LPP
Local Pensions Partnership Investments

Responsible Investment and Stewardship Annual Report 2022-23

Contents

Welcome by our Chief Executive Officer

Chris Rule
Chief Executive Officer

The last year has been somewhat tumultuous for both responsible investment and the UK LGPS landscape.

Within responsible investment, different facets of 'ESG' and net zero have come under scrutiny, with an increasing array of perspectives weighing in on known problems, some with valid points the industry is taking heed of, and others that run counter to the interpretation of fiduciary duty which is integral to sustainable stewardship.

Local Pensions Partnership Investments (LPPI) meanwhile has remained true to the original concept of responsible investment. Our belief is that ESG is a critical lens for assessing the current and future sustainability of our investments via evaluation of environmental, social and governance considerations. Bringing it back to basics, our job is to judge the likelihood of sustained value and returns with longevity through the examination of fundamentals in specific investment context. Our signatory status to the UK Stewardship Code, retained with our publication of the last edition of this report, and our great results under the PRI's new assessment framework confirm we remain on track with our ambition. At the same time, responsible investment is an ongoing journey rather than an end destination, and both these standard setters continue to challenge and give us valuable insights on focus areas for evolving our processes going forwards.

The UK pensions and investment landscape itself is also evolving - from the infamous shockwaves that ran through the industry in Autumn 2022 to the keen political focus on unlocking opportunities for UK growth powered by the LGPS and other large UK pension funds, as well as renewed ambitions for further growth and development of LGPS pooling itself. In the midst of this change, LPPI plans to remain adaptable and open minded to how we can evolve and seek opportunities alongside these waves.

To that end, I'd like to welcome a new face to the LPPI board. Jon Little joined as Chair of the LPPI Board in August 2023. He brings with him decades of leadership experience in asset management, and an international perspective which will help LPPI build on our access to global best practice and future collaborations. I'd like to say a special thank you to Sally Bridgeland for her erudite leadership and a resolutely clear focus on responsible investment which has encouraged LPPI's success as an active steward of client assets and a well regarded LGPS investment pool. I am confident that the strong stewardship ethos she instilled will continue as the baton is passed to Jon, evidenced in the foundations we have already set, the progress and successes outlined in this report and the ever-present agenda point in our client meetings.

Finally, I would like to acknowledge the significant work of our teams to pull together this report and in executing the activity it reports upon. Activity levels, expectations and challenges continue to escalate year on year and our teams continue to deliver excellent results.

We hope you enjoy the read.

"Our belief is that ESG is a critical lens for assessing the current and future sustainability of our investments via evaluation of environmental, social and governance considerations."

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About us

Who we are

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

We have three Local Government Pension Scheme (LGPS) fund clients, managing some £23.7 billion of their assets. We do this across a number of different investment vehicles – some of which are based on in-house investing, and some outsourced.

We have two other business partnerships

Firstly, we are the Alternative Fund 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 investment 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, that 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. LPPI thinks as an asset owner in acting as an asset manager, this dual 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

£23.7bn
Assets under management

100%
Client assets transitioned

£153.2m
Cumulative net cost-savings since inception

7
Major asset classes

7
Investment funds managed in-house

51
Investment professionals

3
Local Government Pension Scheme clients

All data to 31 March 2023

A note from our Chief Investment Officer

Richard J Tomlinson
Chief Investment Officer

A core part of LPPI's culture is doing the right thing for the right reasons. We've always taken this approach for our day-to-day business, and we take that approach to stewardship too. And a core part of my role is seeing that we don't just buy and sell assets – we steward those assets too. Our approach is robust: we focus on setting clear investment objectives, monitoring, reporting, providing feedback and seeking continuous improvement from our investments.

We're continually refining our approach to responsible investment and stewardship, as expectations evolve. For example, we look at the tension between supporting the energy transition and mining the raw materials needed to make that transition a reality.

But it's not only expectations that change – the world does too, as the geopolitical landscape continues to shift. We need to keep pace with the risks, so we keep a keen eye on our methods: we involve a broad church of internal stakeholders in regular review-and-challenge sessions.

I'm incredibly proud of the progress our team has made in the last year. The work we do behind the scenes is both meaningful and substantial, and this report sets out some great examples that demonstrate our approach. We have some exciting plans coming up. We'll be publishing our first regulatory TCFD report next summer, and helping our clients do the same. And we'll be well into our third year of our net zero commitment. It is challenging, but rewarding work.

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, 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 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, Executive 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, Executive 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 2022-23 key themes included climate risk reporting and the evolving landscape of sustainable investment and best practice.	Asset class teams, external asset managers, Responsible Investment Team, Compliance Team

Principle	Overview	Participants
Purpose and Governance		
5 Review and assurance	LPPI recognises the importance of articulating our stewardship approach, demonstrating our stewardship activity and updating and expanding our policies where necessary. 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. This ensures that we keep abreast of changes in industry best practices. 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, Regulatory Change Working Group, 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.	Executive Committee, Investment Committee, heads of service, asset class teams, Responsible Investment Team

Principle	Overview	Participants
Investment approach		
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.	Executive 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		
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

Principle	Overview	Participants
Engagement		
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 2022-23.	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		
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

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Participants

Formal governance bodies

LPPI Board	**Members:** Chief Executive Officer (CEO), Non-Executive Directors, Chief Risk Officer (CRO), Chief Financial Officer (CFO), Chief Investment Officer (CIO) **Regular attendees:** Members of the Executive Committee and the Company Secretary
Audit and Risk Committee	**Members:** Non-Executive Directors, **Regular attendees:** CRO, CEO, Chief Legal and Compliance Officer (CLCO), CFO, Company Secretary
Executive Committee	**Members:** CEO, CFO, CIO, CRO, Chief Operating Officer (COO), CLCO, Chief People and Culture Officer
Investment Committee	**Members:** CEO, CIO, CRO, Head of Real Assets (HRA), Head of Global Equities (HGE), Investment Director, Strategic Partnerships (IDSP), Head of External Managers and Head of Investment Strategy. **Additional Members:** Heads of each asset class from the Investment Team and a Compliance representative. **Regular attendees:** CLCO, Investment Team members, as appropriate
Stewardship Committee	**Members:** CIO, CEO, CRO, HGE, IDSP, CLCO, Head of Responsible Investment, Responsible Investment Manager **Regular attendees:** representatives from external managers, communications and Company Secretarial Services

Other participants

Heads of Service (Investment Team)	CIO, HRA, HE, IDSP, Chief of Staff, Head of Investment Strategy, Head of Operational Due Diligence, Head of External Managers, Head of Responsible Investment, Head of Asset Management
Asset class teams	Analysts, senior analysts, deputy portfolio managers, portfolio managers, Head of Asset Management
Regulatory Change Working Group	Compliance (chair) with representatives from Investments, Investment and Fund Operations, Finance, Investment Performance and Analytics, Business Change, Legal, Investments Tax, Enterprise Risk, Investment Risk and Responsible Investment
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

The list below indicates where within this report you will find content on how we meet each of the 12 Stewardship Code Principles.

1 2 4

Our purpose

LPPI's purpose is encapsulated in the following statement:

"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."

The values and ambitions this highlights are important to us as they shape 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 4

Our culture

To quote our strategic plan (2020-2025), we want "an empowered, supportive, diverse and inclusive culture". Our culture is something we continue to be particularly proud of at LPPI and actively nurture.

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. There is a wide use of guiding principles rather than rules across the business, which are underpinned by trust.

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. We have continued with our hybrid working approach of two to three days in the office on average, whilst many businesses are falling back into the majority of the working week being office-based. We understand that flexibility is important to our employees for a number of reasons and continue to balance the needs of the business and the preferences of our teams.

Having an open and collegiate culture is of central importance. For example, our senior executives are not hidden away in offices – they sit on open plan desks along with everyone else. Quarterly Townhalls and regular internal communications provide insights into all aspects of the business in a transparent manner and there are ample opportunities to ask questions. We run an employee engagement survey three times a year and it is pleasing to see the overall score continuing its upward trend. The results are shared at the Townhalls together with the actions being taken as a direct result.

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People and Culture: Making LPPI an even more attractive place to work

As mentioned above it is important that we recruit and retain the best people – so we can deliver for our clients and their members.

We identify risks in the recruitment and labour market by observing trends, external benchmarking surveys, running our own internal surveys, and being an active member of the Pensions Pool HR Group.

We identified a particular area in the business that was at risk of losing key people and put in retention payments to stabilise this. As well as financial reward, we've also strengthened the benefits we offer across the company to make LPPI an even more attractive place to work.

Working with Inclusive Employers, we ran a full review of our People and Culture policies, including maternity, parental and adoption leave policies. We greatly enhanced these, for example extended maternity leave from eight weeks to 24 weeks. We also introduced policies that were missing, including a carers policy, transgender inclusion policy, surrogacy policy and menopause policy. These policies are statements of commitment to inclusivity as well as considerations and supportive measures which LPPI has put in place for employees who fall under scope of those policies Some employees have already been able to make use of these enhanced policies. All of this helps to make us more of an employer of choice – and the better people we can recruit and retain, the better we can deliver for our clients and their members.

Below are some other examples of the developments we have made within our culture and their outcomes during the year to March 2023.

Diversity and inclusion

Colleagues have recently formed an Equality, Diversity and Inclusion network and there has been very pleasing levels of interest in joining this new group. Individuals are taking active ownership of future events linked to key dates throughout the year which bring awareness to various DE&I issues such as Diwali and Black History month.

On International Women's Day we highlighted career insights from our female Non-Executive Directors with a drop-in lunch to discuss how all colleagues can support women in the workplace. Whilst we are not required to disclose publicly, the gender pay gap is monitored closely and saw a material positive change in the latest data.

The intranet also featured articles on supporting colleagues during the holy month of Ramadan and a new series called Diversity and Inclusion Diaries. Colleagues talk about their faith with one explaining the meaning of Lent and another writing a wonderful article entitled “My Hijab is my Crown”. We also celebrated Pride month with screensavers and rainbow lanyards.

We have completed our third year of hosting interns from the 10000 Interns Foundation and continue to find this a valuable experience, both for ourselves and the individuals that join us.

Remuneration and benefits

At LPPI we aim to offer an appropriate and competitive reward structure. During the year, we have taken significant steps to gain data and insights into our offering both externally and internally to assess our package against the market. We do this to strengthen further the link between pay and performance.

Additionally, an all-employee survey was conducted in December 2022 to gain feedback on our benefits offering. As a direct result of this feedback, we have reviewed and enhanced our family friendly policies e.g. maternity and also offer a second window during the year to buy and sell annual leave. We also advertise opportunities for employees to learn more about the LGPS pension scheme through Local Pensions Partnership Administration (LPPA).

Last year's report mentioned the implementation of private medical cover for all employees. We now offer health insurance plans which cover employee family members as a standard.

To further improve our benefits offering and support our climate responsibilities, salary sacrifice schemes have been introduced for both Electric Vehicles and Cycle to Work.

Wellbeing

Physical and mental wellbeing remains a priority. Alongside the introduction of family private medical cover, we have held introductory individual health check days at our offices which have been well attended. LPPI has also funded autumn flu injections for all employees.

The in-house mental health first aiders continue to provide valued support. In addition to holding one-to-one conversations with those most in need, they have also hosted an all-employee afternoon event.

We also do not shy away from sensitive topics and have hosted externally-facilitated webinars on Menopause, Andropause and Stress Awareness.

Learning and talent development

Our business plan includes a strategic initiative aimed at supporting strong opportunities for personal and career development for staff. A new tool called the individual Talent Profile is one element of this initiative which has been introduced and rolled out to employees. This gives employees the opportunity to have their say around their personal ambitions within the firm and how they would like to learn and grow, including opportunities for cross-functional moves. Talent profiles are discussed with managers and also reviewed at new functional leadership Talent Review sessions. The desired outcome of this initiative, is for robust and relevant individual development plans to be made, with deeper conversations on how our employees can invest in themselves.

Managers are of course key in leading, coaching and developing their teams. To this end a series of Manager Toolkits has been launched starting with onboarding, performance management and capability development. Recruitment and Diversity and Inclusion will follow in the coming months and a D&I toolkit is being developed in partnership with Inclusive Employers (a thought leadership organisation of which we are a member).

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

LPPI Real Estate Fund – Wolf Pack

Our assets under management

Fig 1: Total assets under management

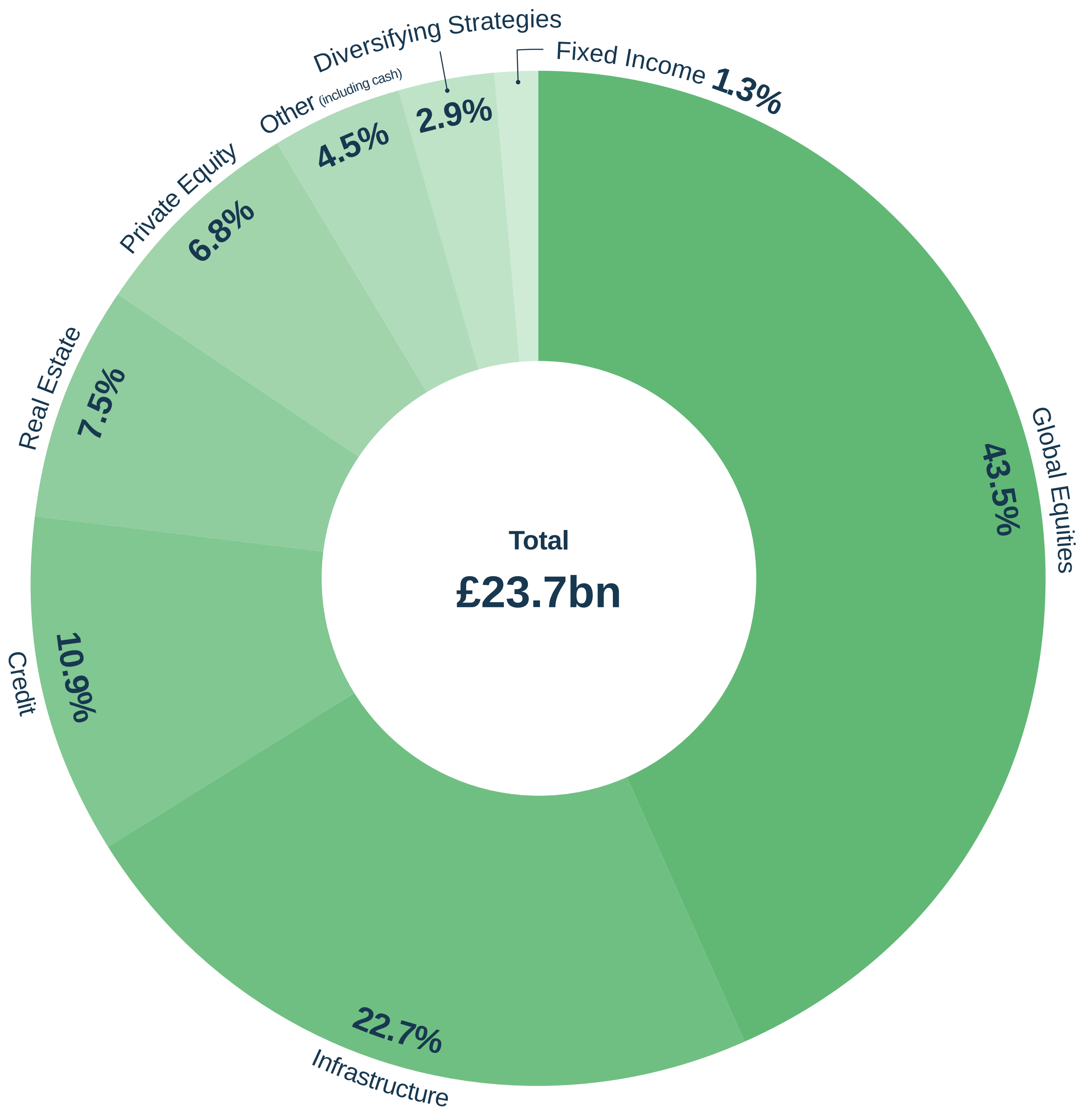
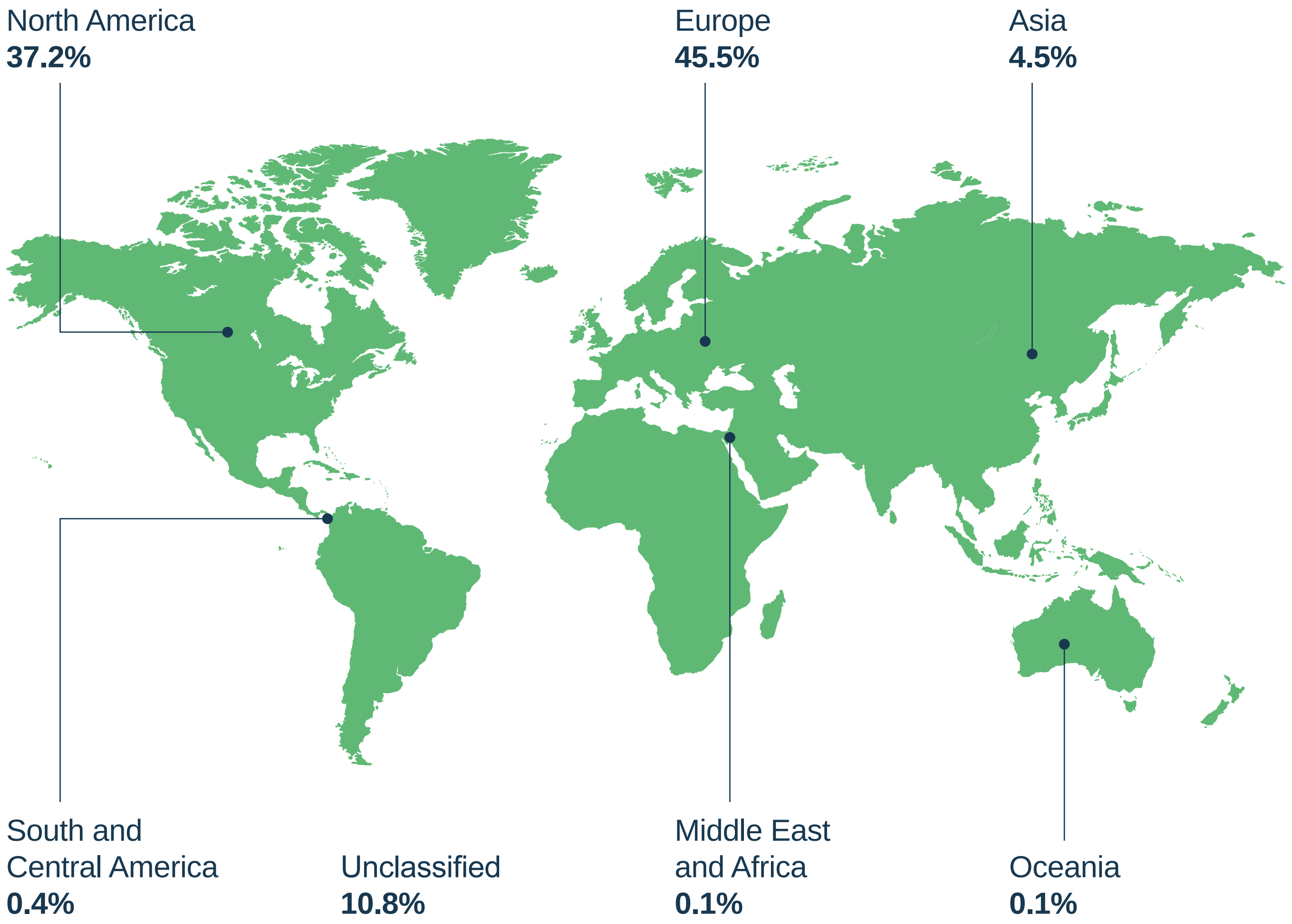


