. In order to monitor status and progress at portfolio level, investors need the information disclosed and targets set by investee companies to be robust, comparable, and properly implemented, giving them the means to identify and urge remedial action where this is needed. The aim of this statement is to establish new corporate governance measures to assist shareholders in holding companies to account in their net zero commitments.

Robeco Active Ownership

Robeco Active Ownership's new climate engagement theme, 'Acceleration to Paris', focuses on engaging 200 companies with the largest carbon footprints in the Robeco investment universe. The aim is to encourage greater alignment of companies targets and strategic planning with a limit of 1.5˚C worth of warming. LPPI was invited to co-sign private letters to target companies (where Robeco was able to obtain contact details) outlining engagement expectations to mark the start of the engagement theme. While LPPI holds only six of the 200 target companies, Robeco and LPPI were keen for investors' voices to be heard across the investable universe and hence was a signatory to all letters.

CDP

LPPI participated in the 2021 non-disclosure campaign which targets persistent non-respondents to their questionnaires in industries CDP has identified as high impact across the themes of climate, water, and forests. At the headline level, LPPI was one of 168 investors participating (a 56% increase from the year before). LPPI co-signed letters to nine companies requesting their participation in the 2021 cycle. Each year there are more companies disclosing for the first time and CDP records much better disclosure for companies which are part of the CDP campaign than those who aren't targeted by their investors. As a result of our participation in the campaign in 2020, 40% of our targeted companies disclosed against climate change and 25% reported on water for the first time. Data from company CDP reports assists us to assess the extent of climate change governance and target setting which we report on as part of TCFD disclosure. Detailed corporate disclosure is crucial for our assessment of company alignment and setting net zero targets, and a key campaign supportive of setting targets around improving data quality which is likely to feature in future TCFD reporting.

Institutional Shareholder Services (ISS) survey

LPPI responded to ISS's Benchmark Policy and Climate Policy surveys, in which clients help shape future proxy voting research and recommendations. On climate, LPPI supported ISS's greater focus on the most carbon intensive companies and pushed for higher expectations when assessing their practices.

Transition Pathway Initiative

LPPI is a supporter of the Transition Pathway Initiative (TPI). We both use TPI data and tools, and contribute to the evolution of TPI as an organisation. Our CEO is a Board Member of TPI Ltd and our Head of Responsible Investment is a member of the TPI Steering Group. Internally, we use its assessment frameworks to monitor companies in the Global Equities Fund that are identified as operating in high emissions sectors. Where companies do not meet a minimum score in line with the TPI's management quality framework, we seek enhanced due diligence from the external manager who holds the position. Here, we capture their thesis and observations on climate risk to better understand how they are managing this position on our behalf. This allows us to gain conviction or identify the company as a potential engagement priority as LPPI advances on its net zero journey.

4 5 6 7 8 9 12

The ‘S’ in ESG

In 2021/22, social themes were a significant focus of our external engagement efforts and internal education, policy and strategy development.

4 9 12

Policy advocacy

LPPI responded to a call for evidence on the consideration of social risks and opportunities by occupational pension schemes from the Department for Work and Pensions. Our response included pointing out that pension funds lack a frame of reference for considering social issues and called on the government to support this development.

5 7 8 9 10 11

30% Club

LPPI is also a member of the 30% club. As part of work this year, we fed into the process to develop a statement on race equity which seeks the following targets for 2023:

- Beyond 30% representation of women on all FTSE 350 boards, including one person of colour
- Beyond 30% representation of women on all FTSE 350 executive committees, including one person of colour

Signatories to the letter commit to actively engage with board chairs, nomination committees and executive teams on the issue of racial inequality. Since diversity is already a stated priority of our shareholder voting process, we signed this letter in October 2021 and updated our shareholder voting guidelines to reflect the new standard for best practice on supporting diversity.

6 7 8 9 10

Asset Owner Diversity Charter

We signed the Asset Owner Diversity Charter at its launch, early in the reporting year.

The charter requires signatories to collaborate and build an investment industry that better reflects diverse societies. Its two components are:

1. A diversity questionnaire, to standardise diversity metrics beyond gender.

2. A toolkit covering areas such as fund manager monitoring and selection.

We completed two actions in the reporting year.

Firstly, we now include diversity questions when we select delegated, external managers during operational due diligence.

Secondly, we incorporate diversity disclosure in new manager agreements. This means amended asset management agreements or side letters for new mandates agreed by LPPI's investment committee.

A third action was started within (but completed outside of) the reporting period. This is to include the diversity questionnaire, cited above, into our ongoing manager monitoring. On this, we have started with a group of our largest external managers and requested they complete the questionnaire using CAMRADATA, a manager research platform. Widespread and consistent use of the platform to complete the questionnaire and update it annually will mean the data can be publicly available and eventually feed into a general industry-wide progress report. This work will continue in 2022/23.

We are closer to the start than the end of our journey, and so we expect to complete a number of actions in due course. These include:

- Being prepared to answer questions about our own diversity metrics as an asset manager

- To lead and collaborate with industry peers to push best practice on this issue forward

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Workforce Disclosure Initiative

The Workforce Disclosure Initiative (WDI) is an investor collaboration platform which seeks to enhance corporate management of workforce issues through increased transparency. At the start of the 2021 engagement cycle, LPPI identified five target companies as priorities to respond to the WDI annual survey and coordinated with other investor signatories to lead a letter campaign to encourage participation for two of these targets. Following engagement, four out of the five target companies responded to the survey providing us with enhanced insights on their workforce management.

4 6 7 9 10

Developing our understanding of human rights

We've spent time this year developing our knowledge and strategic thinking on human rights in an investment context, and specifically the expectations placed on investors through the UN Guiding Principles on Business and Human Rights and how best to integrate these into our processes. Our membership of the PRI has been invaluable in this exercise as we have benefitted from our peers sharing their policies and practices in this space.

The PRI is also leading the creation of Advance, an engagement initiative similar to CA100+ that focuses on human rights which began to form at the end of the reporting period. Whilst our approach is still developing in this area, we've begun to integrate it into our investment frameworks and processes. We started by aiming to understand how our managers address issues currently by integrating questions within the ESG manager rating framework and added the topic within our annual monitoring review calls with existing managers. We will review how we can adopt those learnings into our processes and further policy development over the next year.

4 5 6 7 8 10 12

Embedding responsible investment

The systematic integration of responsible investment into LPPI's investment processes was once again a key priority in the reporting year – and continues to be so.

Whilst none of our pooled funds are impact funds directly addressing specific ESG characteristics or sustainability challenges (in the manner of Schedule 8 or Schedule 9 products under SFDR), our asset management approach routinely incorporates responsible investment practices in line with our commitments as a signatory to the Principles for Responsible Investment.

The diagram opposite illustrates the components of our core investment processes where ESG is integrated.

Our investment professionals have the benefit of improved insight and support for decisions on responsible investment issues thanks to two proprietary tools. We highlighted them as developments under way in last year's report, and in the reporting period these tools were fully piloted and rolled out to all asset class teams.

The way we integrate ESG considerations within our core investment processes and policies has multiple strands.

Investment policies

Responsible Investment Policy and annexes
- Annex on ESG Integration
- Annex on Climate Change
- Annex on Controversial Weapons

Practice standards
- Principles for Responsible Investment
- UK Stewardship Code (2021)

Investment procedures

Investment selection (direct and external managers)

Stage 1
- ODD and IDD
- IC approval

→

Stage 2
- ODD and IDD
- IC approval

→

Side letter
ESG requirements and commitments

Portfolio monitoring

- Manager monitoring calls
- Asset class review meetings (quarterly and yearly)
- ODD rating refresh
- Stewardship committee

Active ownership

Investor collaborations
- Industry forum membership
- Collaborative engagement
- LP advisory committees
- Policy advocacy

Company engagement
- Shareholder Voting Policy
- Shareholder Voting Guidelines
- Board seats
- Direct dialogue
- External manager dialogue

Broader commitments
- Net zero
- TCFD

7 8 9 10 11 12

External managers

The majority of LPPI's portfolio is invested through the selection and appointment of external managers - third party funds we allocate client capital to. Our process for assessing externally-managed funds considers both the fund's investment strategy and the manager's investment process.

Investment strategy – What ESG risks and opportunities are the investment strategy exposed to?

Investment processes – Are the managers' processes adequate to successfully steward the assets on LPPI's behalf?

The internally developed LPPI ESG SatNav tool is used to identify potentially material ESG factors for a prospective fund's investment strategy. Our investment professionals apply it at stage one and revisit it in detail in stage two of investment due diligence in the process outlined on page 83.