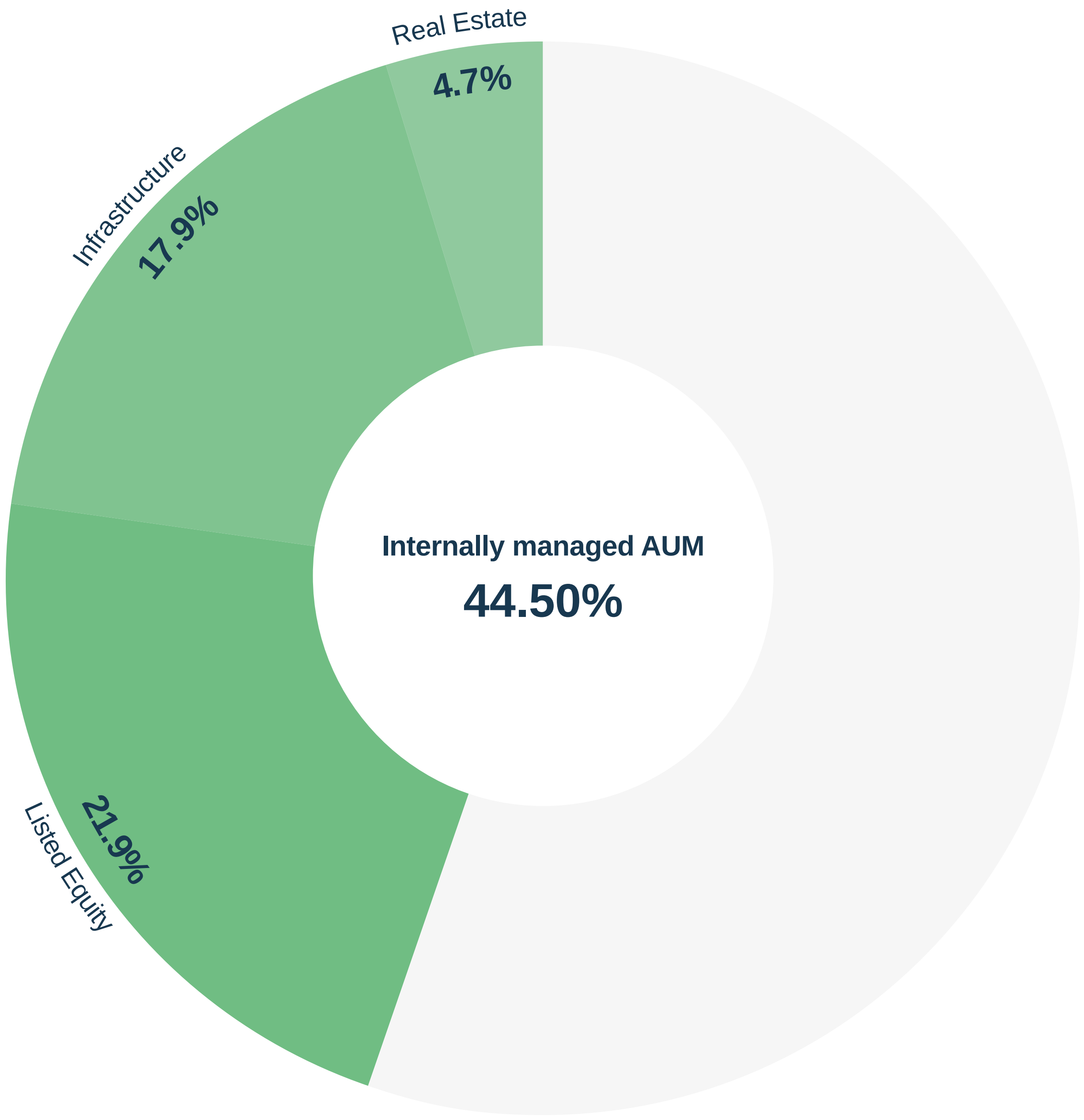
Fig 2: Assets under management by geography



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

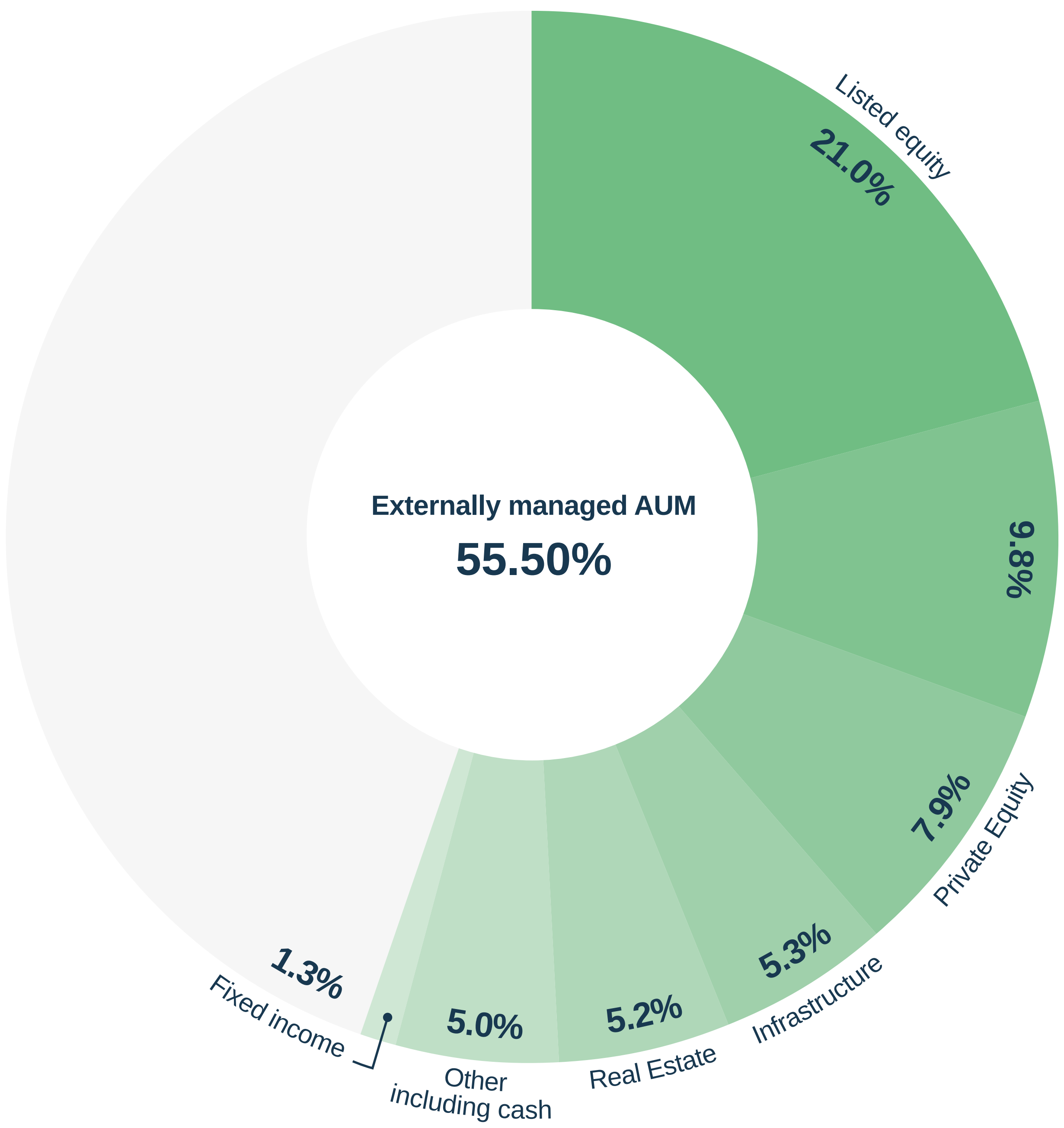
10.8% of assets are in instruments not readily identifiable with a specific geography and are shown as unclassified on this basis.

Fig 3: Internally managed assets under management



Source: Local Pensions Partnership Investments as at 31 December 2022

Fig 4: Externally managed assets under management



Source: Local Pensions Partnership Investments as at 31 December 2022

2 5 6

Working with and for clients

Our clients are comprised of three 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 investment adviser and portfolio manager.

We serve our clients through a high-touch, comprehensive, whole scheme management service, proactively addressing their investment and operational needs. Our collaboration with clients fosters a deep mutual understanding. As their trusted advisor, our culture and objectives align with their interests, which deepens and reinforces our partnership.

These relationships start with an advisory and investment management agreement, which documents the pension fund's overall strategic direction and targets. In our pooling model, Clients retain their strategic responsibilities while LPPI is accountable for investment decisions and implementation.

We speak and meet with our clients regularly. Our interactions cover a broad range of topics, including asset allocation, market performance, portfolio performance, risk management, responsible investment, and other material issues.

These contact points include:

- Quarterly CEO review meetings
- Regular client meetings with key officers
- Quarterly reporting
- Attendance at Pension Fund Committee, Investment Committee, and Board Meetings
- Annual client conference
- Issues-based assistance on demand

The Quarterly CEO Review meetings were implemented over the last financial year. This has become a key medium for client engagement, where clients provide feedback on LPPI's performance as a service provider. In these quarterly meetings, key stakeholders from our clients such as Board Chairman, Council Chairman or the CEO share their views and discuss LPPI's performance with our Client Management team and CEO.

The meetings provide key insights that enable the CEO to return to the wider business to support prioritisation and address early any emerging issues. Clients provide both qualitative and quantitative feedback on how we have met their needs over the past quarter – the latter enabling simple trend analysis and reporting back to the LPPI Board via KPIs. The outcomes of these meetings including the quarterly client ratings, are documented and stored in the company's information storage platform.

We directly support client funds in their responsibilities as asset owners which routinely includes assisting them to:

- Review the responsible investment and stewardship aspects of scheme policies and strategy documents (Investment Strategy Statements).
- Grow the knowledge and understanding of the Pension Fund Committee, Investment 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.
- Monitor and participate in securities litigation.
- Respond to member queries.
- Produce stewardship content for inclusion in the Fund's Annual Report and member newsletter.
- Understand and access further information about topical matters and issues arising.

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
- Investments in traditional (fossil fuel based) energy generation and supply
- Shareholder Voting (global equities)
  - Overall statistics
  - By theme
  - By region
- Direct 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 a different asset class each quarter, 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:

- Quarterly meetings provide a consistent forum for responsible investment reporting to be discussed and questions and feedback to be gathered from clients. Due to strong client interest, we added a new 'Climate Voting' section to the written report which captures the climate-related votes arising from our updated Shareholder Voting Guidelines (SHVGs) (discussed later in the report) and draws out the coverage of any Climate Action100+ linked shareholder resolutions. This new section demonstrates how we draw insights from climate specific data providers and collaborative initiatives and also enables our clients to monitor our enhanced processes around our net zero targets. One of our clients has made an asset owner net zero commitment and we have produced reporting to support their local net zero target monitoring and reporting requirements. Both additions have been positively welcomed by clients in subsequent quarterly meetings.
- LPPI's second Annual Investment Conference was held over a two-day period in March 2023. It was the opportunity to discuss investment insights, sector updates and many other key topics with our clients, peers and select industry experts. The discussion panels comprised of senior colleagues at LPPI alongside guest speakers, who shared their knowledge and expertise on pertinent issues including but not limited to, stewardship priorities in different areas of the portfolio, the future of LGPS with the Department for Levelling Up, Housing and Communities (DLUHC), investment market outlooks and current fund challenges.

We will continue to consider and propose ways of enhancing our client reporting further, to ensure we understand and meet our clients' changing needs.

3

Identifying and managing conflicts of interest

In our line of work, there will always be the possibility 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. In our case, our clients may share responsibilities, interests and concerns but they also have individual local priorities and perspectives.

Our Conflicts of Interest Policy is now in its fourth version, most recently issued in May 2023 and will be reviewed within the coming financial year as directed by our review process.

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.

Our policy starts by defining conflicts of interest as:

"…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 this 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

In the stewardship arena, it is acknowledged that conflicts may arise between LPPI, its employees and clients where LPPI exercises its voting rights (authorised by clients, or in the collective interests of investors in a fund) in a manner that is not in the best interests of the clients. This could potentially happen 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 has investments managed / administered by LPPI.

The following general mitigations are reflected in the LPPI Conflicts of Interest Policy should this eventuality occur:

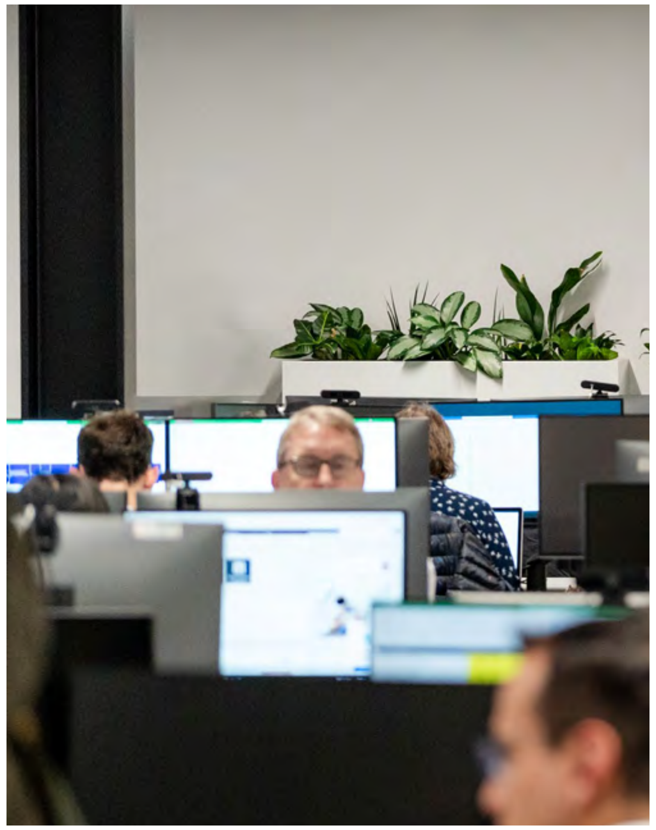
- In overseeing, protecting and exercising voting rights and relationships, LPPI always seeks to act in accordance with sound principles of good stewardship and specifically in line with standards prescribed by the UK Stewardship Code.
- LPPI Conflicts of Interest Policy and associated procedures are in place covering key business areas and processes, these include 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 effort 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.