The factors included reflect our understanding of material considerations, viewed through the lens of the Sustainability Accounting Standards Board and the Task Force for Climate-related Financial Disclosures. The examples here provide a high level, non-exhaustive summary:

Environmental

- Ecological impacts
- Energy management
- Waste and hazardous materials management
- Water and wastewater management
- Air quality and pollution

Climate Change

- Greenhouse gas emissions
- Policy and legal
- Technology
- Market
- Reputational
- Physical risks – acute
- Physical risks – chronic

Social

- Customer health and safety
- Data security
- Customer privacy
- Access and affordability
- Product quality and safety
- Customer welfare
- Selling and product labelling
- Labour practices
- Employee health and safety
- Employee engagement, diversity and inclusion

Governance

- Policies, standards and codes of conduct
- Management and board structure
- Executive compensation
- Shareholder rights
- Board diversity
- Tax strategy
- Auditor and auditor selection
- Succession planning
- Critical incident risk management

The manager rating framework by comparison, is a questionnaire filled out by the manager and used to assess a manager's ESG processes against four pillars with 12 underlying attributes:

Governance

- Accountability and oversight
- Policy and standards
- ESG strategy

ESG integration

- Risks and opportunities
- Decision making
- Training and knowledge sharing
- Research, data and tools

Active ownership

- Engagement
- Collaboration and initiatives

Reporting

- Transparency
- ESG measures and metrics
- Material ESG incidents

Performance against each attribute and pillar is given an ESG rating, ranging from inadequate (below minimum requirements) to outstanding, which are aggregated to assign an overall rating for the manager's ESG processes.

Managers are assessed against these qualities in each stage of the fund underwriting process as well as subsequent monitoring of incumbent managers. Where a manager is rated inadequate or not meeting minimum requirements overall, this is likely to contribute to them not being selected by our investment teams.

However, where addressable weaknesses are identified, LPPI may elect to work proactively with a manager to remedy these, subject to adequate commitment from the manager and a clear plan for addressing concerns. Expectations of managers in relation to diversity and inclusion, reporting, and stewardship appear formally in investment management agreements and in side letters for new mandates. Our Operational Due Diligence process, outlined in detail in our last report, reviews incumbent managers periodically in accordance with a refresh cycle.

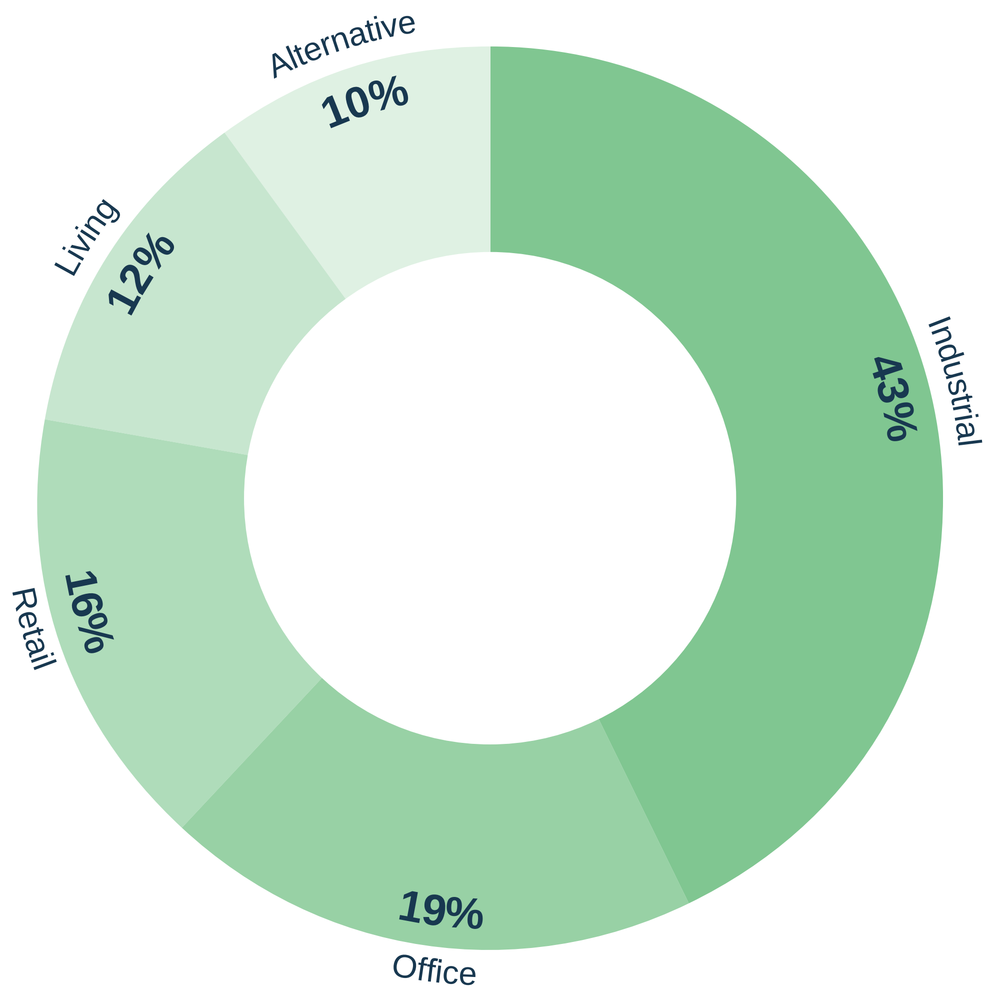
9 10 11 12

Engagement insights case study: External managers – real estate

Through the LPPI Real Estate Fund, our clients invest in a diversified portfolio of UK and international real estate assets with a focus on income generation, and across uncorrelated sectors to provide stable returns. The mandate is flexible in terms of sector and geography, although no more than 25% of the fund may be invested in value-add and opportunistic assets.

Our total real estate assets under management reached £1.62 billion by the end of March 2022. Through our partnership with Knight Frank Investment Management (KFIM) we manage a direct assets portfolio of £1.1 billion, as part of the fund.

Fig 3: Real estate sector breakdown



ESG issues have a material impact on real estate asset valuations. Assets that fail to address ESG considerations face the likelihood of becoming stranded. To ensure this risk is identified, assessed and monitored, in 2020-21 an initial review of the largest managers in the LPPI Real Estate Fund was carried out by a consultant.

The review used a due diligence questionnaire which was based on the initial version of the LPPI External Manager ESG Rating framework and a questionnaire which assessed managers capability in terms of their governance and policies, ESG integration efforts, evidence of active ownership and reporting.

For our largest real estate manager KFIM, the assessment concluded that elements of KFIM's practices needed development and identified several priority areas for improvement, including:

- Development of in-house ESG capacity
- Clarity on strategies for further PV installation capacity and EPC rating improvements
- Enhancement of reporting of carbon emissions and climate risk assessments

These priorities became focus areas for the LPPI real estate and responsible investment teams' engagement with KFIM over the reporting year. As a result, KFIM has made significant progress against these priority areas. Early in 2022 KFIM added their own head of ESG and a data analyst to their team in order to improve reporting for all clients, including LPPI. The team subsequently reported Scope 1 and Scope 2 carbon emissions for the first time, backdated against 2019 as a benchmark year (pre-COVID when operation was at 'normal' levels).

Other projects which have already begun and will carry on into the next reporting year include an exercise to update the flood risk scores of all properties and assess additional climate related extreme weather events, and commissioning a tenant engagement survey across LPPI Real Estate Fund's direct assets, carried out by a third party.

LPPI is now using the new External Manager ESG Rating framework to assess the position of both existing and new external managers, including investments made over the 10 years to the end of March 2022.

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ESG integration – Bespoke approaches

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Direct Public Equity

The LPPI internal global equities team's strategy of investing in high quality and well-managed businesses naturally lends itself to ESG integration, as a full assessment of business and management quality will include consideration of ESG risks and opportunities. It also aligns with the team's long-term, low turnover, and active ownership approach.

Given that we invest at a company level, the internal investment team takes a bespoke ESG approach. This emphasises the materiality of ESG factors, as defined by their potential impact on the long-term competitive advantages and durability of cash flows for both existing and prospective investments.

Company level ESG analysis is guided by an ESG checklist, which aims to identify key ESG risks, mitigating factors and opportunities for engagement derived from the broader ESG SatNav. The checklist is maintained and reviewed by the senior equities ESG analyst.

Key areas of focus include, but are not limited to:

Governance

- Incentives
- Independent challenge
- Aligned interests
- Long-termism
- Treatment of minority shareholders
- Board diversity and structure

Social

- Customer satisfaction
- Capacity for innovation
- Product governance
- Employee engagement and retention
- Cyber security and data privacy

Environment

- Greenhouse gas emissions
- Energy management
- Net zero
- Environmental targets and incentives

For engagement, the process includes the following components:

- Direct dialogue with underlying companies in response to an ad hoc update, ESG incident or upcoming vote requiring enhanced due diligence and/or escalation
- Shareholder voting - ESG factors are fully integrated into our exercise of shareholder voting rights, which are fully retained by LPPI. Our Shareholder Voting Policy and Shareholder Voting Guidelines detail the priority ESG factors considered, and methods used as part of this process
- Use of an external provider of engagement services which targets companies under several themes relating to environmental, social and governance issues
- Collaborative investor engagements - examples of collaborative engagements include the CDP non-disclosure campaign and Climate Action 100+

The internally-managed equities mandate forms part of LPPI's Global Equities Fund which, in common with all other asset classes, is subject to oversight through quarterly and yearly review meetings where ESG considerations are incorporated. Changes introduced as part of the evolution of a more systematic approach will also apply to internally-managed mandates.

8 9 10 11 12

Direct infrastructure

Infrastructure also follows a tailored approach to assess, monitor and mitigate the responsible investment considerations which are bespoke to the internal infrastructure portfolio. Relevant ESG factors can vary significantly depending on the type of asset under consideration. A systematic appraisal is carried out on a sector and asset specific basis to understand the relevant risks to consider.

While the nature and circumstances of investing in infrastructure necessarily differ from listed securities, the responsible investment principles and process remain common.

For example, our internal team utilises the same ESG checklist, placing special focus on the following criteria at the underwriting stage:

Environmental

- Hazardous materials
- Waste management
- Air pollution

Climate change

- Greenhouse gas emissions
- Physical climate risks
- Transition climate risks

Social

- Child labour
- Labour rights
- Unions
- Health and safety
- Human rights

Governance

- Supply chain
- Contractors
- Bribery and corruption
- Cyber security

A key part of the underwriting process is to ensure that potential investee companies understand our core responsible investment beliefs and have the capabilities to meet our responsible investment and stewardship requirements. In some cases, appropriate mitigations and risk management can be agreed, relating to any inherent ESG risks or behaviours, which are then actioned during the life of the investment. However, evidence of potentially insurmountable ESG risks and performance include, but are not limited to, excessive climate transition risk that cannot be mitigated, persistent allegations of bribery and corruption, and serious failings in corporate governance or health and safety.

As with global equities, the ESG SatNav provides a template for direct infrastructure portfolio monitoring and active ownership.

A multi-disciplinary team conducts a formal review of the portfolio both quarterly and annually which incorporates ESG considerations including engagement priorities and progress, as well as plans for high risk or underperforming assets.

Direct asset operators are also required to provide quarterly and annual reporting updates to LPPI. The ESG data, analysis and supporting commentary we expect to be included in their reporting, reflects sector-specific requirements appropriate to the investment. The scope and timetable for implementing our reporting requirements are agreed on a case-by-case basis at the outset.

Governance oversight is primarily exercised through the investee company's board as the formal forum for raising ESG related issues. Engagement with our infrastructure assets is exercised by members of our investment team, who hold board positions on our directly held assets. Each of the boards has ESG related issues reported as a standard item in the board packs, regular deep dive sessions are conducted, and specific incident reporting procedures are in place for reporting material occurrences. LPPI also engages the executive management teams of assets on a regular basis on ESG risks and opportunities, to understand how these factors shape their judgements and progress on business activities.

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Engagement insights: Internally-managed public equities

Materiality assessments by our internal global equities team using their bespoke ESG checklist identified three overarching engagement themes for 2021/22:

- Management compensation
- Packaging and recycling
- Cybersecurity and data protection

Within these themes the team pinpointed the investee companies each of these ESG factors is most relevant to, and subsequently laid out an engagement plan for each target company.

The outcome was an engagement dashboard, mapping out the most relevant and pressing engagement themes, using the SASB Materiality Map as a broad guide.

The pie charts below outline engagement activity undertaken over the 12 months to the end of March 2022.

Examples of engagement under each theme, and their outcomes, are provided on pages 95-97:

Fig 4: Engagements by portfolio

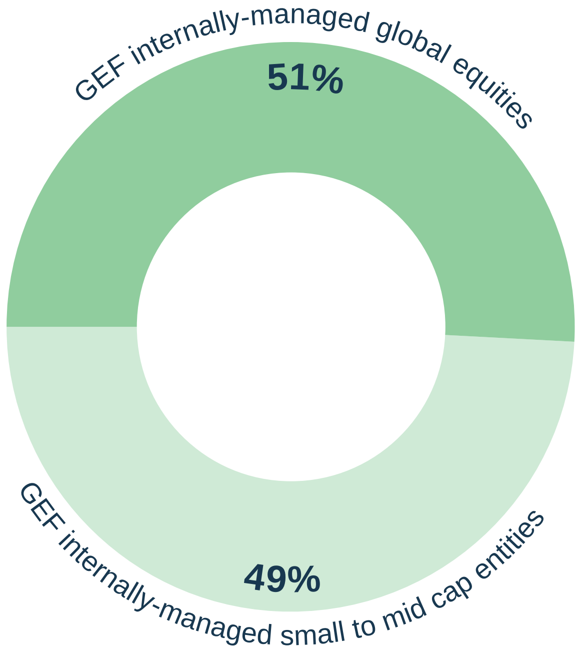
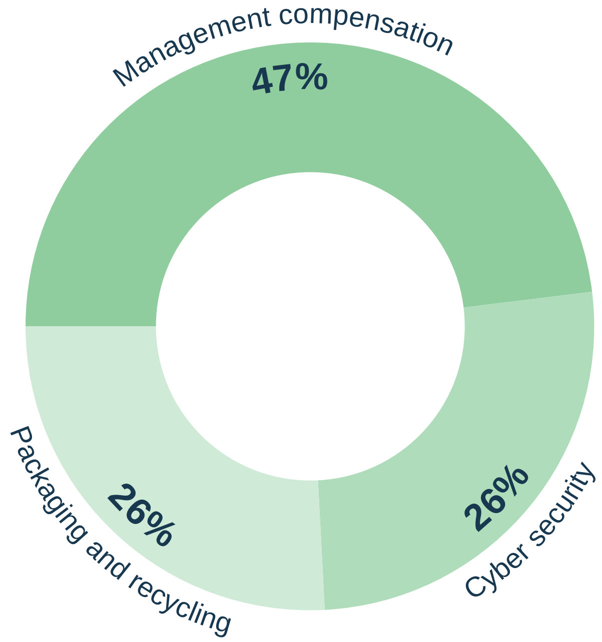


Fig 5: Engagements by theme



Source: Local Pensions Partnership Investments as at 31 March 2022

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Packaging and recycling

Engagement theme
The sharpened focus on the environmental impact of product packaging, from governments and consumers, presents several risks to businesses in sectors such as consumer staples and healthcare.

These risks include reduced demand, higher cost structures, punitive taxation and reputational risk.

We engaged to better understand the potential impact of the issue – and the remedial steps taken by investee companies.

Example one
For example, we engaged with a UK-based biotechnology firm that makes high quality protein research tools, to discuss their approach to packaging and recycling. The company's products are distributed in plastic and paper packaging, some of which is recyclable or biodegradable apart from one notable PVC component. The company's goal is to achieve 100% kerb side recyclable packaging over time, including eliminating PVC from its supply chain, and has been making good progress towards this goal, coming up with innovative solutions in a cost-effective way – further evidence of how well managed the business is.

Example two
A second example shows our conviction in a stock declining to the point of disposal. We worked with a US household goods manufacturer to discuss the management team's approach to packaging and recycling. While the company had set targets around plastic reduction and recycled material use, the management team displayed a lack of clarity about the journey towards these targets. This formed part of our decision to exit the position.

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Data protection and cyber security

Engagement theme
The global rise in cyber attacks has brought digital security and data protection to the forefront of corporate and governmental risk management.

While these risks are almost ubiquitous, they are particularly relevant to a number of our holdings.

Most of our engagements have focused on fact finding as opposed to identifying any major failings that require improvement.

Example
One of our investee companies, a UK financial services company, collects and stores vast amounts of sensitive and confidential consumer information as part of its core business. We engaged with the firm to build our knowledge of their approach to the risk, specifically their policies and systems.

Our engagement identified the firm had in place robust governance, policies, risk management and reporting procedures related to cybersecurity and data protection. The company has invested significantly in these areas, both in terms of capital allocated and employee headcount.