Out of the 12 possible examples of conflicts that may potentially arise, three have been highlighted below:



Type of conflict: Delegate managers

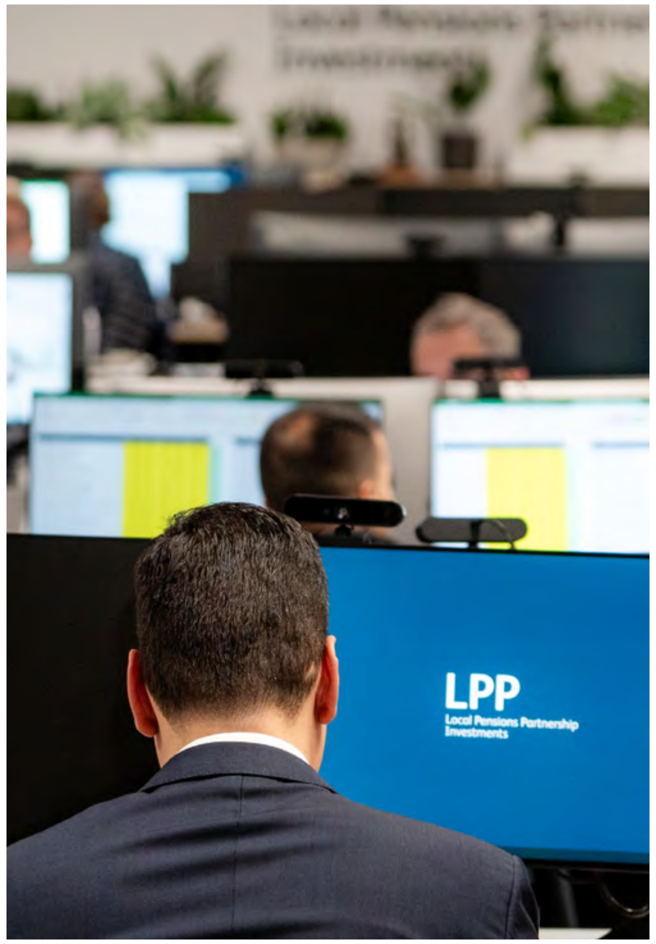
Nature of conflict: Conflicts may arise where a delegate and investor in an LPPI managed AIF are members of the same group or that another contractual relationship exists, and where there is any likelihood of a delegate manager making a financial gain or avoids a financial loss at the expense of an LPPI 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 are LPP Group entities and are subject to robust legal agreements and ongoing oversight.
- Monitoring of potential conflicts of interest and associated mitigations by independent and competent functions.

Type of conflict: Valuation

Nature of conflict: Valuation Conflicts may arise where LPPI is responsible for undertaking the valuation function for AIFs managed by it if such valuation is not suitably independent from the portfolio management function.



LPPI mitigations in place:

- Valuation function is independent from investment portfolio management and utilises third party valuation service agents and external valuers as appropriate, with responsibility for valuation resting with a separate Fair Value Pricing Committee, chaired by the LPPI Chief Risk Officer.
- Organisational arrangements detailing clear roles and responsibilities.
- LPPI Valuation Policy and fund annexes alongside procedures covering key business areas and processes.
- Established governance arrangements with clear responsibilities, particularly through Investment Committees, and appropriate oversight provided by Executive Committee and Board.
- Segregation of key duties to provide control and oversight of processes.
- 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: Risk management

Nature of conflict: Conflicts may arise where the risk management function is not adequately independent from the portfolio management function in its operation and supervision, that its remuneration is not independent from the performance of other business areas.

LPPI mitigations in place:

- The Risk function is represented at the LPPI Executive Committee and Board, with the same authority as the Investment function.
- In the case of boards and committees of LPPI, this includes a requirement for the Investment and Risk functions to have no managerial oversight of each other.
- Any performance-based remuneration of those engaged in the Risk team reflects the achievement of that team's objectives independent of the performance of the Funds under Management.
- Organisational arrangements detailing clear roles and responsibilities.
- LPPI Risk Management policies and procedures covering key business areas and processes.
- Provision of conflicts of interest training to all employees on joining the company and periodically thereafter.
- Established governance arrangements with clear responsibilities, particularly through Investment Committees, and appropriate oversight provided by Executive Committee and Board.
- Segregation of key duties to provide control and oversight of processes.
- 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.

We have detailed some examples of actual and/or potential conflicts of interest from the reporting year below:

Type of Conflict: Shareholder voting and engagement

A potential conflict of interest was identified in connection with proposed participation in a new net zero investor initiative. The conflict related to the inclusion of a company which is a large employer and economically significant in one client fund's constituency.

Noting this connection, the potential for an actual conflict was worked through in full by Compliance.

The conclusion reached was that LPPI faced no direct influence to engage with or vote the shares of the company in a way not beneficial to all clients. On this basis, it was deemed there was no actual conflict for LPPI.

For completeness, the Responsible Investment Team addressed this context in recommending to Stewardship Committee that LPPI should participate in the net zero engagement initiative.

Type of Conflict: Providing client advice on net zero target setting

LPPI set a first tranche of net zero targets for our listed equities fund in 2022. In the same period, we were advising a client pension fund on what net zero targets to set as part of their asset owner net zero commitment. This meant LPPI was advising on net zero targets we were responsible for implementing once they were agreed. The client engaged a third-party specialist who provided an independent evaluation of LPPI's analysis and recommendations, and also proposed alternatives. The client was able to review all options and sought insights from LPPI on implementing targets recommended by the third party before making a final decision. These arrangements ensured no actual conflict of interests arose.

Type of conflict: Investment team personal interests

An investment team member owned shares in a publicly traded asset management firm. A strategy offered by this firm was also evaluated as a potential investment.

LPPI has a robust governance and decision-making process, including a personal account dealing policy which requires regular disclosure of personal investments to aid early identification of such instances. In this case, all decision making is undertaken by the Investment Committee therefore the individual with the investment had no control over the final decision. As a further mitigant, a different member of the team led the preparation of all committee papers about the investment and the conflict was clearly documented within these. Furthermore, the Compliance Team had oversight of the diligence and decision-making process to ensure that these controls were adhered to.

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 and voting

Engagement incorporates the range of interactions we have through:

Direct discussion

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.

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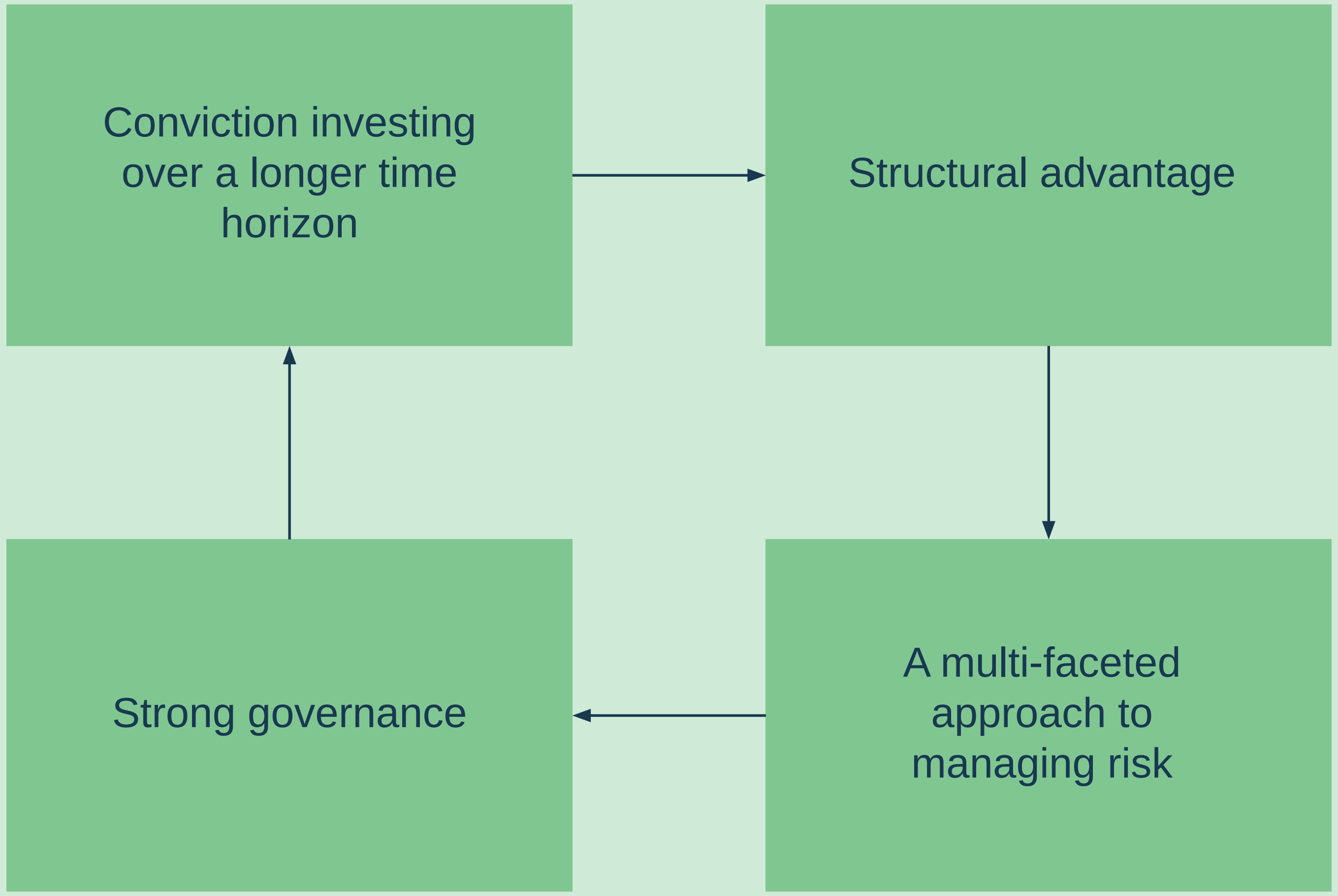
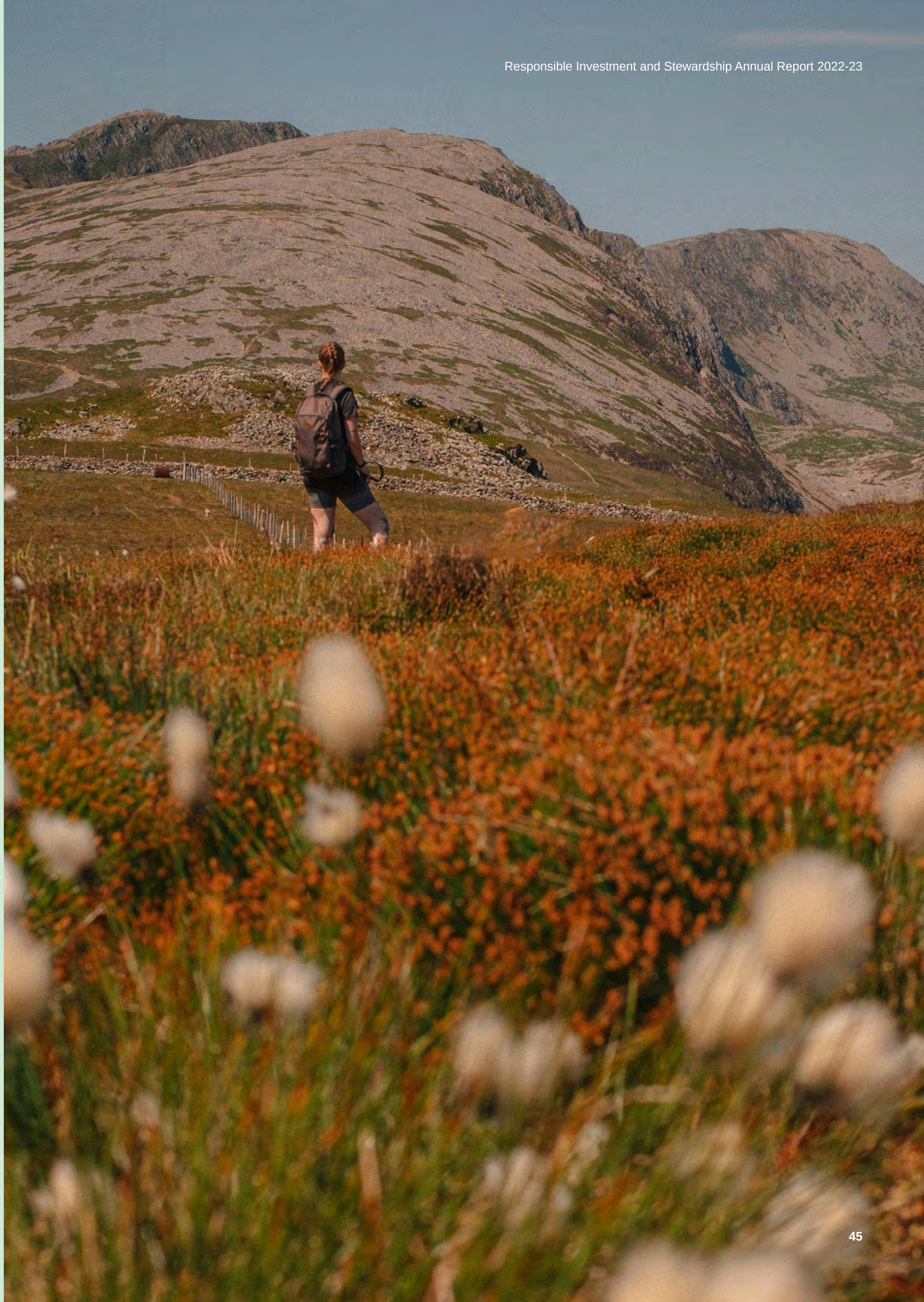
Our investment beliefs

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





Conviction investing over a longer time horizon

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 focussed 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

Insights from LPPI's Head of Responsible Investment

Frances Deakin
Head of Responsible Investment

As we acknowledge in LPPI's Responsible Investment Policy, stewardship is a dynamic discipline in a process of perpetual evolution. Local, national and international norms are continuously changing in response to unfolding events and influencing what is considered desirable and acceptable. Over time, updated norms become reflected in practice standards or form part of dedicated policy and regulation which collectively move the baseline forward.

We aim to be open to new approaches and new standards, whether these flow from legislation or form part of self-regulation, recognising incremental improvements help us maximise what we can achieve for our clients. This isn't without practical challenges, especially in periods when a strong external momentum for change coincides with a step change for priorities identified in our Business Plan.

Our Annual Stewardship report is where we describe our approach, how it has evolved, and share insights into progress being made. 2022/23 encompassed a particularly strong external momentum for change. A high volume of consultations, proposals for additional regulation, and debates on current standards were "live" in the stewardship landscape across multiple themes simultaneously.

In addition to engaging with external stimuli we progressed policy, governance, processes and monitoring on key business priorities, most notably in our work on climate change. The formation of an ESG Programme is the welcome culmination of our efforts to embed an efficient approach to multi-disciplinary co-ordination. Supporting co-operative working and a shared responsibility for stewardship, it is stimulating internal debate and producing solutions to the practical challenges posed by our Net Zero Asset Manager commitment and preparations for mandatory TCFD reporting.

I hope you enjoy reading more about the latest steps in LPPI's stewardship journey in the sections below. It has certainly been another busy year.

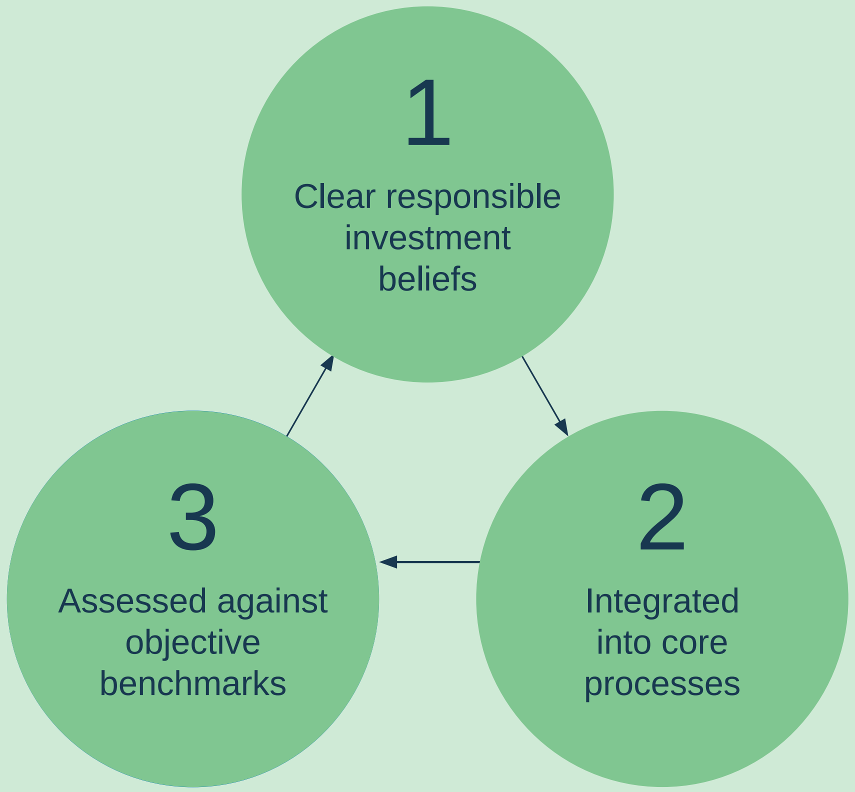
"We aim to be open to new approaches and new standards ... recognising incremental improvements help us maximise what we can achieve for our clients."

1 5 7

Our approach to responsible investment

We have a straightforward approach to responsible investment 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 clients and other stakeholders.



LPPI responsible investment approach

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
- Responsible Investment Policy – Annex on ESG
- LPPI Shareholder Voting Policy
- LPPI Shareholder Voting Guidelines
- LPPI Shareholder Rights Directive II Engagement Policy

Existing policies are reviewed and 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 review and approval by LPPI's Stewardship Committee. All new policies on Responsible Investment matters are reviewed and approved by the Stewardship Committee and also go through approval by the Board.

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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 for 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 aimed at encouraging corporate 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 do the same. We improve and make progress by regularly questioning our processes, policies and practices – and through mutual challenge from our clients to meet evolving needs and requirements.

These six targets 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. Our investment professionals have a learning mindset which means new findings or experiences in underwriting and portfolio management create insights and inputs into strategy, capital deployment and stewardship activity.

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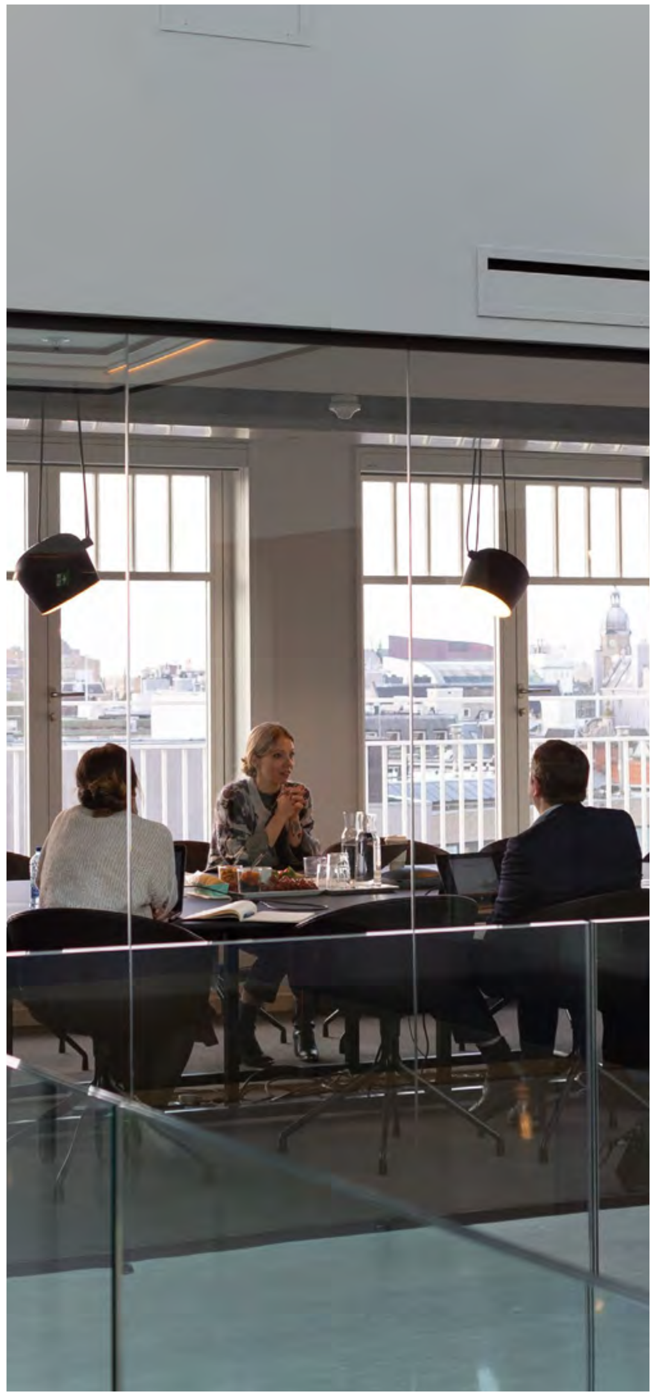
How we ensure effective stewardship and engagement:

- 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 appointed an external fund manager, they remain under review through our ongoing 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 the LPPI 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 via an online platform which supports monitoring and reporting. We receive meeting notifications, research, and voting recommendations in line with sustainability voting guidelines which incorporate ESG considerations.
- Our stewardship and engagement arrangements have senior oversight. Our Stewardship Committee is chaired by 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 twelve investment industry groups which we mention at various points through this report. By convening with these groups, we learn and evolve – and it also challenges our understanding of best practice.
- We are active in five stewardship networks, which help us share information and collaborate with peers to achieve a greater collective influence on companies, asset managers, standard setters and broader stakeholders. We have provided further information on our involvement in other sections of this report.



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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 focussed investor groups.
- Our asset owner advocacy as an LGPS pool representing the interests of local government and wider UK public sector pension funds.

7 8

3. Internal resources

Our resourcing approach recognises that stewardship and responsible investment are a universal responsibility.

Responsible investment is a firm-wide matter at LPPI. Our focus on systematic ESG integration (sESGi) has increased the demands on investment teams in terms of research, due diligence, monitoring and reporting. It has been a long-term goal to embed resourcing for responsible investment activity within a broader range of teams. The reporting year saw the establishment and appointment of a new ESG Analyst role within the External Managers team and plans put in place for expertise within the Real Assets and Risk team. Growing the number of staff with ESG experience in broader teams complements and supplements the bandwidth of our dedicated team of responsible investment professionals which 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 LPPIs responsible investment approach from the ground up.

Paul Britton
Paul is a Responsible Investment Senior Analyst, having joined LPPI in 2019. Paul 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.

Yathavan Thanapalan
Yathavan is our newly appointed ESG Analyst within the external managers team, having previously been an analyst within the Responsible Investment Team since 2019. His role focuses on embedding ESG within the selection, appointment and monitoring of our external managers with a particular focus on Private Equity and Fixed Income asset classes.

Julia French
Julia is the team's Responsible Investment 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 and joining LPPI in 2021.

George Cowman
George is a Responsible Investment Data Analyst. An engineer by trade, George joined in 2021 and is responsible for data and data systems management with a specific focus on climate analysis and client reporting.

Matthew Hannay
Matthew Hannay is a Senior Analyst – ESG within the internal global equities team. He is devoted solely to the integration and implementation of ESG factors within the global equities portfolio managed by our in-house team, leading on direct engagements with underlying companies and working alongside Paul on our shareholder voting process. Prior to joining LPPI in 2021, Matt worked as an equity analyst at leading investment institutions.

Project specific resource

Ilaria Brachet
Ilaria joined LPPI in the first half of 2022 within the Legal and Compliance team to manage the net zero and TCFD projects. Ilaria has extensive project management experience within the asset management industry delivering complex change initiatives across multiple domains, with a particular interest in regulatory change. She has been an invaluable resource, setting up the ESG programme structure and leading its two initiatives from the initial phase, coordinating input from across several teams throughout the entire project lifecycle and supporting a programme Steering Committee to set direction and make key decisions along the way.

Project specific resource

CHRONOS
INTELLIGENT SUSTAINABILITY

Chronos
LPPI has continued to work with a consultant, Chronos Sustainability (Chronos), who advises us in implementing our net zero commitment. Chronos has a wealth of experience in industry standards on climate change and responsible investment.

2 8 12

Best-in-class support:

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

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4. Assessed against objective benchmarks

We 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+

5 6

External reporting frameworks

The first two standards involve mandatory annual reporting. They encompass a commitment to regular detailed disclosure of stewardship arrangements, policies, activities, and outcomes. In both cases disclosures are externally assessed to confirm they evidence effective stewardship and an approach to the integration of environmental, social and governance factors into our investment processes which meets the required standard.

We have chosen to report under the UK Stewardship Code because it 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 their assets and ensures we remain in good standing amongst our peers.

Our Annual Report on Stewardship and Responsible Investment is submitted to the Financial Reporting Council each October and published on our website. It offers a comprehensive narrative that clients, stakeholders or indeed anyone with an interest in pensions or sustainability might benefit from and enjoy reading.

We have chosen to be a PRI signatory and have our responsible investment practices externally assessed. This ensures we are being measured against a stretching global standard for responsible investment, which continues to evolve to encompass new expectations of investors as market participants. We report to PRI and receive an assessment of our disclosure annually which enables us to evaluate progress and compare ourselves with relevant peers. reporting we provide and are responsive to suggestions for improvements.

5 6

Recognised best practice standards

Aligning our approach to portfolio climate change risk management with leading frameworks and best practice standards in this field such as the IIGCC and CA100+ means we benefit from objective external benchmarks for climate change risk management, engagement and net zero stewardship. The standards are “dynamic” which means they are regularly being updated to remain current and relevant. Their adoption and application help us fulfil our commitment to continual improvement.

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 have been researching a policy on human rights and shared an initial draft of a human rights policy annex with our engagement provider, leveraging their human rights expertise and receiving valuable feedback which we will reflect in our final policy 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.

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Priorities and planning

We review our responsible investment policies and approach, identifying areas of greatest priority for us and our client pension funds annually, as part of regular business wide strategy development.

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 to clients. LPPI is therefore impacted by 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 new expectations are quickly being translated into mandatory requirements. We monitor industry trends and developments closely through a Regulatory Change Working Group. Stewardship specific developments and impact are then discussed, and next steps agreed upon by our Stewardship Committee.

The specific 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.

The priorities we identify become inputs to strategic planning via our Business Plan which identifies corporate goals, objectives and Key Performance Indicators for our activities. These cascade into team and individual performance objectives as responsibilities which feature within ongoing performance appraisal and reporting.

Our 2022 business planning exercise refreshed LPPI's strategic goals for the period 2023-25 and incorporated consideration of industry trends, best practice and shareholder objectives. One of our corporate goals for the period to 2025 is continued evolution of LPPI's Responsible Investment capabilities to further embed systematic ESG integration, meet the responsibilities of our net zero asset management commitment, and extend how we capture and report on our portfolio's sustainability characteristics.

Throughout 2022 and into 2023, we continued to develop our capabilities across these areas and others, including client reporting and support, external collaborations and partnerships, as well as the core themes of climate change and social dimensions. A review of the years progress and its highlights appears below.

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Review of the year

Highlights from the work we have been doing internally over the past year to further develop our stewardship practices across our portfolio, as well as externally to engage our external investment partners, data and service providers, our underlying holdings and the wider industry include the following.

- LPPI's ESG Programme
- Climate change and net zero
- The 's' in ESG
- Systematic ESG integration
- Collaborations and partnerships

Highlights: LPPI's ESG Programme

One of the most significant developments of the reporting year was the establishment of LPPI's ESG Programme which is focussed on shared ownership and efficient co-ordination of LPPI's responsibilities under external commitments and upcoming regulation on climate change and sustainability. Its current focus has been driving work on our net zero commitment and preparation for mandatory TCFD reporting ahead of the deadline for our first report in 2024.

LPPI's net zero commitment is being operationalised through day-to-day processes which implement strategy, decide delivery priorities, and direct resources, staff, and project management focus. Making efficient progress depends on advocacy and sponsorship from senior staff and coordination across multiple aspects of investment and risk management.

LPPI has established an ESG Programme with a Steering Committee reported to by working groups covering various topics from net zero targets and scenario analysis to climate risk governance, a structure which brings staff with professional expertise and relevant delivery responsibilities together with project management and subject matter expertise.

The ESG Programme Steering Committee comprises the CIO, CLCO, Head of Enterprise Risk, and Head of Responsible Investment who provide oversight and sponsorship. Working groups each have a lead officer responsible for developing and implementing a detailed workstream plan which feeds into an overall project plan which centralises and co-ordinates tasks and timelines corporately.

Building internal recognition of climate change as a significant investment issue and working to embed its consideration within core processes involves time and resources dedicated to building knowledge, data, and critical thinking as fuel for evolving how systems and processes can embed measurement, analysis, and forecasting. Doing all this in a way that also complies with emerging regulation and compulsory reporting requirements is a further layer of challenge.

LPPI's ESG Programme is the delivery route for the planning needed to coordinate activities which simultaneously contribute to producing mandatory TCFD disclosure by LPPI as an asset manager, fulfilling LPPI's net zero asset manager commitment, and supporting clients with their local commitments and production of reporting as LGPS funds.

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Climate change and net zero

Over the past year, LPPI has made considerable progress against the net zero asset manager commitment we made in 2021. Our first year has involved interpreting and translating recommended best practice into LPPI's specific operating context. Net zero spans multiple elements of LPPI's asset and risk management model. It has brought additional resourcing demands for personnel and data and a review of existing processes as part of planning to integrate net zero considerations into our investment governance, risk control framework, and investment management routines.

Key achievements in the reporting year:

- We have set initial targets for our listed equities fund, bringing 42% of our AUM under scope of net zero targets. These were officially accepted by the IIGCC in October 2022 and you can find them on the NZAM website. We also published our Roadmap to net zero which shares our net zero approach and implementation strategy, the principles we applied when setting the targets and the next steps we intend to take on the journey.

- To support our new targets, we enhanced our stewardship and engagement strategy for the Global Equities Fund, encompassing direct engagement carried out by our internal equities team, engagement with and by our external managers, our shareholder voting practices and our participation in investor collaborations and engagement initiatives. Details can be found in the engagement insights section over leaf.

- Along the way, we have made sure to update and bring clients along with us, particularly those considering net zero commitments of their own, to support their planning and implementation. Increasing investment in climate solutions, one of the four suggested targets of the IIGCC NZIF, is one such area we have sought to engage with clients to better understand their needs and preferences. LPPI ran a client consultation during the reporting year on preferences for new product offerings including a proposal for a climate solutions fund. The set of options was presented and debated at each clients investment committee meeting over Q4 2022 and Q1 2023 and the climate solutions fund proposal received the most support. Work to scope a fund is now a business objective for the 2023/24. LPPI already invests in assets which may be considered climate change solutions. In particular, our infrastructure funds have significant exposure to renewable energy generation (particularly wind and solar), and also include investments in energy from waste, district heating and battery storage.

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Net zero engagement insights

Our approach to engagement aims to make best use of our leverage with underlying companies, maximise our use of external relationships and ultimately demonstrate the ambition needed to decarbonise our portfolio ahead of 2050. For our equity holdings, the core pillars of this are: direct engagement of our internal holdings, engagement of our appointed managers, our voting policy and collaborative engagements.

LPPI Global Equities Fund net zero engagement strategy

At a minimum our aim for this strategy is to help us meet our net zero targets whilst at the same time maximising our various levers of influence.

Our asset-level Engagement and Coverage targets focus on increasing the net zero alignment of investments in material sectors in line with IIGCC guidance on target setting. In practice, our Global Equities Fund has relatively low exposure to these material sectors (8.6% of AUM and 30.2% of financed emissions in December 2021, our baseline year).

Our Engagement Strategy therefore goes beyond the perimeter of material sectors defined by the IIGCC to include companies within high risk sectors as defined by the TCFD and those that contribute significantly to our emissions profile overall. LPPI's internal assessment uses the IIGCC's Net Zero Investment Framework categorisation of corporate alignment and was discussed with IIGCC staff during the research phase. In addition to the alignment criteria designated by the IIGCC, we value the insight provided by existing company assessments such as the Transition Pathway Initiative (TPI) Management Quality score and have included them within our approach to prioritising companies for engagement.

High priority companies for engagement are identified from across the portfolio using our proprietary prioritisation framework and scoring system based on the following criteria:

1. Contribution to financed emissions
2. Contribution to AUM
3. Operating within a material sector (according to the IIGCC guidance)
4. Operating within a high-risk sector (TCFD)
5. Net zero company alignment (according to the IIGCC alignment criteria)
6. TPI Management Quality Score
7. Delegate manager's climate change stewardship proficiency (if held in an externally managed portfolio)

When selecting companies according to their final score, we have applied the following principles:

- Focus first on companies in high impact sectors
- Ensure effort is directed at the greatest source of financed emissions in the portfolio
- Maximise the leverage we have over our directly managed internal portfolio

Once the priority list and each company's current alignment status is agreed, a bespoke engagement strategy is developed for each company with timebound objectives focussed on moving a company along the continuum from 'not aligned' to 'net zero'.

Direct engagement:

The Internal Equity team is well placed to engage directly with investee companies identified as high priority. The effectiveness of our engagements is helped by our scale, the fact we think and act as business owners and our long-term investment horizon, all of which have allowed us to build strong and constructive relationships with the companies we invest in. The method of engagement has varied but has included direct contact with investee companies through letters and meetings, exercising our shareholder voting rights and collaborating with other like-minded investors or asset owners where appropriate.

The initial target companies for engagement were identified in Q4 2022 and engagement began with all high impact priority companies in Q1 2023 through a mixture of calls and letters. The responses received were generally positive, with initial calls proving constructive, indicating a broader willingness to engage on the issue. Those firms which proved initially unresponsive were flagged for further engagement from Q2 2023 onwards, at which point engagement will also commence with all low impact engagement targets that remained on the priority list.

Progress and outcomes are being monitored at quarterly asset class review meetings and updates will be provided in next year's Annual Report on Responsible Investment and Stewardship and TCFD reporting.

Manager relationships:

Our external managers are at different stages of their own net zero journeys with some exploring the net zero frameworks available and others having set a net zero target and already demonstrating significant engagement activities in relation to climate policies at underlying investee companies.

Supporting our external partners to understand the specific net zero framework we chose and align expectations was the foundational step in our engagement efforts and something we viewed as a learning opportunity for both parties. We sent a letter to each manager outlining our net zero targets and introduced enhanced engagement expectations to ensure that our priority list of holdings in each of their portfolios were under appropriate engagement. This included specific companies we would like them to engage with and a request to align engagement objectives with the IIGCC alignment criteria.

To complement the enhanced expectations, LPPI introduced a new monitoring template for all external equities managers to return on a quarterly basis. The template captures the discussions between our delegate managers and their investee companies, and provides additional detail to support the monitoring of our progress against LPPI's net zero engagement target. The first reporting cycle in Q1 2023 was viewed as a pilot, with more specific reporting expectations (depending on response quality) and tighter deadlines to be rolled out following discussion with managers at the annual responsible investment reviews in Q2.

This work reinforced LPPI's existing oversight of our external managers. Long-standing activities include an annual deep dive with each external manager dedicated to responsible investment, alongside quarterly calls with the portfolio management teams and thematic and ad hoc engagement work.