Although the company has experienced some level of adverse events in the past, we do not consider them material. We closed the engagement and continue to monitor the company's performance in these areas.

9 10 11 12

Management compensation

Engagement theme
As long-term investors with a focus on quality, we want to see alignment between management and shareholder interests.

Well-crafted management incentives can play a part in ensuring alignment of interests, and forms part of our assessment of management quality.

Our engagements on this theme have focused on companies where we believe there is room for improvement in the choice of performance metrics used to determine compensation.

Example
We engaged with a global medical devices manufacturer to express concern around planned changes to management compensation for 2022.

Our main objection was the reduction in weighting of return on invested capital in calculating long-term bonuses. This is a far better measure of shareholder value creation than revenue growth or total shareholder return, both of which could incentivise management to grow the business at the expense of profitability.

The engagement remains open as we continue to monitor the company, particularly whether management are allocating capital in a manner that would suggest their priority is growth of the business at the expense of profitability.

4 9 10 11 12

Engagement insights case study: Collaborative engagement on plastics

The issue of plastic pollution is not confined to a small group of companies in any one portfolio.

The issue stems from a lack of market-wide incentives to diversify away from petroleum-based products to factor in recyclability and reusability and switch to a circular economy, and a lack of infrastructure to support these changes at scale.

Having identified plastic and packaging as a material risk and engagement theme within our internally-managed equities portfolio, we recognised that change needs to happen at a global level, ideally coordinated across as many markets as possible. As a result, LPPI joined the business call for a UN Treaty on Plastic Pollution. The treaty called on governments to ensure high ambition in the then forthcoming UN Environment Assembly international negotiations, laying the groundwork to drive the transition to a circular economy for plastics globally and at scale.

The talks were widely considered a success, with the UN setting the ambition of completing a draft global legally binding agreement by the end of 2024 to address the full lifecycle of plastics. Additionally, the role of business in supporting the legally binding treaty was highlighted by a number of representatives during the negotiations.

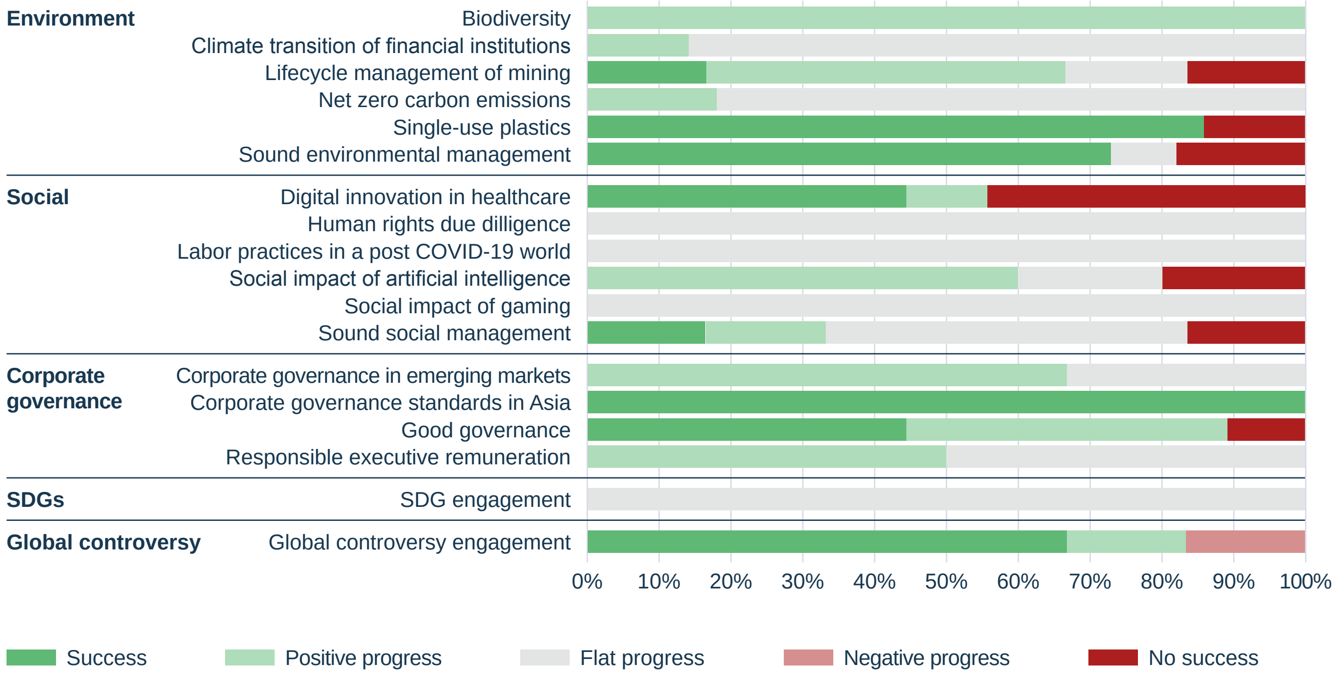
7 8 9 10

Working with our engagement partner (public markets)

LPPI's stewardship efforts continued to be bolstered through our relationship with Robeco Active Ownership, which commenced in early 2020. They support and supplement our own engagement activities across listed equities and corporate fixed income, bringing additional resource and expertise to expand the scope of LPPI's engagement universe. Robeco executes standalone engagement themes, informed by the interests of LPPI and their wider client base, as well as supporting LPPI's internal engagement activity; for example, through the sharing of insights on proxy voting.

We formally monitor Robeco's performance through quarterly meetings and analysis of their quarterly reporting though, in practice, there is an open line of communication between teams, evidencing the strong relationship built over the years. The progress of thematic engagement is diligently tracked by Robeco and the results are made available for LPPI's quarterly client reporting and meetings. Overall progress for each of the themes actively engaged on during 2021/22 can be seen in the chart below:

Fig 6: Progress of actively engaged themes 2021/22



Source: Robeco Active Ownership Report Q1 2022

In this period, five themes closed and four new themes were added. Engagements under cyber security 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.

While there is a positive view that more companies are willing to set ambitious net zero emissions targets for 2050, the biggest challenge is to translate these targets into clear and feasible transition plans. 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 focused engagement with the introduction of new themes on net zero emissions and Nature Action 100. Further details about engagement activities and progress are available from our website.

In addition to regular monitoring, LPPI actively participates in the Annual Client Panel where Robeco Active Ownership's clients are able to shape engagement priorities for the year ahead. In this process, LPPI considers topics that are material to our portfolios, are identified by clients as priorities, and topics that receive less attention in our pre-existing engagement activities, collaborations, and partnerships. For 2022 (calendar year), Robeco introduced themes on net zero emissions, natural resource management, diversity, equity, and inclusion, and Nature Action 100.

As our partnership enters its third year, we hope to continue to learn from Robeco's work, incorporating the best practice we observe within their planning, targeting, monitoring and execution of corporate dialogue and the tracking of progress and engagement outcomes.

For the year in review, Robeco Active Ownership oversaw 203 engagement cases on behalf of LPPI, covering 18 separate themes – as illustrated opposite.