Shareholder voting:

Our approach to voting is articulated in our Shareholder Voting Policy and accompanying Shareholder Voting Guidelines which can be found on our website. Climate change is already a priority theme which we consider when voting our shares.

In Q4 2022 we updated our guidelines to increase the scope of companies to which climate-related voting actions are applicable as well as enhancing the standards to which company management is held. Previously, votes were cast against companies within the Transition Pathway Initiative (TPI) universe with a Management Quality score less than three (indicating they have not publicly set any greenhouse gas emissions reduction targets or disclosed emissions data).

The updated SHVGs expand the universe to cover all companies in sectors identified as high impact in the IIGCC Net Zero Investment Framework and applies the more rigorous Climate Action 100+ benchmark (where a company is in coverage) or, alternatively, LPPI's internal assessment of net zero alignment using MSCI and other data sources. Adverse votes will occur as a method of escalation when companies have not met minimum standards in the TPI or CA100+ benchmark.

Voting action will also be used as an escalation strategy for priority engagement companies within our net zero engagement strategy where specific timebound objectives have not been met. A letter will be sent post adverse vote, making our rationale for the escalation and future expectations of the company clear which is a new step in the process. Updates to the Guidelines also include an enhanced focus on climate-related risks, introducing the possibility of adverse votes against director nominees identified as having responsibility for climate risk management.

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Engagement insights case study: Collaborative engagement 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 ourselves of reaching net zero emissions by 2050, and ensure this has a real-world impact, we are reliant on others in the market also taking consistent, aligned and ambitious action, be they companies, policy makers, standard setters, or 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 from the reporting year are below.

IIGCC NZEI

LPPI joined the Net Zero Engagement Initiative (NZEI) in 2023, a new engagement programme from the Institutional Investor Group on Climate Change (IIGCC). It seeks to support collaborative engagement with carbon intensive companies that sit outside the top 166 largest emitters in the Climate Action 100+R universe. The NZEI seeks to capture smaller companies which represent the long tail of greenhouse gas emissions with the view of supporting investors in meeting their Net Zero Investment Framework engagement targets (used by LPPI). The central ask of investor engagement via NZEI is a corporate net zero transition plan. 107 focus companies have been sent letters from a total of 93 investors outlining their expectations for a net zero transition plan. LPPI was successful in joining the engagement group for three companies within our internal equities portfolio whom we will engage with throughout 2023.

Investor Agenda

LPPI once again added our name to the 2022 Global Investor Statement to Governments on the Climate Crisis. LPPI has been a signatory to successive Global Investor Statements to Governments on Climate Change since 2018. 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. The 2021 Statement had been the most demanding one to date and was directly cited as part of the COP26 discussions in order to demonstrate financial industry support for greater ambition. The most recent statement calls for governments to keep their COP26 pledges and ensure their targets and actions are in line with limiting global emissions to 1.5C. This is a great example of policy advocacy we carry out which supports our net zero by 2050 commitment as part of the Net Zero Asset Manager Initiative (NZAMI).

CDP

Participated in the 2022 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 260 investors participating (a 55% increase from the year before) representing USD $30 trillion. LPPI co-signed letters to 38 companies across the carbon, water, and forests themes, requesting their participation in the 2022 cycle. Companies targeted by the non-disclosure campaign were 2.3 times more likely to disclose when compared to a control group, according to CDP. 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 our shareholder voting provider's annual Benchmark Policy survey, in which clients help shape ISS's future voting research and recommendations. A range of ESG topics are covered each year. Notable this year was the attention paid to climate risk management, in which LPPI supported higher expectations when assessing investee companies' climate-related performance.

CA100+

LPPI responded to the CA100+ signatory consultation on the second phase of the project, covering 2023-2030. Feedback was sought regarding how best the initiative can continue to effectively support investor engagements with focus companies and drive greater company ambition and action on climate change in this critical decade. Key focus areas included scope, governance, company benchmarking, and recalibrating signatory participation.

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 TPI tools and 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 gain conviction or identify the company as a potential engagement priority as LPPI advances on its net zero journey. Poor performance against the TPI management quality framework is then considered within our enhanced shareholder voting practices.

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The ‘S’ in ESG

In 2022-23, we continued to advocate for increased transparency on workforce issues and broader human rights within our corporate holdings through direct and collaborative engagements, and within our own internal processes and policies.

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Direct engagement – Asset Owner Diversity Charter

LPPI signed the Asset Owner Diversity Charter in 2021.

The Charter requires signatories to collaborate and build an investment industry that better reflects diverse societies.

As a signatory to the AODC, LPPI has committed to encouraging our managers to fill in the AODC questionnaire once a year, which aims to standardise diversity metrics beyond gender. To make this process more efficient, the AODC have begun an initiative with CAMRADATA, a data analysis firm, to provide a centralised database where each manager can submit their responses once, which all signatories to the Charter can then access. LPPI identified 18 of our largest managers from each asset class within the portfolio to target in a first round of requests. Together with CAMRADATA we sent out the latest version of the questionnaire, requesting each manager to complete it. We received responses from all but one of our managers and all but four of these used the new CAMRADATA platform and template. Outside of this priority group, an additional six of our delegate managers also completed the questionnaire on the database thanks to requests from our peers, demonstrating the power and utility of the asset owner community coming together on such an important topic.

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Collaborative engagement – 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. During the 2022 engagement cycle, LPPI encouraged six companies to respond to the WDI annual survey. These efforts were co-ordinated with the WDI and other investor signatories, identifying LPPI priority companies and offering support where companies had been unresponsive. Following engagement via a letter campaign, three out of the six companies responded to the survey. Responses to the WDI survey are shared via a database. Our internal equities team uses the insights captured on workforce management practices to deepen their understanding of portfolio holdings, as well as informing investment due diligence on prospective investments.

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Collaborative engagement – PRI Advance

During the reporting year, the PRI has officially launched Advance, an engagement programme which aims to support institutional investors to collaborate and take action on human rights and social issues. Investors will use their collective influence with companies and other decision makers to drive positive outcomes for workers, communities and society. The initial focus sectors are Metals and Mining and Renewables. LPPI signed up as an 'endorser' to the initiative, recognising the low exposure of our listed equities portfolio to the initiatives target sectors but wishing to signal our public support for the objectives. At launch, LPPI was one of 220 investors endorsing the initiative, representing $30tn in assets under management.

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Policy advocacy

In Q3 2022, LPPI was a signatory to a letter calling for the UK government to introduce mandatory human rights due diligence in line with the UN Guiding Principles on Business and Human Rights for UK linked companies. LPPI supported the letter as we believed the move to mandatory human rights due diligence would improve market standards, while giving investors a better basis for evaluating the governance of human rights risks. The letter, coordinated by the Business and Human Rights Resource Centre and the Corporate Justice Coalition, was signed by 39 investors representing £4.5tn AUM.

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Internal policy development

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. Whilst our approach is still developing in this area, we've begun to integrate it into our investment frameworks and processes and intend to publish LPPI's first human rights policy in the year ahead.

In Q4 22, we updated the 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, one of which is board gender diversity. Our expectation for gender diversity is for women to make up 30% or more of the board, unless the firm has disclosed a plan to meet the 30% standard within a year. Adverse votes will occur when companies have not met these minimum standards. Previously this applied to FTSE350 companies but this year we expanded the universe to include US firms in the Russell 3000.

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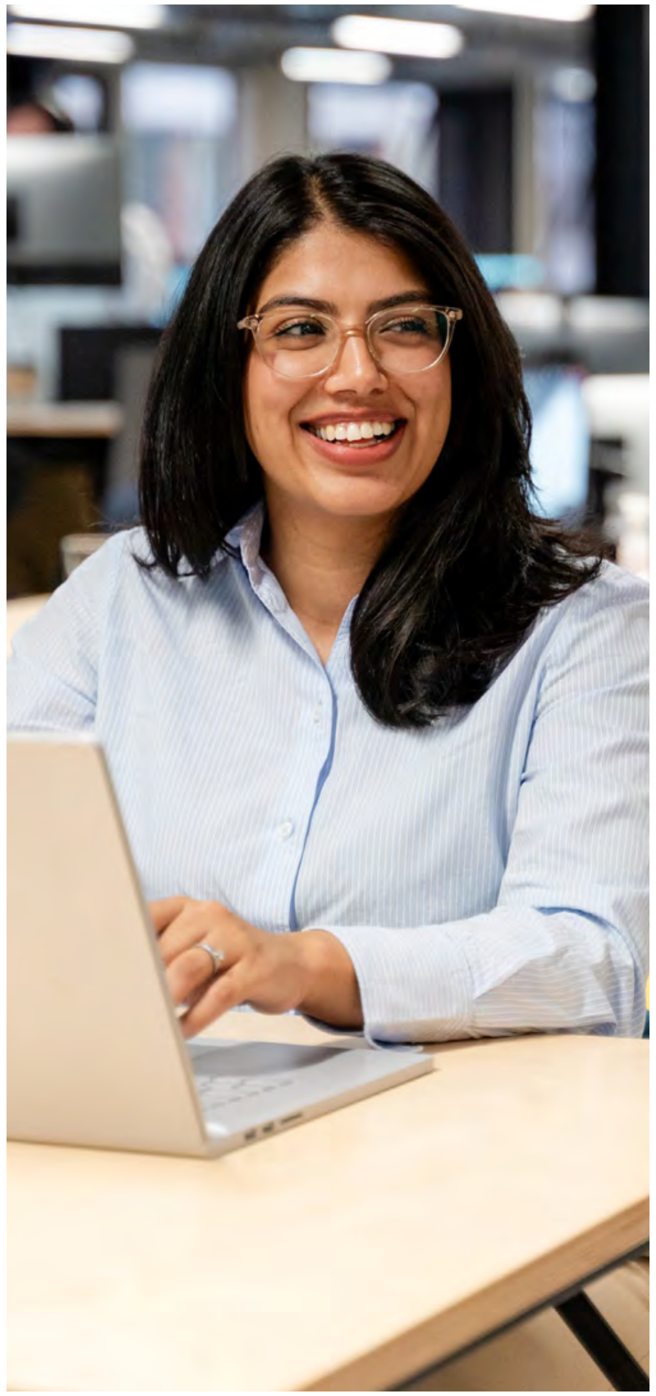
Embedding responsible investment

The systematic integration of ESG considerations within LPPI's investment processes is one of the guiding principles for the stewardship of our portfolio and a perpetual priority for review work. As we have highlighted, the corporate goals we set in our Business Plan cascade into team plans and focussed project work as deliverables, which for the reporting year included:

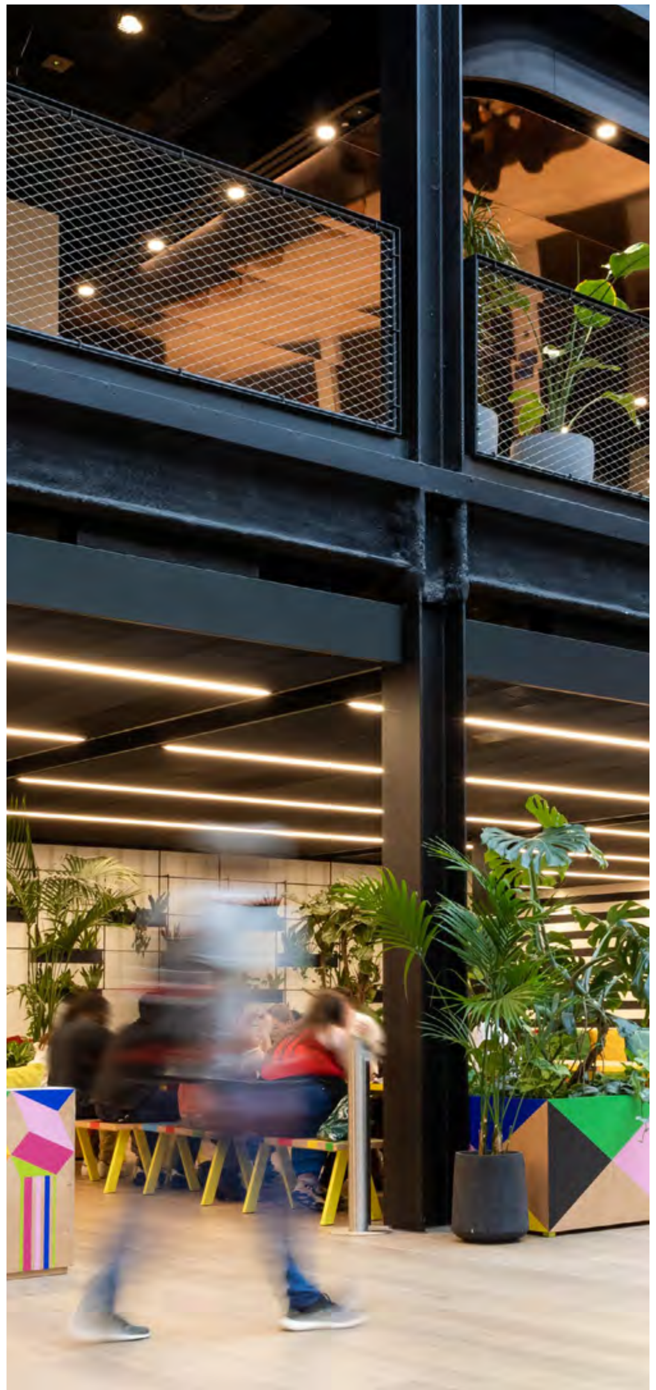
- reviewing our current approach to ESG integration within underwriting and portfolio monitoring;
- producing a new annex to our Responsible Investment Policy which articulates our approach to ESG integration.



The review of our current approach to ESG integration within underwriting led to process changes that lend better support to a consistent approach to assessing investments, products, and external asset manager capabilities, whilst also accommodating differences in the underwriting context our asset class teams face (depending on the type of investment, and the nature of the assets and asset management relationship being underwritten).

We also reviewed the stewardship content of the side letters which formalise our stewardship requirements and expectations of external managers. We made changes to ensure our agreements reference our net zero asset manager commitment and support for improved disclosure on diversity and inclusion by the financial services industry as a signatory to the Asset Owner Disclosure Project.

Our review of ESG integration within portfolio monitoring identified opportunities to produce clearer guidance for asset class teams on recording how ESG considerations have featured within monitoring and engagement and the outcomes. Our objective is to capture stewardship insights from all asset class teams that will assist portfolio oversight, engagement planning, and support our internal and external reporting on stewardship going forward. This project is still live and work is continuing into 2023/24.



Overview – Systematic ESG integration

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.

We believe the consideration of ESG factors is relevant at every stage in the investment cycle - within the investment strategy, the investment selection, and within the stewardship of assets in ownership. Reflecting this belief, ESG considerations feature in our key investment processes as part of asset and manager selection (underwriting), portfolio monitoring (investment oversight) and the stewardship of assets under management (active ownership).

To this effect, we have introduced an Annex on ESG integration to our Responsible Investment Policy, which outlines our ESG beliefs and explains our approach to the integration of ESG considerations within investment management of our asset managers and companies. The subsequent elements of this section draw from the frameworks and processes outlined in the new policy and provide real life examples of their implementation across the portfolio from the reporting year.

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

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

6 7

Operational due diligence: Making our processes even more robust

Our Operational Due Diligence Team forms part of the due diligence control process that checks a potential investment manager or product to see if what we are about to engage in is operationally safe, secure, and unlikely to result in a negative outcome. This helps us manage risk and protect the interests of our clients and their members.

We look at a range of issues to help us build up a picture of how a manager operates. Our database of questions and topics is very detailed and covers all seven of our asset classes as well as multiple fund structures and jurisdictions.