Fig 7: Engagement cases by sector

Total: 203

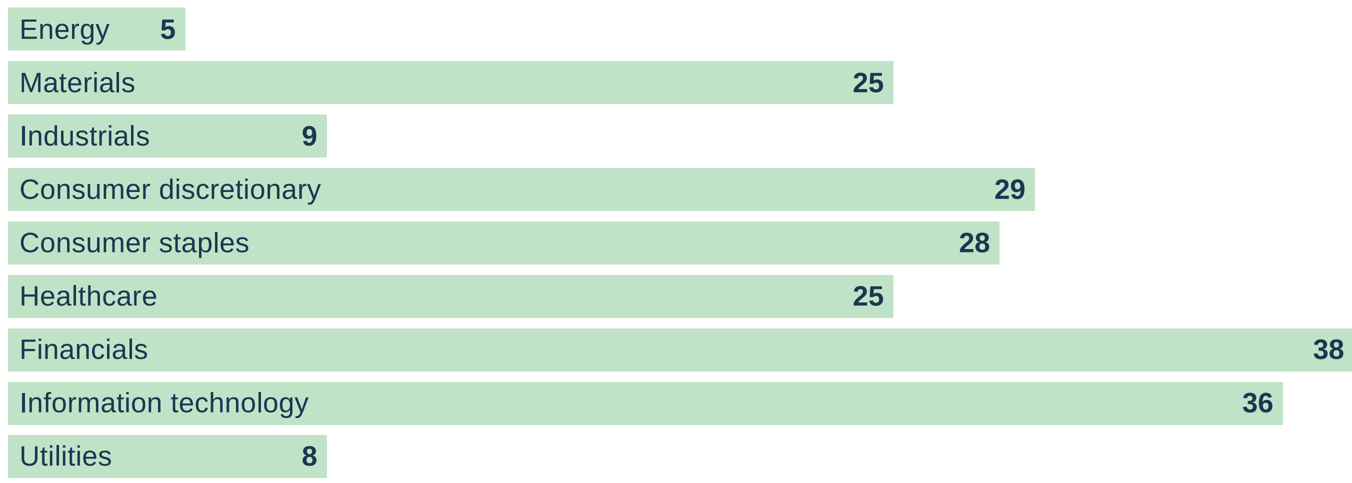
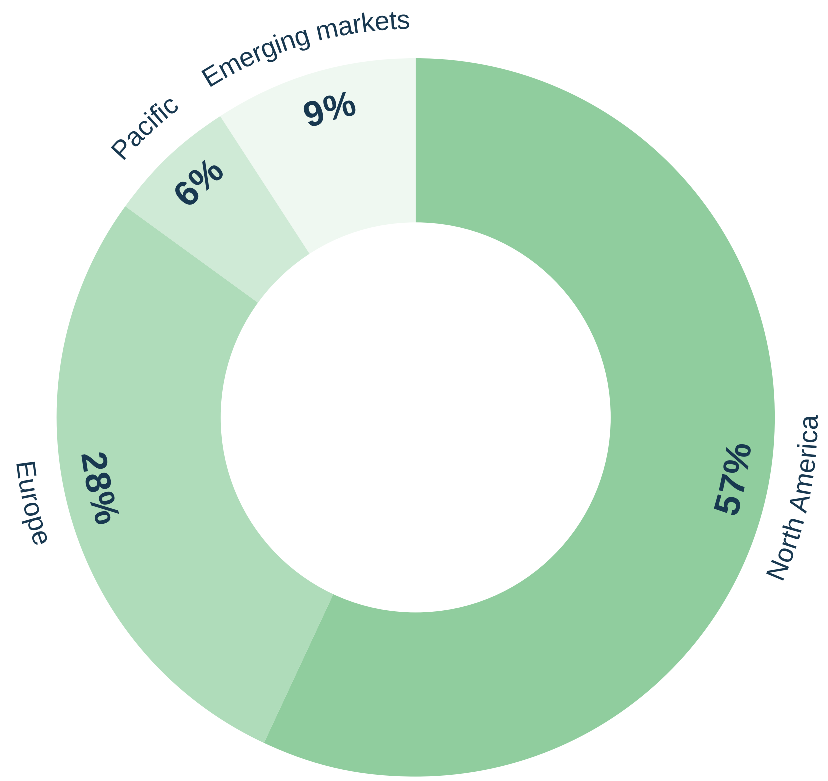


Fig 8: Engagement cases by market



Source: Robeco Active Ownership reporting 2021/22

6 7 9 10 11

Collaboration

We collaborate with a wide range of organisations.

In some cases we invest alongside like-minded parties with comparable approaches to responsible investment. These partnerships can amplify our voice, giving us more scale and/or better market access. In layperson's terms we see them as helping us do more of the right thing.

In others we join or create groups or associations of like-minded parties. Sometimes we take a front seat, convening or joining collective pressure or action to effect positive change, and sometimes we take a passive position if we are early in our development of a topic and want to learn from others and develop our understanding of a material issue.

Collaborative investing

We have two collaborative investment agreements: GLIL Infrastructure and The London Fund. They sit outside the seven, asset class specific pooled funds we manage under delegated arrangements.

6 7 10

The London Fund

This is a £195m investment fund launched in 2020 as a joint venture between Local Pensions Partnership Investments and the London Collective Investment Vehicle Ltd.

We at LPPI are the fund's investment manager.

The fund exists to:

- Deliver competitive investment returns, with a target return of CPI + 3%
- Offer positive social benefits, from job creation to a positive environmental impact
- Invest 80% of the portfolio in Greater London

The fund invests chiefly in residential real estate and sustainable infrastructure.

The portfolio management team uses a range of frameworks for evaluating asset sustainability. The two main ones are the UN Sustainable Development Goals and the 2017 London Quality of Life (QoL) Report.

The latter is an initiative from the Mayor of London that presents 32 indicators designed to measure how London is performing against the key attributes of a sustainable city. The 2017 QoL report identifies a number of areas of improvement including decarbonisation, quality of housing, affordability of housing, health outcomes and child poverty.

The reporting year saw the fund deploy its seed capital into three investments.

These were:

DOOR
This is a build-to-rent housing platform that is targeting 12,000 new homes.

- As at 31 March 2022, the scheme has 3,918 homes under management, 1,677 under construction and a further 4,660 secured in the pipeline
- ESG is embedded into the developer's operations

YOO Capital Fund II
This is a fund focused on redeveloping and repositioning existing assets to create space for supply starved strategic growth sectors.

- These include life sciences, healthcare, and creative industries
- The fund is aligned with GRESB and is a PRI signatory

EDGE London Bridge
This is a co-investment with Goldman Sachs Asset Management and Edge to develop a 260,000 sq. ft. sustainable office adjacent to London Bridge Station.

- The investment seeks to deliver a best-in-class, mid-rise office tower with the best ESG credentials, low-carbon construction and net zero in operation
- It will also target the highest level of BREEAM certification

Case study

The London Fund – Shepherd's Bush Market

The London Fund's investment in YOO Capital Fund II gives it exposure to several redevelopment opportunities.

One of them is Shepherd's Bush Market, a 109-year-old market in the heart of West London.

YOO's proposed investment is an opportunity to revitalise the site by adding office space, creative trade workshops and studios, affordable incubator spaces and affordable housing.

It would see YOO continuing its working relationship with the London Borough of Hammersmith and Fulham.

6 7 10

GLIL Infrastructure

GLIL Infrastructure partners with UK pension funds to invest in Britain's future.

It aims to create jobs, support communities and help to power UK plc towards a sustainable economy. At the same time it seeks to deliver the stable, inflation-linked returns that infrastructure investments can provide.

GLIL was established in 2015 by Greater Manchester Pension Fund and the London Pensions Fund Authority with £500 million of capital commitments. As of 31 March 2022, it was backed by four local authority schemes, plus Nest (the government establish defined contribution workplace pension scheme), deploying £2.1bn in investments out of £3.6bn in commitments. LPPI is the investment manager.

GLIL has a clear focus on ESG. Existing and future investments must offer long-term benefits to communities and the environment. And responsible investment and stewardship feature prominently in asset selection and asset management.

Governance

Strong governance is essential to being able to engage with and influence the other owners and managers of our assets.

GLIL aims to secure significant rights even with minority equity stakes.

Society

Political and economic stability are essential ingredients to successful infrastructure investing. These are more likely to be achieved in a healthy and diverse society.

GLIL aims for its investments to enhance the lives of communities and the individuals that live there.

Environment

Solving the climate issues and building a sustainable environment is key to a stable and thriving global economy.

GLIL is a supporter of the government's net zero 2050 agenda.

Superior returns

Superior returns are what we are looking to deliver to our investors.

Well run businesses that take account of ESG factors are more likely to deliver superior returns.

During the past 12 months, GLIL has added ESG expertise to the investment committee in the form of Dr Patricia Rodrigues Jenner, an infrastructure and renewables investment specialist, and continued to make investments in assets which support the low carbon transition, such as Flexion Energy. At the same time, there has been significant growth in reporting on ESG matters with a focus on responsible investment within GLIL's 2021 annual report and the preparation of their first voluntary TCFD report for member funds in 2022.

Case study

Generating for net zero: GLIL Infrastructure – Flexion Energy

Flexion Energy is a new joint venture between LPPI, via GLIL Infrastructure, and ion Ventures, a developer. It aims to help support the UK's transition to net zero.

Flexion Energy will develop, build, own and manage energy storage systems in the UK, specifically large-scale batteries connected to and servicing the electricity grid, exclusively for GLIL.

Over its 25-40 year expected asset life, Flexion Energy will help to bridge the gap between development and financing of energy storage sites.

We have submitted eight planning requests across the UK.

One of these is a recently approved project in Norwich which will generate 100MW of power with a two-hour duration. This will require around £65m of investment.

7 8 10 12

External partnerships

We value partnerships and like to work with others towards shared or similar goals. We also like to learn – our responsible investment journey will be long and, at times, it's challenging.

The more we can benefit from pooled experience, and in some cases extra muscle, the more effective we can be for our pension fund clients and their beneficiaries.

Our external engagement encompasses engagements with policy makers, our peers, the wider pensions or responsible investment industry, service providers and individual companies.