The high-level issues include:

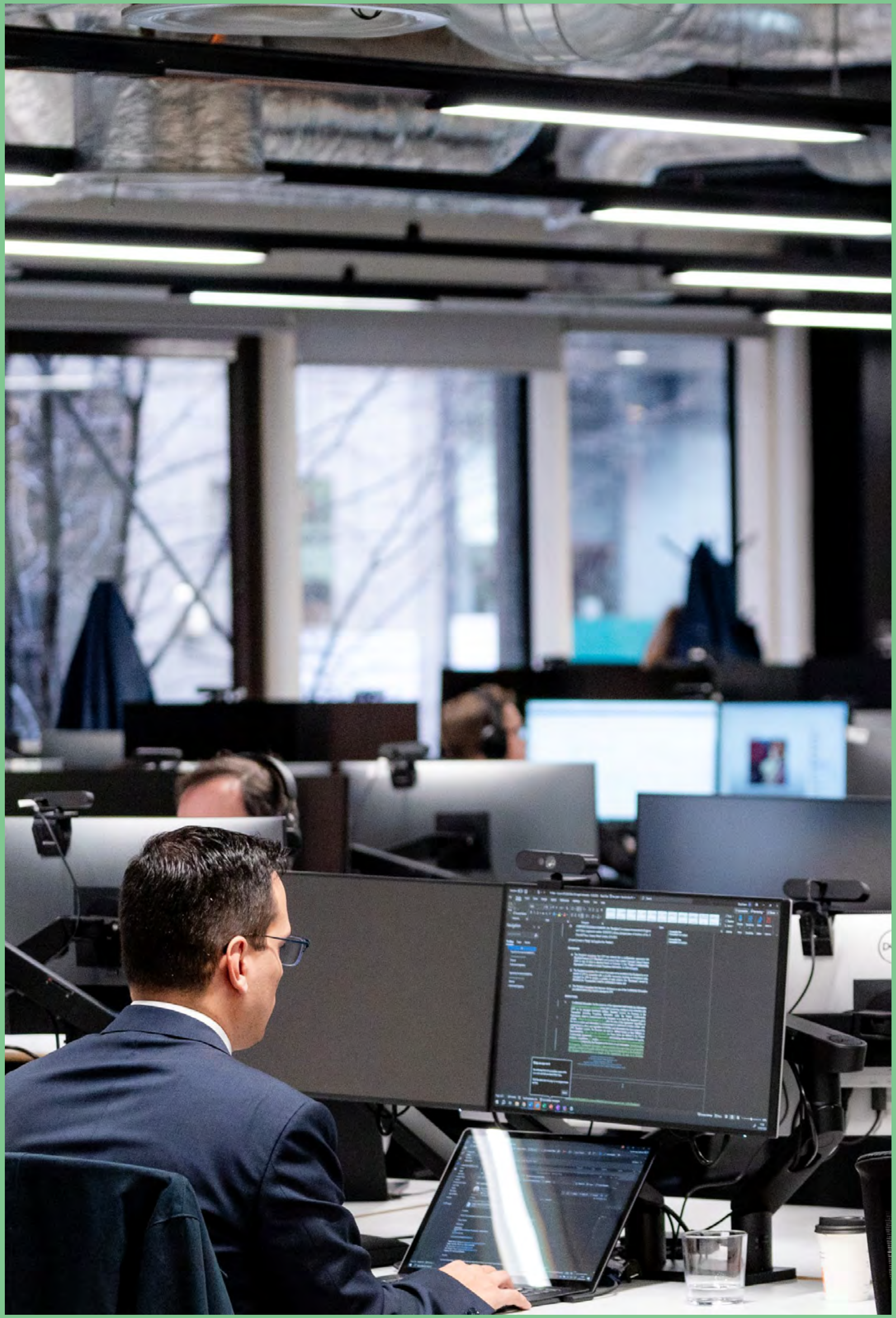
- Investment manager organisation
- Corporate governance
- Fund terms and governance
- Investment process
- Compliance monitoring and surveillance
- Risk management
- Operational functionality
- Valuation and reporting
- Outsource service providers
- Cyber security / Information security
- Business continuity
- ESG / Diversity and inclusivity
- Investor reporting

We begin by gathering all the publicly available information on the manager, we then approach the manager and request that they share relevant policy and control documentation with us so we can assess the manger and the follow up with targeted questions.

We will generally visit the manager on site or conduct extensive interviews via video conference facilities to see the processes and functions in person and assess how they work in practice. Our monitoring extends to a manager's service providers including their fund administrators and outsourced IT providers.

We are constantly considering our process and ensuring that the requirements remain in line with market standards and regulatory changes. We have recently updated our due diligence questionnaire adding further and more specific questions in several areas including Fund structures and Special Purpose Vehicles.

If we uncover an issue, inadequate operational controls, or a pattern of bad behaviour, we raise our concerns internally to ensure that the matter is considered as part of the decision to invest.



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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. Although we have external managers working on our behalf across all asset classes, external managers entirely manage our fixed income, credit and private equity asset classes. We delegate the selection and stewardship of assets to our external managers by investing in their products and our expectations of these managers in relation to their stewardship are recorded in our side letters with them. 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 is the investment strategy exposed to?

Investment processes – Are the manager's 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 the investment due diligence process outlined above. Details about the specific ESG factors considered at this stage can be found in our Annex on ESG.

Our manager rating framework by comparison, is a questionnaire filled out by the manager and used by us to assess their ESG processes against four pillars with twelve underlying attributes, such as training and knowledge sharing, engagement and incentives.

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.

Portfolio monitoring

Where addressable weaknesses are identified during the initial due diligence, 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.

Areas for improvements identified during the underwriting process become objectives for ongoing engagement with the manager. Ongoing stewardship also provides opportunities to engage with external managers on ESG risks and opportunities that may arise in our portfolio over time, as well as opportunities to observe and learn from our external managers' approach to mitigating risks and creating value. Such learnings are integrated into our investment process.

Progress against engagement objectives and any ad hoc ESG related risks identified is reported and monitored internally during quarterly and annual asset class review meetings which are overseen by the Chief Investment Officer.

2 7

Insight into the investment selection lifecycle – Credit fund managers

Pre-stage 1 due diligence on manager processes

During 2022 LPPI's Credit Team assessed a new investment opportunity in a Global Corporate lending product. Significant upfront due diligence was carried out when selecting the investment manager to ensure that material ESG factors were appropriately integrated into the investment process in a systematic way. This included spending time going through individual case studies of stewardship activity across the underlying companies in different sectors. This is a core component of our investment due diligence and if a manager doesn't meet the standards that we require we won't progress with the investment. For instance, last year we stopped the underwrite process with one potential manager after reviewing investment case studies as we believed their ESG analysis was superficial, demonstrating that an ESG philosophy was not firmly embedded in the organisation.

During a recent multi-asset credit strategy underwrite we spent time understanding the investment manager's top-down responsible investment philosophy and looked to ensure that it was aligned with our own, including our net zero target. Through further review we confirmed there was appropriate resourcing and experience integrating ESG due diligence within each of the sub-strategies. Learnings from this experience have led us to assess a manager's processes against our baseline ESG expectations earlier in the investment selection process, embedding it in Pre-stage 1 investment research to reduce the likelihood of wasted effort down the line.

Oversight and accountability of stewardship

Our credit strategy is predominantly structured in dedicated single investor funds which has the benefit of allowing us to work with the manager to create bespoke investment restrictions, which include the exclusion of certain energy related sectors where necessary, and enhanced reporting transparency which includes carbon reporting. During the reporting year, the team negotiated to receive regular reports on key net zero alignment data related to carbon emissions for the top carbon emitters in their portfolio. The team is continuing to work with the manager for future reporting to include climate related engagement activity with the underlying companies.

Assessing the ESG risks of the investment strategy

During due diligence for an Asset Based Lending manager, we reviewed the manager's approach to consumer lending, a segment of the investment strategy, and a sector with higher social and governance risks. This involved discussing past investment examples in detail as well as their forward-looking deal pipeline. Whilst we were comfortable with the manager's approach, we refined our investment guidelines within our side letter by placing a) stricter limits around exposure to the sector and b) a cap on the Annual Percentage Rate (APR) of underlying loans they will lend against.

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Manager monitoring case study – Private Equity Fund

The Private Equity team has been producing ESG RAG ratings for individual managers based on engagement with them on ESG topics, the investments managers have made and broader ESG initiatives and ESG reporting they have produced. Where material ESG issues have been identified, LPPI have engaged with managers on their efforts to address them and to what extent there are effective mitigations available. In Private equity, fund terms are approximately ten years, following which an investment decision to continue the relationship must be made. Managers who have been pro-active stewards in engaging with companies to manage ESG related risks are viewed more positively in our decision-making on whether to continue our investment relationship. For example, the Private Equity team had strongly encouraged a manager to improve their ESG monitoring process at the start of a new fund relationship in late 2021. During the underwrite, three priority areas for improvement were identified, these included:

1. Lack of carbon reporting.

2. Limited resourcing for ESG. Despite positive ESG plans, only 30/40% of an associate's time was planned to be allocated to achieving them.

3. An early-stage investment governance framework and processes on ESG-related portfolio monitoring

By engaging with the manager and monitoring their progress through regular calls and reviewing quarterly reporting, as of February 2023, the following improvements have been confirmed:

1. An annual ESG report is now produced – The report includes firm and fund level proxy carbon reporting and ESG metrics such as turnover rate, manager ESG rating score and gender diversity. Fund level TCFD reporting is the next focus for 2023.

2. The associate is now fully focussed on sustainability, working with other analysts, building and implementing ESG frameworks, and contributing to underwriting.

3. All investments for all funds have now been rated 1 to 5 on E, S and G risks by the investment leads. Higher ESG risk investments are put into an ESG watchlist, which is then discussed in portfolio review committee meetings where they review two ratings – the investment rating and the ESG rating. This investment meeting is one of the most well attended committees at the firm, with IC members and a larger complement of investment staff present than would routinely attend IC meetings.

The positive outcomes from our manager engagements have raised our expectations of managers efforts to improve their ESG investment and reporting processes during the investment period.

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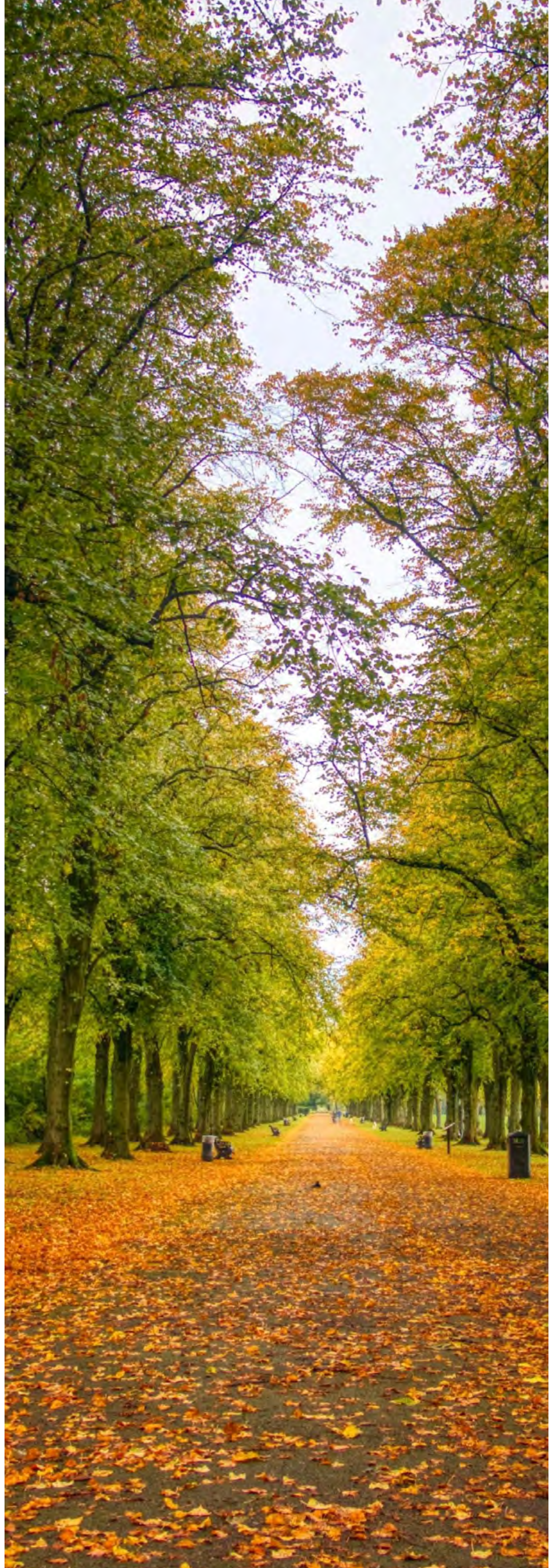
Expectations for real estate – Engagement insights

Just like the Private Equity team, the Real Estate team performs frequent manager monitoring. This is done via quarterly update calls, limited partner advisory committee's and AGMs, as well as occasional site visits. The Real Estate team has used engagement to inform and maintain the red, amber, green ESG rating framework which both allows any potential areas of concern to be easily identified and enables the formulation of targeted engagement approaches to rectify, remediate and resolve material issues.

Quarterly meetings allow the RE team to continuously evolve both manager and mandate ESG ratings and set clear expectations of managers; this has contributed to significant development, especially in the acquisition of direct UK assets which are managed on a semi-discretionary basis by Knight Frank Investment Management (KFIM). All acquisitions now include a range of additional criteria including, but not limited to: physical climate reports; environmental reports; net zero readiness assessment; minimum energy efficiency standards (MEES); alignment of tenant ESG ambitions; potential to install EV charging and PV generation. The frequent engagement with all managers and questioning of their processes fosters an approach of continuous learning which also helps to evolve in house practices.



For instance, net zero has been a significant engagement theme over the past year in the run up to setting targets for direct real estate under the NZAM framework later in 2023.

The real estate team has also been conscious of the large social aspect to real estate, especially with regard to the multi-faceted issue of tenant satisfaction. New tenants expect a quality and dynamic product, for example, in office properties new working trends have led to a preference for collaborative spaces and less traditional desk seating. Existing tenants expect maintenance and general improvements to be monitored and any asset management issues to be dealt with appropriately and quickly.

Cognisant that the most reliable way to gain a better understanding of tenant satisfaction across the portfolio was to conduct a tenant engagement survey, a carbon foot printing exercise and a tenant engagement survey were set as key priorities for KFIM in 2021/2022 and were duly completed. This productive and positive engagement has highlighted a number of areas for KFIM and appointed property management teams to work on, both for general tenant satisfaction and progressing toward a zero-carbon economy. It was instrumental in producing data needed for LPPI's net zero target setting exercise.

Ad hoc issues arise which subsequently need to be built into monitoring processes. During the year, the Real Estate team have engaged with a manager to ensure appropriate action is taken on an asset where a cladding risk has been identified. This has involved the manager working with a local fire safety expert who assessed the entire property. The expert has determined that there is very low exposure to materials of concern and, given the construction type, any fire safety risk is extremely low. As a result, it is expected that no remedial works will need to take place, however, LPPI have encouraged the manager to continue to engage with the council to ensure that they are entirely satisfied with this approach.

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ESG integration – Bespoke approaches

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Direct infrastructure

Real assets differ from listed equities in the ESG risks and opportunities they present for investors. We follow an approach which takes their specific characteristics into account. Our Infrastructure Team follows a tailored approach to assess, monitor and mitigate the responsible investment considerations specific to the internal infrastructure portfolio. Relevant ESG factors can vary significantly depending on the type of infrastructure asset under consideration, including topics as diverse as contractor relationships, hazardous material management and labour rights performance. In each case, a systematic appraisal is carried out on a sector and asset-specific basis focussed on understanding the relevant risks in the context that applies.

Potentially insurmountable ESG risks for our direct infrastructure portfolio 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.

In identifying potentially material ESG topics, the team will reference the ESG SatNav for prompts on areas likely to be important for given sectors and industries and will include these in portfolio monitoring and active engagement themes and objectives.

Where we invest directly in infrastructure, governance oversight is primarily exercised through the investee company's Board which is the principal route for raising material ESG related issues.

LPPI's engagement with our direct infrastructure assets is exercised by members of our investment team, who hold board positions. Our requirements include each Board having ESG related issues reported as a standard item in the board packs, regular deep dive sessions conducted, and specific incident reporting procedures in place for reporting material occurrences.

LPPI also engages with executive management teams on a regular basis, to understand how ESG risks and opportunities shape their judgements and are factored into progress on business activities.

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Engagement case study – Direct infrastructure

LPPI is an engaged shareholder and participates in all key shareholder activities such as board meetings and sessions focussed on key topics such as ESG, net zero and energy transition. We believe the focus of the board is to identify and clearly articulate to management where their focus should be and that incentivisation is critical to ensuring outcomes are achieved. Active participation as members of the boards therefore ensures an alignment between the vision of the boards and management teams of investee assets and LPPI's own objectives. An example of this is a large UK Public Private Partnership asset, where a material part of the executive variable compensation is allocated to a positive outcome for ESG delivery. This is solely at the discretion of the Remuneration Committee, of which LPPI is a member, and has tangibly improved delivery of positive ESG outcomes.

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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. Informed partly by the broader ESG SatNav, these risks can include treatment of minority shareholders, human rights and climate change amongst others. The Senior Equities ESG Analyst maintains and reviews the checklist. More details can be found in our Annex on ESG.

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 retained centrally by LPPI. Our Shareholder Voting Policy and 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.

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Engagement insights: Internally-managed public equity

Over the last financial year, LPPI identified and engaged with our internally-managed global equities holdings on five key themes:

1. Cybersecurity
2. Remuneration
3. Packaging and recycling
4. Natural resources
5. Net zero

Our major engagement priority during the period in question was net zero, as part of LPPI's wider efforts on this theme. In the last 12 months the internal equities team have reached out to those firms deemed to be operating in designated high impact sectors, with the aim of:

a. better understanding the risk exposures for the companies in this area and current efforts to mitigate the impact of climate change on their business models and

b. encouraging the establishment of a net zero transition plan, including a comprehensive net zero commitment, short and long-term emissions reduction targets, and a credible decarbonisation strategy.

The overall response from target companies has been generally receptive and prompt but certain firms have failed to respond to our requests for further information.

We are pushing those companies for improved disclosures and more ambitious targets where responses have been less forthcoming and communicating escalation steps – this includes advising unresponsive firms that we will consider voting against directors responsible for environmental matters at upcoming annual general meetings.

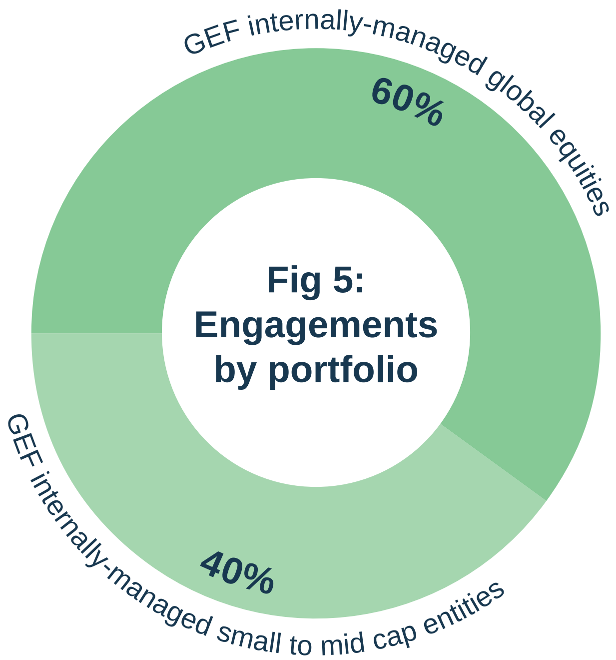

Fig 5: Engagements by portfolio

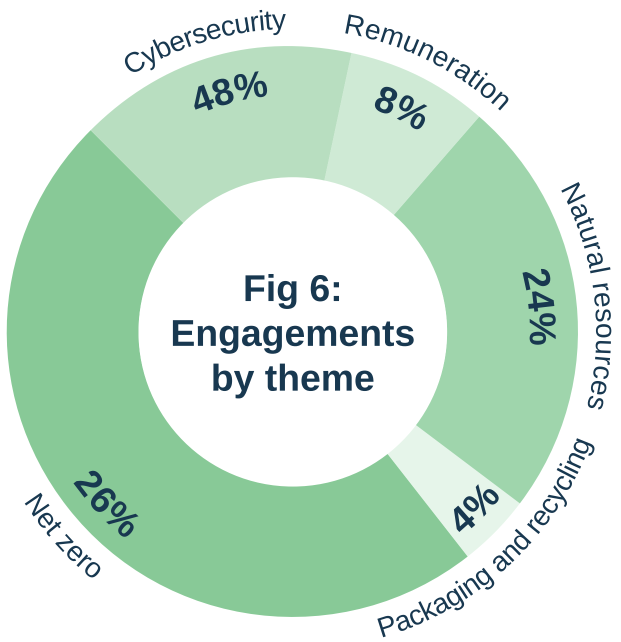

Fig 6: Engagements by theme

Source: Local Pensions Partnership Investments as at 31 March 2023

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Examples of engagement under the three largest themes and their outcomes

Packaging and recycling

Further to the initial net zero engagement exercise carried out with our direct global equities, we escalated an engagement with an investee company, a US-based manufacturer of aerospace products, advising the firm that we would consider voting against the company's director in charge of environmental matters at the next Annual General Meeting (AGM), should we not receive a response or if the firm's disclosure in this area does not improve in advance of the meeting.

We have not yet received a response from the company but continue to keep the engagement open and monitor the firm's progress in this area ahead of the vote taking place.

Natural resources

A recent engagement with an investee company, a global snacks and beverage company, on the issue of water use increased our level of confidence in the underlying investment case. Water is a critical input to the business, not only forming an important part of the company's supply chain but also serving as a key ingredient in many of its flagship brands. Combined with the company's significant scale, this means water use and water use intensity are material risks for the business. Failure to secure reliable water supply carries several significant risks, including supply chain disruption, higher production costs and reputational damage amongst both distributors and end consumers.

Our engagement revealed the company takes their responsibilities in this area seriously, mapping out key areas of water stress, setting ambitious reduction goals, and making material investments in reducing water use levels throughout direct operations and the broader supply chain.

The engagement was further evidence of how well managed the business is and increased our level of confidence in the existing investment case.

Management compensation (Remuneration)

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 focussed on companies where we believe there is room for improvement in the choice of performance metrics used to determine compensation.

Our engagement with a medical devices manufacturer on the theme of management compensation, decreased our conviction in the investment case and in part led to our decision to sell our position in the stock. We engaged with the company after receiving details of planned changes to the firm's compensation structure, namely lower emphasis on return on invested capital as a driver of long-term bonuses.

This fed into our broader concerns that management were displaying an increasing focus on growth of the business at the expense of profitability. We spoke with the company to better understand the rationale for these changes, but found their arguments unconvincing, as a result we decided to escalate our engagement through our voting approach and voted against ratifying management compensation at the next AGM. Subsequently this engagement formed part of our decision to remove the position from our portfolio.

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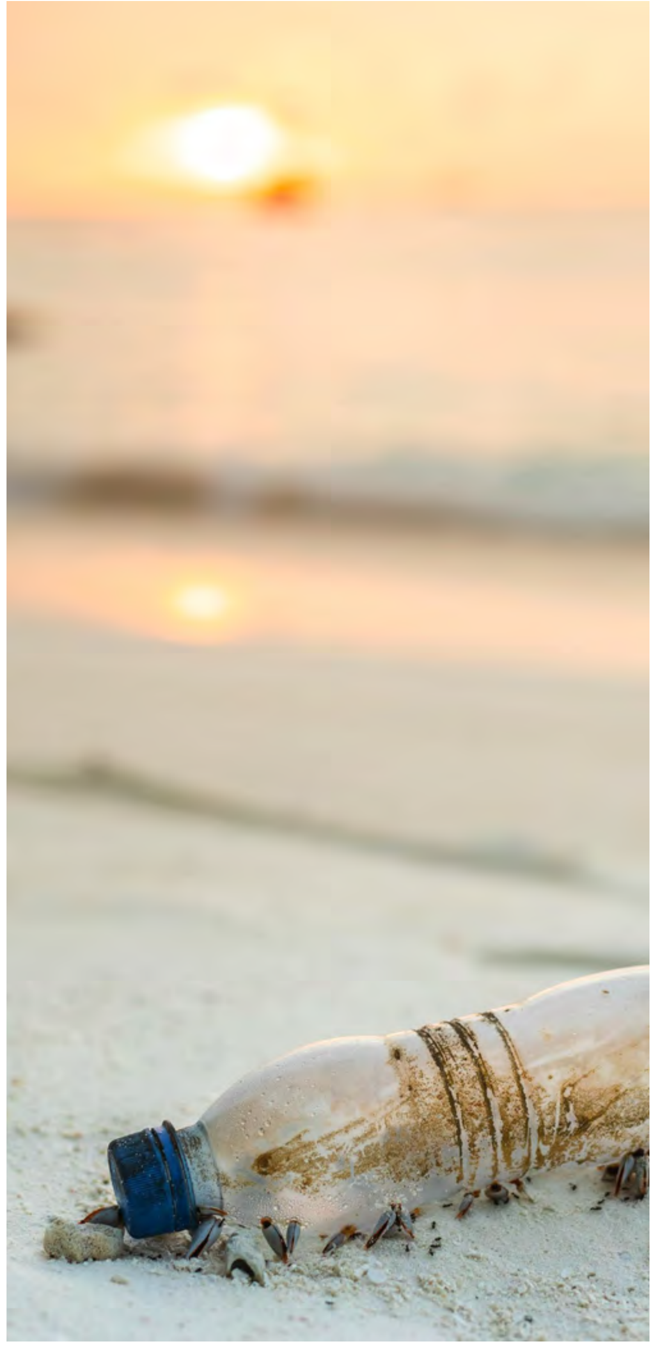
Engagement update: Collaborative engagement on plastics

In early 2022, LPPI signed up to The Business Call for a UN Treaty on Plastic Pollution, in alignment with the Internal Equity engagement theme on packaging and waste. The initial coalition can be considered a success, following agreement at the March 2022 UN Environmental Assembly to develop a binding treaty to end plastic pollution by 2024. The group has evolved into a new body, the Business Coalition for A Global Plastics Treaty (still convened by the Ellen MacArthur Foundation and WWFR), which seeks to ensure the binding treaty developed is an ambitious and effective international policy framework.

LPPI continues to view plastic and packaging as a material risk relevant to our internal equities portfolio and client ESG priorities. We have therefore re-affirmed our commitment to these aims by signing up as a supporter to the Business Coalition for A Global Plastics Treaty.



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Monitoring our service providers

LPPI works with a multitude of service providers who deliver everything from custodian services and phone contracts to learning and development resources and portfolio carbon emissions.

Being able to identify and assess the E, S and G risks and opportunities within our portfolio, illicit decision useful insight and support the eventual monitoring and improvement of stewardship-related activities is critical for our continued success as a responsible steward of our clients capital. Securing good working relationships with data and analytics providers, consultants and engagement monitoring services is therefore an ever present priority for teams across the business.

Each of our suppliers is assigned a relationship owner internally and they meet regularly as part of normal BAU activities. For a key or material vendor, the majority being Tier 1 and 2 suppliers such as our custodian or depository, a member of the Vendor Risk team attend service review meetings with the supplier. Vendor Risk then hold quarterly service reviews with relationship owners in order to monitor third party service providers overall to ensure their services are meeting LPPI's standards. Matters discussed include: new or existing vendors onboarded and terminated; tier review of vendors; service review; breaches and incidents. Updates are then reported to the Executive Committee (ExCo) on a monthly basis and Chief Risk Officer (CRO) on a quarterly basis.

'Escalation meetings' take place for services which have fallen below the expected standards. Tier 1 and 2 vendors are closely monitored and any significant concerns are flagged and issues escalated to the Operational Risk Manager and beyond should the need arise. The involvement of Vendor Risk at this stage has ensured that when incidents and issues occur, they are investigated, acted upon, and solutions implemented for long term improvement.

An example of a material vendor is our climate data solutions provider. In early 2022 LPPI purchased their Climate Risk Reporting model to provide emissions data and scenario modelling capability to support both our net zero target setting exercise and climate risk management processes in line with TCFD requirements, as well as our broader risk management system.

A core requirement from any data provider we chose was to be able to:

- Expand our current coverage of climate data from public markets to include private market assets like real estate.
- Integrate with other data systems across the business.
- Enhance our climate modelling capability in order to compare our portfolio's emissions profile against a 1.5C carbon budget to support setting a decarbonisation target.

From our market review exercise and further discussions with the vendor, we found that they could not yet support our third requirement for a 1.5C portfolio alignment model. As a result, we sought assurances that tools will be available, and placed safeguards into our contract concerning tools under development. LPPI were invited to take part in the client consultation and therefore was able to get early sight of the proposal and provide feedback on their updated methodology in Q1 2023. The development of the model has taken place throughout 2023 but has suffered multiple delays, with clients' feedback implemented in Q2 2023 and initial model output data provided to clients for testing in Q3. Their delivery against stated objectives will continue to be monitored in 2023/24.

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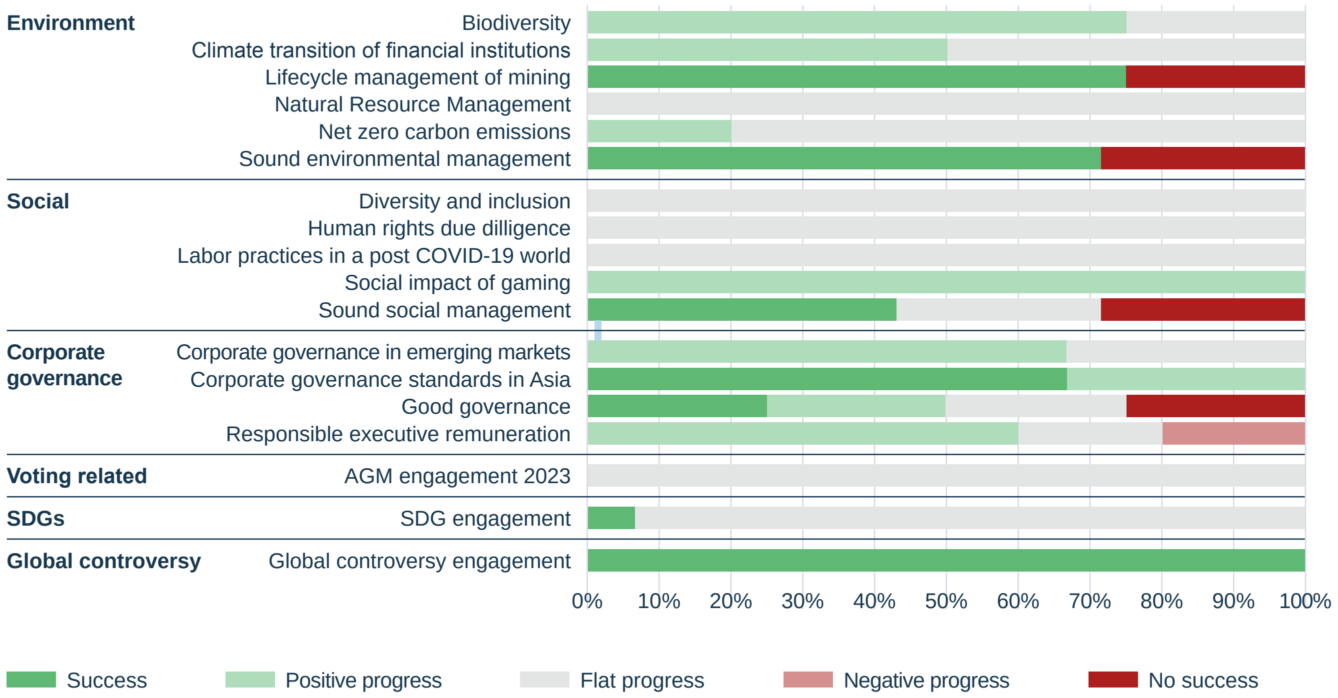
Working with our engagement partner (public markets)

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 execute 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 2022-23 can be seen in the following chart:

Fig 7: Progress of actively engaged themes 2022-23

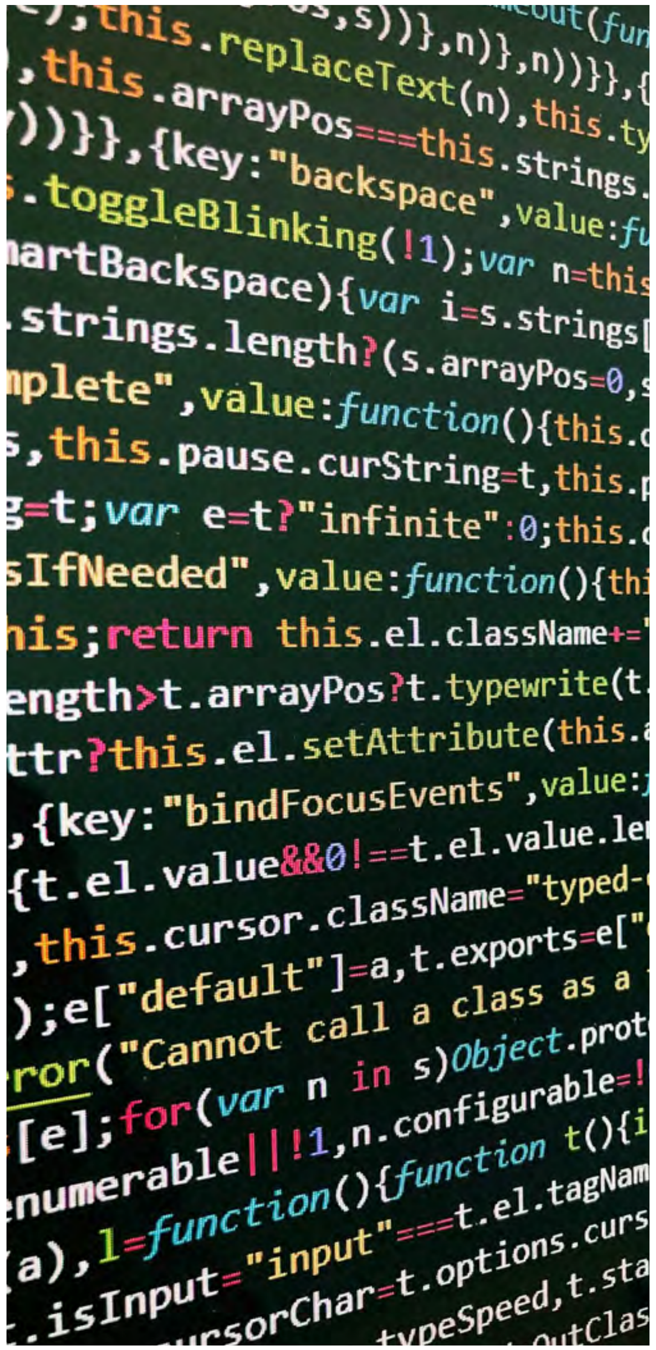


Source: Robeco Active Ownership Report Q1 2023

In this period, three themes closed and two new themes were added.

In September 2022, following three years of engagement, Robeco concluded the Social Impact of Artificial Intelligence (AI) engagement programme and successfully closed 37.5% of LPPI's engagement cases (three out of eight). Through their engagement, Robeco learned that companies are gradually aligning internal practices to principles of responsible AI. Many companies formalised AI principles that address topics like inclusiveness, fairness, and transparency. Additionally, companies are increasingly pursuing a collaborative approach by actively participating and contributing to cross-industry multi-stakeholder initiatives that aim to advance responsible governance and best practices in AI. These types of initiatives play a decisive role in guaranteeing trustworthy AI across the industry.

However, ethical principles on their own do not ensure the responsible development and deployment of AI. Businesses require robust governance mechanisms to effectively implement their principles. Robeco observed that transparency around AI governance and implementation remained low, as most companies' public disclosures lacked clarity about how such principles translate into practice, and which checks and balances are in place. As such, the key determinant of a successful engagement was the extent to which companies were willing to constructively engage.



As a next step, reflecting the increased importance of the alignment of AI technologies with ethical values given recent technological breakthroughs, Robeco will continue engagement work through the ‘Sustainable Development Goals (SDG) engagement’ theme with the companies they were unable to close engagement with successfully. These dialogues have a strong focus on human rights and societal impact, and highlight topics like misinformation, content moderation and stakeholder collaboration.

In addition to regular monitoring, LPPI participates in the Annual Active Ownership 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 2023 (calendar year), Robeco is incorporating new themes on the Just Transition, Forced Labour and Modern Slavery, and Tackling Tax Transparency. Modern slavery and tax were two issues identified by LPPI and our clients, and we were placed to see them incorporated into Robeco’s workstream.