In the reporting year, our major forums for working together and connecting with other investors on stewardship efforts were the Institutional Investors Group on Climate Change (IIGCC) and the newly formed Occupational Pensions Stewardship Council (OPSC).

LPPI has participated in a number of specific activities and workstreams as part of our membership of the IIGCC throughout the year. These include:

- Signing the Net Zero Asset Managers initiative commitment
- Membership of the Net Zero Implementation working group in order to ask questions, learn from others and receive support on implementing the guidance
- Membership of the Net Zero Infrastructure working group where we have stayed up to date on the developments of net zero guidance for this asset class
- Member of the Net Zero Stewardship workstream
- Submitted nominations for candidates to be elected to board seats and attended the IIGCC annual general meeting to vote on the final candidates

IIGCC
The Institutional Investors Group on Climate Change

PRI Principles for Responsible Investment

During the “gap year” for reporting, the PRI continued to provide a valuable resource, forum, and source of information on the latest developments in responsible investment, helping us to stay up to date on best practice in the industry.

In particular, this helped us to develop our thinking on incorporating human rights considerations into our investment processes as we followed the development of the Advance initiative, which launches in 2022/23. Additionally, we use the PRI Collaboration platform as a key way to monitor for potentially relevant collaborative engagements aligned with our engagement priorities. For example, in Q1 2022, we joined other financial institutions, businesses, and NGOs in supporting the call for an ambitious UN treaty to address plastic pollution at the global scale.

We also took part in the annual nomination and voting process to elect new members of the PRI board and submitted feedback on our experience of the issues surrounding the 2020/2021 reporting period. This has now been used to improve the process ahead of the 2022/23 reporting period.

LPPI became a member of the newly launched OPSC in Q3 2021. It is a DWP-created industry peer group that promotes and facilitates high standards of stewardship of pensions assets. It provides schemes with a forum for sharing experience, best practice, research, and providing practical support.

Specific examples of our work include providing an asset manager perspective as part of the development of a letter encouraging asset managers to enable better, more open and honest communication with their clients about voting, and contributing to the identification and prioritisation of focused work strands, prior to and as an attendee at the OPSC annual meeting.

Other forums we attend throughout the year to learn from peers and share experiences from our own stewardship efforts are:

- Local Government Pension Scheme Advisory Board Responsible Investment Advisory Group – where we are an LGPS pool representative
- Pensions and Lifetime Savings Association's (PLSA) Defined Benefit Scheme Stewardship Advisory Group (SAG)
- UK Pension Schemes Responsible Investment Roundtable
- LGPS Cross Pool Responsible Investment Group

Other collaborative engagements we choose to be a part of relate strongly to the unique make up of our portfolio and the specific themes that matter most across the full range of ESG factors. We are part of the following thematic engagement initiatives.

You can find more detail on our participation in these groups throughout this report on pages 76, 79 and 80–81.

5 6

Continued improvements in stewardship reporting

As we reported last year, we have taken some big steps forward to improve the quality and quantity of our reporting about stewardship.

As the expectations from our clients and within the industry have continued to develop, we've reviewed our processes, incorporated feedback and continued to evolve alongside them.

This year we have focused on expanding transparency further through our reporting and external communications, providing deeper insights into our stewardship processes for clients which reflect their feedback to us.

5 6

Client reporting

We produce a comprehensive responsible investment dashboard and accompanying written report on a quarterly basis for each of our core clients.

The responsible investment dashboard presents data graphically across 15 responsible and financial investment metrics:

- Portfolio sector breakdown (global equities)
- Governance insights (global equities)
- Overall portfolio ESG score (global equities)
- Transition Pathway Initiative – management quality (global equities)
- Industry breakdown (private equity, infrastructure and real estate)
- Geographical breakdown (private equity, infrastructure and real estate)
- Green exposure (global equities, fixed income, green bonds, private equity and infrastructure)
  – Investments contributing to the energy transition
- Brown exposure (global equities, fixed income, green bonds, private equity and infrastructure)
- Investments in traditional (fossil fuel based) energy generation and supply voting (global equities)
  – Overall statistics
  – By theme
  – By region
- Indirect engagement, through our engagement partner Robeco Active Ownership (global equities and corporate fixed income)
  – By topic
  – By method
  – By sector
  – By region
- Case studies sharing Real World Outcomes from directly held private assets and/or externally-managed assets, including global equities, infrastructure, private equity and real estate.

We speak to our clients regularly about what reporting they need from us, allowing us to plan for their requests for amended or additional information. For the second consecutive year we made a significant enhancement to our client reporting in response to client feedback:

- Multiple clients updated their responsible investment policies this year which provided us with a greater understanding of their priority responsible investment themes. We held discussions with clients following these updates to agree how their priorities could be integrated into our stewardship reporting. As a direct result, we introduced new insights on governance factors into the quarterly responsible investment dashboard. These usefully aligned with two of LPPIs existing priority voting themes, remuneration and board independence, outlined in our Shareholder Voting Guidelines. We will continue our dialogue with all clients to agree the next phase of priorities for client reporting in 2022/23.
- Quarterly meetings provide a consistent forum for responsible investment reporting to be discussed and questions and feedback gathered from beneficiaries. During this year's meetings there were common themes within feedback related to data within the dashboard where the underlying methodology was not clear enough, or where additional reports were providing too much detail and could be slimmed to reduce the reporting burden. To address these issues, we included a summary of the longer side documents within the main report and added further context alongside the data within the dashboard, adding links to external websites to provide more in-depth explanation without increasing the length further. The improved clarity and flow of reporting has been positively welcomed by clients in subsequent quarterly meetings.
- In March 2022, LPPI held its first investment conference for its clients. The conference programme focused on collaboration, investment insights, sector updates and future plans. It was a great opportunity to provide clients with deeper insight into our responsible investment processes and external partnerships in an environment which supported the free flow of ideas, questions and discussions. Client interest was palpable on topics like the importance of our work on net zero, depth of reporting and how we work with external managers and third parties. We have responded by incorporating greater insight into these parts of our processes within our reporting and dialogue with clients.

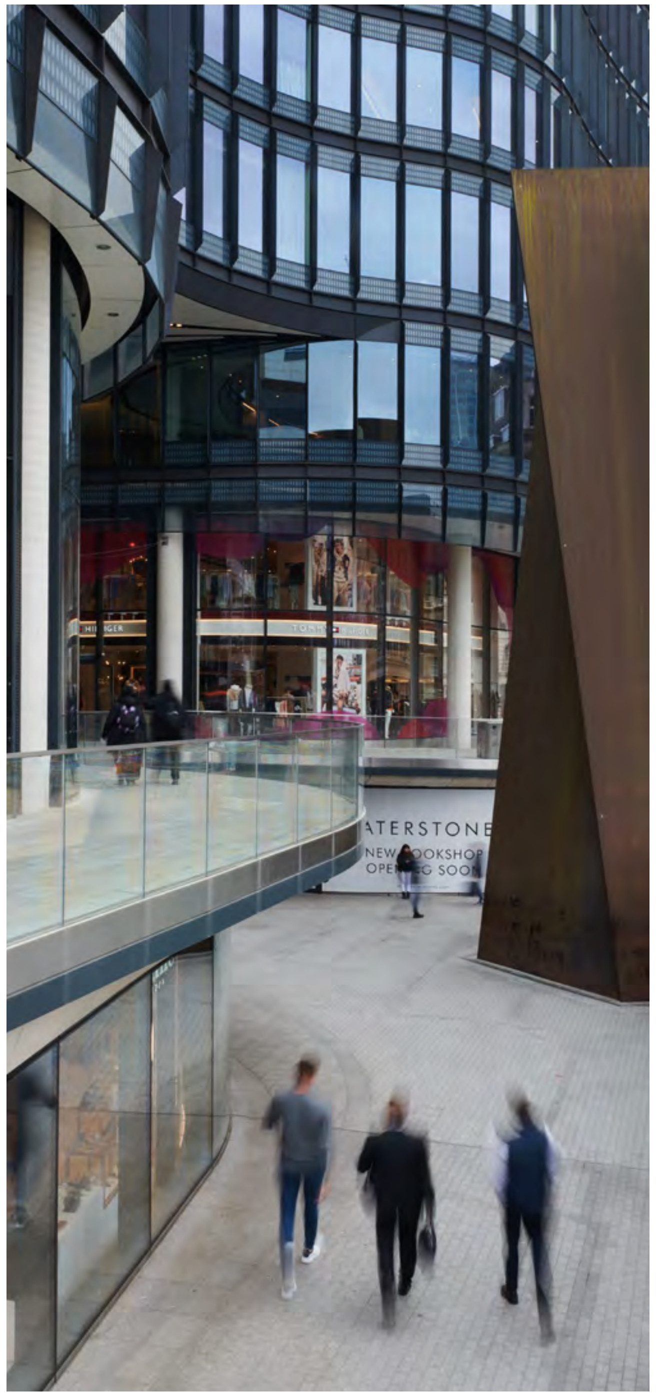
As stewardship and portfolio data (especially on climate change) continues to improve, we will propose ways of enhancing our client reporting further to ensure we continue to meet their needs.

5 6

LPPI responsible investment policy expansion

In Q3 2021, we published detailed LPPI Shareholder Voting Guidelines. The guidelines have been developed to support the consistent and transparent application of our Shareholder Voting Policy and to communicate a clear stance to investee companies and wider stakeholders (for example, our clients and their scheme members) on our approach. They capture our beliefs and expectations in relation to core governance issues such as board independence and our approach to shareholder resolutions. They also highlight our priority voting themes, which this year includes reporting transparency, executive remuneration, and the effective management of climate change. The guidelines are a living document and will be updated to reflect evolving market expectations and our desire to continuously push for better practices at our investee companies.

In addition to the Shareholder Voting Guidelines, we have made progress on additional responsible investment policy annexes due to be completed in 2022/23 which will share further detail and illuminate our approach to ESG integration and our consideration of human rights in the investment process. This development in our stewardship policies and processes reflects internal discussion, evolving best practice and feedback from external assessments like the PRI, which collectively shape our efforts to continuously improve our policies and processes as a responsible investor.



5 6

External reporting frameworks

UK Stewardship Code (2020)

As signatories to the Code, we publish our annual report with two aims.

1. To demonstrate our compliance with the Code. We believe this document sets out, in detail, the ways in which we have discharged our obligations.

2. To create something with a narrative – something that clients, stakeholders or indeed anyone with an interest in pensions or sustainability might benefit from, or enjoy reading.

Our first report published against the updated (2020) code was accepted by the Financial Reporting Council, enabling LPPI to retain its status as a signatory to the UK Stewardship Code. The feedback received on that report has been valuable in helping us to improve our reporting against the criteria this year.

Taskforce on Climate-related Financial Disclosures

In 2021 we appended our TCFD report to our annual Stewardship and Responsible Investment Report.

This year and onwards, we have decided it merits a standalone document. We expect to publish a TCFD report in 2023, once more immediate communications about our net zero approach and pathway have been shared.

As we move into our second year of reporting on our net zero strategy (beyond 2023), we will also combine our TCFD and net zero reporting into one, reflecting the interrelationship of net zero with our work on climate change.

As a business, 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 have every expectation our ability to report with more detail, data and transparency will grow and will therefore benefit from this streamlined approach.

Principles for Responsible Investment

We are a signatory to the Principles for Responsible Investment which requires detailed mandatory reporting on an annual basis. 2022 was unusual in being a “gap year” where the reporting requirement was postponed to allow the PRI time to address issues with reporting under the new framework piloted in 2021.

Our first experience of reporting under the new framework in 2021 was not without challenges for a reasonably streamlined organisation such as LPPI and many others across the industry. This was on account of the expanded breadth and greater depth of detailed responses expected, which increased an already resource intensive co-ordination and reporting burden.

In response to the issues experienced, PRI has undertaken a detailed internal review which included postponing the release of Transparency Reports for the 2021 cycle. Reports were not released to signatories until September 2022. Assessment Reports (which are confidential to signatories) were also delayed until September 2022 and follow a different assessment framework to previous years which has made direct comparison difficult. LPPI will take time to digest and peer review our assessment results before sharing details within our stewardship reporting in 2023.

Shareholder Rights Directive II disclosure for 2021-2022

12

Shareholder voting headlines

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. Voting decisions have been fully delegated to LPPI from our client pension funds.

LPPI's approach to shareholder voting is described in two documents: the Shareholder Voting Policy and the Shareholder Voting Guidelines.

The policy provides an overview of LPPI's voting objectives and philosophy, the arrangements in place to execute votes, the approach to disclosure and any stock lending activities. The guidelines, which have been developed over the past 12 months, provide guidance for all stakeholders on the application of the policy in practice. It includes more detail on LPPI's beliefs, outlines the factors that influence how votes are cast on common items on the ballot, and identifies LPPI's priority themes: adequate transparency, appropriate remuneration and effective management of climate change.

These priorities were identified as key areas to consider when seeking the alignment of LPPI as long-term shareholders and company management. Together, they detail the consistent and transparent approach we apply when exercising the rights and responsibilities of share ownership.

We also publish detailed information on each company meeting and every resolution we have voted via quarterly shareholder voting reports, available on our website here. These reports meet the commitment we have made to transparent reporting on our stewardship activities. In 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 advisers and the most significant votes in the past 12 months.

5 8 12

Our use of proxy advisers

LPPI retains final say on vote direction. We liaise with our asset managers, engagement partner, and proxy voting provider as needed to reach final voting decisions. The analysis and voting recommendations we receive for each company meeting from our external provider of proxy voting and governance research (ISS) provides the foundations for our review.

We subscribe to the ISS Sustainability Voting Guidelines which explore material ESG considerations and provide a foundation for our review and decision-making process. On a case-by-case basis, we determine whether we agree with our provider's voting recommendations or hold an alternative view that leads us to depart from them; for example, when we favour additional stretch on priority issues or where we take a more nuanced view.

The combination of our subscription to the Sustainability Voting Guidelines, and the fact the vast majority of ballots are routine and uncontroversial, means we depart from our proxy adviser's recommendations in a small minority of instances. On an annual basis, we also respond to client policy surveys from our proxy voting provider which helps to ensure the research and recommendations we receive remain up-to-date with market expectations.

Should any issues arise in the execution of our voting rights, LPPI works closely with our voting provider to solve problems in the voting chain. For example, it was discovered that there was a typo in LPPI's power of attorney (POA) authorisations for two POA markets meaning our votes were not being registered. Upon discovery, LPPI's Responsible Investment and Operations teams worked closely with our voting provider to resolve the issue.

12

General voting behaviour (by theme)

In the 12 months from April 2021 to March 2022, LPPI voted at 399 out of 405 (98.5%) possible company meetings. In addition to the aforementioned POA errors, LPPI does not vote in share-blocking markets to preserve liquidity and elected to apply "Do Not Vote" for all Russian holdings that were not liquidated prior to the introduction of trading restrictions. The breakdown of our votes on the 4,443 separate resolutions is as follows:

Against	Theme	For
208	Election of directors (and related proposals)	2,263
113	Non-salary compensation	365
0	Anti-takeover and related	24
21	M&A and reorganisations	128
49	Capitalisation	285
36	Routine business	818
33	Shareholder proposals	100
460	**Total**	**3,983**

Source: ISS ProxyExchange

90%
Company proposals % supported

77%
Shareholder proposals % supported

42%
Meetings voted against management

LPPI supported 90% of company proposals and 77% of shareholder proposals. We voted against management (on at least one resolution) at 42% of company meetings in the period.

In summary, LPPI voted:

- Against 23% of management resolutions and in support on 72% of shareholder proposals on remuneration
- In support of 86% of shareholder proposals on human rights issues
- In support of 75% of shareholder proposals related to gender and/or racial diversity (proposals were supported where they requested clear targets or specific information to be reported)
- In support of 100% of shareholder proposals on the health impact of products (for example, sugar and antibiotics)
- In support of 100% of shareholder proposals on climate change - most proposals sought greater information on how companies are managing risk.
- In support of 86% of shareholder proposals seeking greater information on corporate behaviour relating to political lobbying.

Source: All metrics by Local Pensions Partnership Investments, derived from reports drawn from ISS ProxyExchange.

9 11 12

Examples of LPPI supporting shareholder proposals on priority themes

12

Most significant votes

Climate change

LPPI recognises the importance of a successful transition to a low carbon economy in line with targets under the Paris Agreement. Company meetings provide an avenue to engage 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 encourage greater disclosure on matters such as target-setting and lobbying.

During 2021/22, 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

Costco

At Costco Wholesale Corporation (USA: Hypermarkets and Super Centers), LPPI supported the shareholder resolution requesting Costco adopt short, medium, and long-term science-based greenhouse gas emissions reduction targets across their value chain to achieve net zero by 2050. The vote passed with 69.9% support.

12

Most significant votes

Pay

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 2021/22, LPPI cast 108 votes against management on pay-related matters, equating to 23% of all management proposed pay-related votes.

Case study

Nike

At Nike (USA: Footwear), LPPI voted against the say on pay. During analysis, LPPI identified a number of issues in executive remuneration, for example, a significant portion of the long-term incentives were not performance related (and used undesirable metrics for the portion that were). LPPI discussed these issues with company representatives where it became clear that management were going to proceed with the proposed structure. Following a separate discussion with our engagement services provider, LPPI elected to escalate and vote against the resolution. Result: 28.1% against.

12

Most significant votes

Diversity

Annual general meetings provide a direct opportunity for LPPI to hold companies accountable on the diversity of their boards. Through management resolutions on the election of nomination committee members and shareholder resolutions, LPPI is able to express a view on the company's status, approach and progress.

In 2021/22, LPPI cast dissenting votes against five management resolutions at 15 companies due to a lack of gender diversity on the board. Additionally, LPPI supported 76% 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 insufficient. However, each vote is taken on a case-by-case basis, and this year saw a proportion of diversity-related resolutions that did not meet our quality threshold for giving support.

Case study

American Express

At American Express Company (USA: Consumer Finance), LPPI supported a shareholder resolution requesting the company annually publish a report assessing diversity, equity, and inclusion efforts, noting disclosure on this matter lagged peers. The vote passed with 59.7% support.

12

Most significant votes

Lobbying

Shareholder resolutions on political lobbying, predominantly in the US, encourage companies to comprehensively disclose their direct activities as well as their 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 accountability. These factors lead to them being a priority for one of our client funds.

In 2021/22, LPPI supported 86% of shareholder resolutions on lobbying.

Case study

Netflix

At Netflix (USA: Movies and Entertainment), LPPI supported a shareholder resolution seeking additional disclosure of the company's political contributions, including information relating to trade association memberships and company oversight mechanisms of contributions. The vote passed with 80.3% support.

9

Most significant votes

Human rights

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 from companies around their human rights risk assessments.

Over the past year, LPPI supported six human rights shareholder resolutions at six companies (86% of votes faced).

Case study

Apple

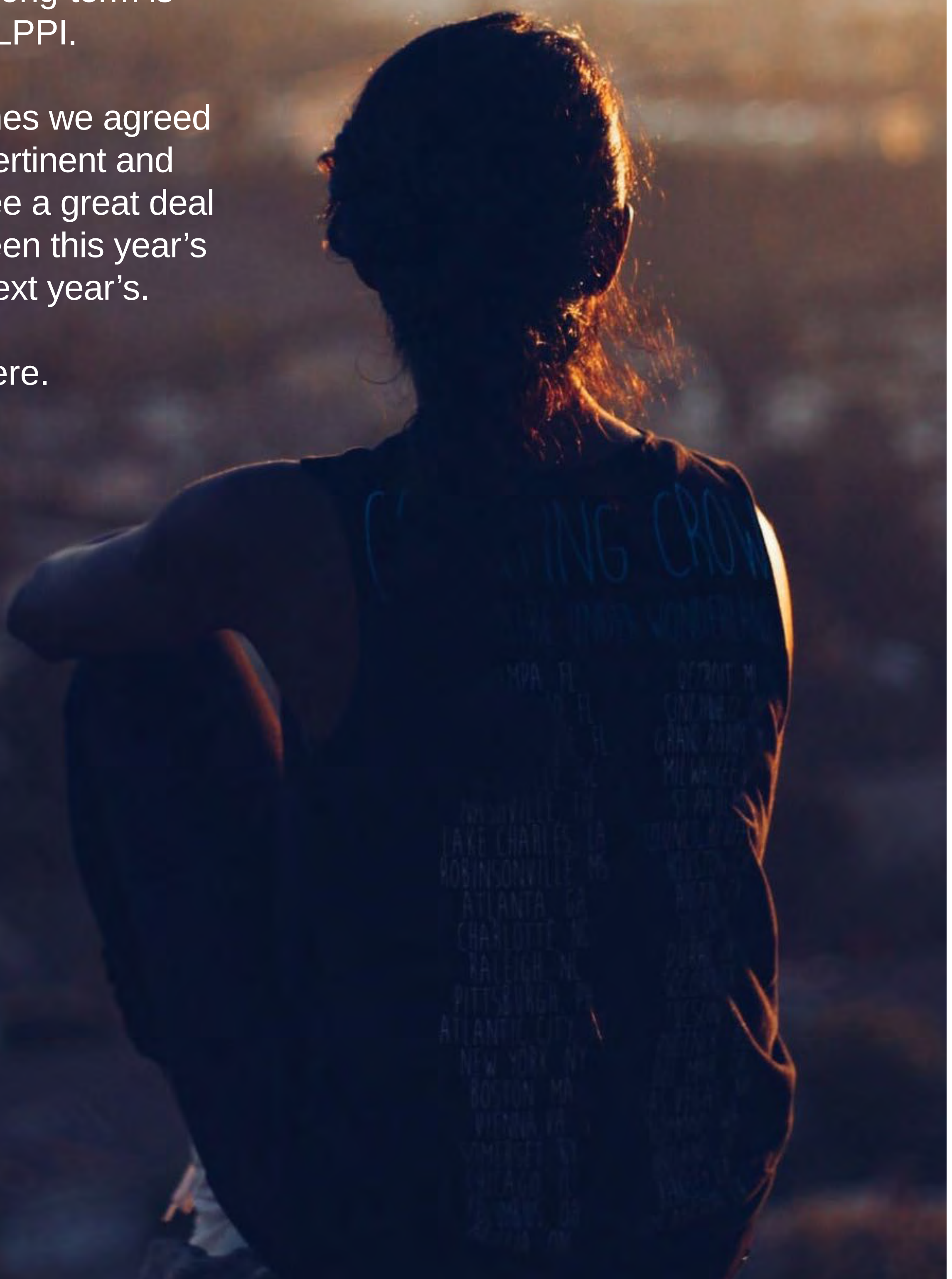
At Apple (USA: Technology Hardware, Storage and Peripherals), LPPI supported a shareholder resolution that asked the company to prepare a report on how effectively its policies and procedures protect workers in its supply chain from forced labour, noting a lack of disclosure linked to recent controversies. The vote did not pass but received support of 33.7%.

Looking ahead

We've established that thinking and acting for the long-term is important to us at LPPI.

The strategic themes we agreed this year remain pertinent and so we expect to see a great deal of continuity between this year's focus areas and next year's.

We detail these here.



4 7

Net zero

We will continue to progress work on our net zero commitment. The 2021/22 period was about embedding processes and getting started with listed equities. The 2022/23 reporting year will focus on embedding monitoring of targets into business-as-usual and acquiring the data we need, across more of the assets we invest in to expand our target coverage. Since April 2022 for instance, we have already made some significant progress with real estate carbon data – and we expect to make the greatest progress across our private asset holdings as a whole.

2 7

Private markets ESG focus

This time last year, we said that the spotlight of systematic integration would shine more brightly on real assets. It did. But the complexity and variety of our private asset holdings – especially given some are in third party funds – necessitates more work. We will continue to bolster ESG resources within our asset class teams, focusing on external managers and real assets and enhance our portfolio monitoring capabilities particularly with regards to data and reporting.

10

Collaboration

For 2022/2023 it is likely that we will slow the pace of collaboration with additional industry groups. We have already identified and engaged with those of the greatest help to us, our interests and our clients. As an evolving asset manager, however, we seek and adopt best practice standards, we value collaboration, and we learn from our peers. We will continue to 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.

1

Culture and diversity

Our work to improve diversity in our industry – investment management – and in the companies we invest in, continues. 2021/22 was about establishing the parameters and goals of our work. In 2022/23, we expect to see results from our engagements and plan subsequent steps. For instance, in 2022/23 we will have completed the first round of AODC questionnaire requests, and our results will feed into an annual progress report for the initiative. We will also continue to develop our policies and procedures around human rights.

Guide to external reporting standards

Different reporting regimes apply to us in addition to the UK Stewardship Code. Here are further details on those mentioned in the body of this report.

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:

1. 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 interest arising from its engagements.

2. 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 advisers.

Taskforce on Climate-related Financial Disclosures (TCFD)

The Financial Stability Board created the TCFD to improve and increase reporting of climate-related financial information.

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

Recommended disclosures are under four 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 will become mandatory for asset managers from 2023 under new rules from the FCA, with LPPI producing its first mandatory report in 2024. In September 2022, the Department for Levelling Up, Housing and Communities (DLUHC) issued a consultation on introducing parallel regulation specifically for LGPS administering authorities on their assessment, management and reporting on climate-related risks with the view to making this mandatory from 2023.

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

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