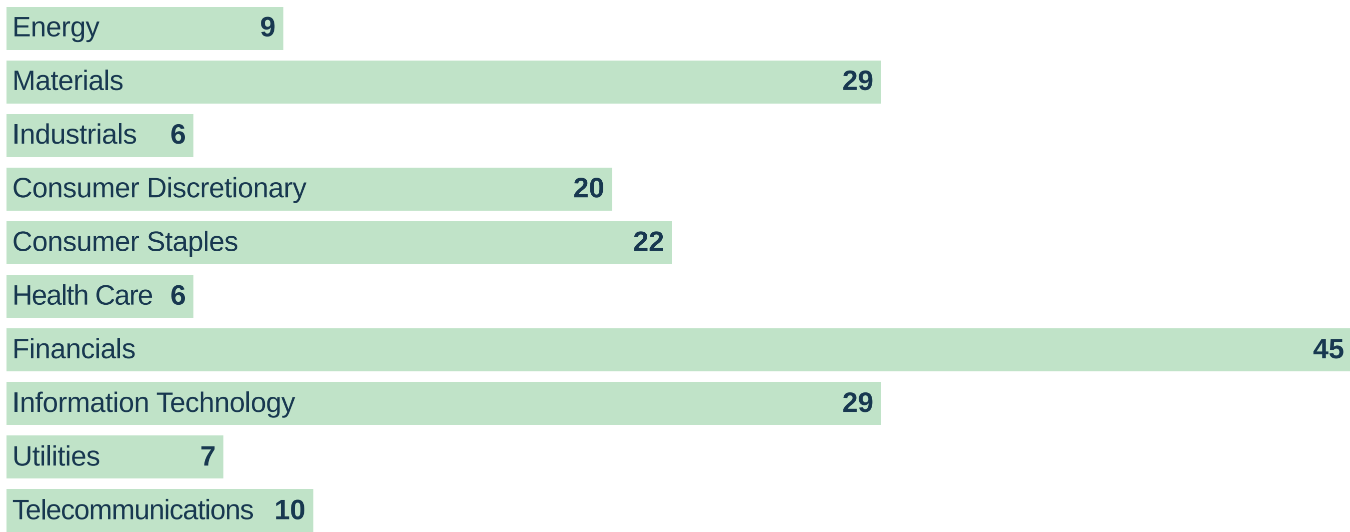
Prior to new engagement themes commencing, Robeco typically conduct six months of desk-based research to identify objectives and priority companies across their clients’ portfolios. In the event coverage is low, Robeco and LPPI collaborate to ensure that a sufficient threshold of portfolio companies is included.

As our partnership enters its fourth 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 183 engagement cases on behalf of LPPI, covering 18 separate themes – as illustrated in Figure 5.

Fig 8: Engagement cases by sector

Total: 183



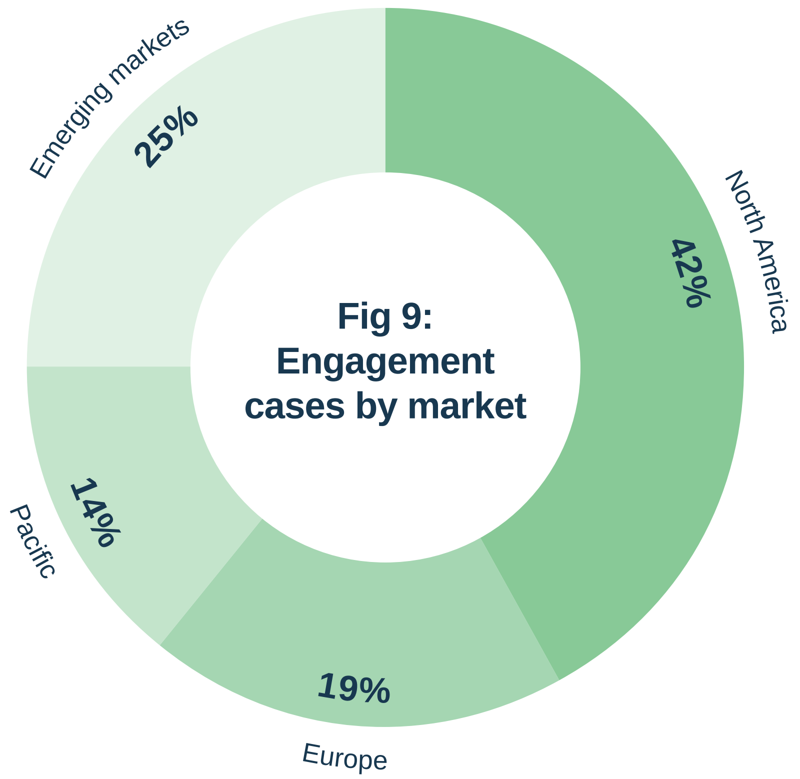


Fig 9: Engagement cases by market

Source: Robeco Active Ownership reporting 2022-23

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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.

GLIL Infrastructure - Rathcool portfolio

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The London Fund

The London Fund is a collaboration between two Local Government Pension Scheme pools: LPPI and London CIV. The ambition is to provide sustainable, long-term, risk-adjusted value to pension scheme investors, while considering a ‘double bottom line’ by generating a social benefit in Greater London through job creation, regeneration and providing a positive environmental impact for Londoners alongside competitive target returns.

As the investment manager, LPPI leads investment due diligence in seeking opportunities for further deployment of capital. The reporting year saw the fund deploy capital into two investments:

1. YOO Capital Fund II: a fund focussed on redeveloping and repositioning existing assets to create space for supply starved strategic growth sectors. Assets include the Sheperd’s Bush Market, The Saville Theatre, and a site in Kentish Town which it plans to redevelop into the Camden Film Quarter.
2. Co-investment alongside Macquarie Asset Management in the acquisition of a significant minority stake in VIRTUS Data Centres. This marked The London Fund’s first infrastructure investment in a critical and rapidly growing sector. Through VIRTUS, The London Fund supports the provision of critical digital infrastructure while matching its electricity consumption to 100% renewable energy procurement alongside its wider commitment to net zero by 2030.

We continue to monitor our collaborative investments in the DOOR fund, which is our largest allocation and remains the fund which has been held for the longest amount of time.

Case study

The London Fund – DOOR and T3

Through a combination of monitoring calls, quarterly reporting, and site visits, LPPI stays informed of DOOR’s stewardship of its real estate assets in the private rented sector across London. The London Fund’s consideration of Positive Social Outcomes means particular emphasis is placed on affordable housing. We were therefore very pleased to see that DOOR has established a registered provider called T3 to deliver and operate the Affordable Housing within the portfolio including units in south London. T3 successfully obtained registered provider status from the Regulator of Social Housing on 1 June 2022 and Greater London Authority grant funding has now been loaned to Get Living to fund the affordable units. Initiatives such as this help to maintain our conviction in the investment thesis, and its suitability for the London Fund.

Overall, engagement is prioritised based on the size of investments in the underlying portfolio and the magnitude and probability of risks. Engagement themes are identified at the manager level by assessing them across several pillars in an ESG RAG rating framework. This framework helps to identify key areas where the manager is performing well or improvement is required. This analysis informs areas of engagement for the following quarters.

For DOOR, evolving sustainability policy in relation to real estate has the potential to impact real estate values. One of the most prominent at present is the Minimum Energy Efficiency Standards or MEES. LPPI engage with the manager to check they are undertaking a full review of the portfolio and mapping it to the relevant milestones set by the UK Government. In addition, as rents on residential and other living assets continue to rise, the team are monitoring the possibility for enhanced regulation in this area in the UK. Further, LPPI also seek updates from DOOR with respect to compliance with fire safety regulations through monitoring calls and quarterly reporting.

We have also undertaken wider thematic engagement on topics such as net zero and physical climate risk, as well as participation in third party initiatives such as Global Real Estate Sustainability Benchmark (GRESB) and the Task Force on Climate-Related Financial Disclosure (TCFD).

We seek to maintain a constructive relationship with DOOR from our initial due diligence to ongoing stewardship. A key initiative is the clear communication of objectives. For example, we expect managers to have clear net zero targets for investments which include interim milestones such as carbon reduction targets during the hold period. We would subsequently monitor the external managers’ progress in achieving this net zero objective. It is therefore encouraging to note that Get Living has established a net zero pathway which seeks to achieve net zero operation and construction by 2040s with a number of interim milestones.

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GLIL Infrastructure

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

It aims to create jobs, support communities and 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 2023, it was backed by four local authority schemes, plus Nest (the government establish defined contribution workplace pension scheme), deploying £2.6bn 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 completed a second iteration of a voluntary Task Force on Climate-related Financial Disclosures ('TCFD') Report for member funds. The development of the report led to improvements in published emissions apportioned using a Partnership for Carbon Accounting Financials ('PCAF') recommended method. The team have also implemented the use of scenario analysis when assessing the impact of physical and transitional risks against the value of the portfolio. GLIL continues to invest in the low carbon economy through an expansion of the renewables held within the portfolio. Late 2022 into 2023 saw the addition of Hornsea 1 into the portfolio. Hornsea at the time of investment was the world's largest fully operational offshore windfarm generating enough green energy to power over one million homes across the UK. Hornsea 1 became fully operational in 2019 and at the time was the world's first offshore wind farm to exceed 1 GW in capacity.

GLIL Infrastructure - Hornsea 1 wind farm

Case study

GLIL Infrastructure: Forth Ports Group – monitoring net zero

In May 2023 Forth Ports Limited announced their commitment and actions to achieve net zero carbon operations by 2042.

Forth Ports Group is one of the largest Ports Group in the UK, with facilities in London Tilbury and the east coast of Scotland. Within these ports the group are undergoing a reconfiguration to support the offshore wind industry.

The Group has a well-diversified customer base with the infrastructure to handle a wide range of cargo and offers premium port centric logistics solutions.

In order for the team to achieve their targets they plan to overhaul and electrify equipment and machinery, by switching to low carbon fuels, increasing onsite renewable energy generation and promoting low carbon delivery alternatives such as rail and barge across the groups eight ports.

GLIL is committed to monitoring and engaging on these plans with Forth Ports, to ensure viability and alignment with industry standard net zero initiatives and possible certifications for maximum success.

GLIL Infrastructure - Forth Ports Group

Case study

GLIL Infrastructure: Agility Trains East

An active portfolio of real assets requires constant monitoring to ensure the best stewardship outcomes can be achieved.

For example, Agility Trains East (ATE) has been established to work in partnership with the Department for Transport in developing the Intercity Express Programme (IEP), to replace Britain's ageing fleet of Intercity trains. As an investor, GLIL joined a group of shareholders in a collaborative engagement aimed at developing an ESG survey for ATE to complete. The aim was to develop a survey that is compliant with industry standard ESG initiatives and reporting metrics. ATE first completed the survey in the early months of 2023, covering the 2022 period.

The suggested survey was aligned with metrics monitored under the EU taxonomy, UN Global Compact, PRI, TCFD, GRESB and NZAMI. Following a successful engagement and joint development, ATE were able to allocate sufficient resource to significantly improve their annual ESG disclosures to GLIL and ultimately identify gaps that can be improved in the coming reporting period.

GLIL Infrastructure - Agility Trains East

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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 IIGCC and the PRI. The year also saw us become a member of the newly formed ESG Data Convergence Project to support stewardship of our private market portfolio and become an active member of the FCA-convened Vote Reporting Group.

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

- Submitted net zero targets for our listed equities fund and received feedback and approval with publication on the NZAM website.
- Membership of the Third Party Managers working group to develop principles for applying the framework to externally managed funds
- Membership of their Net Zero Real Estate working group
- Joined the Net Zero Engagement Initiative and an engagement lead for three companies and supported one of our clients to become a member in their own right
- Solicited their feedback on the proposed updates to our shareholder voting guidelines, specifically treatment of shareholder proposals on climate change

IIGCC
The Institutional Investors Group on Climate Change

PRI | Principles for Responsible Investment

PRI results covering the reporting period 2020-2021 were finally released in September 2022 following a considerable delay. PRI substantially overhauled their reporting framework for 2021, with the view it would remain mostly future proof for the next five years. Their aim was to make the process leaner whilst reducing the scope for gaming and misinterpretation by asking for more granular details on processes. At the same time, the PRI have moved from a A* to E grading system to a numerically based 5-star system to reflect the fact that the 2021 reporting cycle cannot be compared to previous years. Scores are allocated per module/asset class, with no overall organisation score.

Module	LPPI Scores	PRI Median Scores
Investment and Stewardship Policy	4 stars (87%)	3 stars (60%)
Direct – Listed Equity – Active Fundamental Incorporation	5 stars (96%)	4 stars (71%)
Direct – Listed Equity – Active quantitative – voting	4 stars (72%)	3 stars (54%)
Direct – Listed Equity – Active quantitative – voting	4 stars (72%)	3 stars (61%)
Indirect – Listed Equity - Active	4 stars (87%)	4 stars (67%)
Indirect – Real Estate	5 stars (91%)	3 stars (62%)

In the latest reporting round, LPPI has performed very well, scoring above 4 stars for all assessed modules and maintaining its strong performance from 2019/20. LPPI has notably achieved high scores for asset class specific modules which reflects our strong focus on improving ESG integration within our investment processes. LPPI has outperformed the median scores (for all signatories) in all modules assessed.

2022/23 itself represented another ‘gap year’ for PRI reporting, with preparation for the 2023 reporting cycle starting in Q1 2023. However, as an ongoing signatory, we remained an active member of the initiative over the reporting year.

Alongside signing up as an endorser for PRI Advance, LPPI joined a PRI-convened working group on overlapping stewardship reporting expectations and responded to their formal consultation on the future direction of PRI.

The consultation, PRI in a Changing World, was issued on the conclusion of a programme of signatory workshops in key markets which explored the context, started the conversation, and introduced key themes of:

- the meaning of responsible investment today;
- the expected progression of strategy and ambition for responsible investors going forward;
- the role and service provision of the PRI with this background.

The themes reflect that in the period since PRI launched in 2006 there has been a significant shift in market practice and expectations. These need acknowledging and reflecting in the PRI’s strategy, planning, and resourcing and in requirements placed on signatories going forward. LPPI’s Head of Responsible Investment attended the UK event at PRI Head Office in London in November 2022 to share our insights.

LPPI’s response to the consultation (by confidential online questionnaire) communicated the value we place on a robust external good practice standard for stewardship incorporating ESG integration. We voiced support for a clearer set of signatory requirements that builds-in an expectation of progression over time and a focus on disclosure being proportionate and useful rather than exhaustive. Increasing pressure is arising from the expansion of stewardship-focussed reporting introduced by regulation which extends compulsory disclosures without co-ordination with other reporting regimes. Disclosure standards are similar but not aligned, reporting periods and deadlines overlap, and there is insufficient dispensation for equivalency despite the same activities being the subject of multiple disclosure requirements. The consultation will provide PRI with direct insights which can tighten its focus on how to accommodate the asset owner and asset manager context in planning how best to support signatories achieving stewardship good practice and demonstrating this to their stakeholders.

FCA Vote Reporting Group

LPPI has been participating in the FCA-convened Vote Reporting Group. The Group aims to bring together a range of stakeholders, such as pension funds, insurers, investment consultants, asset managers, proxy advisors, issuers and civil society groups, with knowledge and interest in good practice vote disclosure to develop a more comprehensive and standardised vote disclosure regime. The Group met roughly monthly in the six months from October 2022. The FCA plans to launch a public consultation on the Group's output in H2 2023.

ESG Data Convergence Initiative

The ESG Data Convergence Initiative (EDCI) was first convened in September 2021 and is the private equity industry's first-ever collaboration to advance an initial standardized set of ESG metrics and mechanism for comparative reporting

The initiative provides industry benchmarking for ESG metrics for the private equity industry. The initiative has outlined a core set of ESG metrics and a mechanism for comparative reporting which allows General Partners (GPs) and portfolio companies to benchmark their current position and generate progress toward ESG improvements. This also enables greater transparency and more comparable portfolio information for Limited Partners (LPs). The EDCI now has more than 350 GPs and LPs as part of the initiative.

LPPI joined the initiative in 2022 to show our support for greater industry standardisation on ESG metrics in Private Equity. Since, we have encouraged our GPs to join the initiative and have integrated it as an area of assessment of GP ESG practices in our manager due diligence and monitoring efforts.

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.

Compliance Insights: Contributing to well-functioning markets

The Compliance Team carries out ongoing horizon scanning to identify pending regulatory change that will impact LPPI, prioritising those with the greatest potential impact for LPPI and our clients.

To help us be even better prepared for these changes, we have introduced a Regulatory Change Working Group. The group assesses what might qualify as a major regulatory change, how it will impact LPPI, and what we'll need to do to address new rules. We'll then create a project group to implement the changes necessary.

Our ESG Programme working group on TCFD is an example of this. To respond to the latest FCA climate regulation, the group is preparing to publish our TCFD report in June 2024. We had previously published voluntary TCFD reports, but this will be the first to address the regulation. This new process for identifying and responding to regulatory change will set us up well to adapt to future regulation like the SDR.

We also recently responded to the Department for Levelling Up, Housing and Communities (DLUHC) consultation on climate reporting. Our clients will have to follow DLUHC climate regulations, while we follow FCA climate regulations. Because we'll be reporting on the same assets but following different reporting regulations, our response focussed on the importance of standardisation and consistency between the reporting rules and metrics.

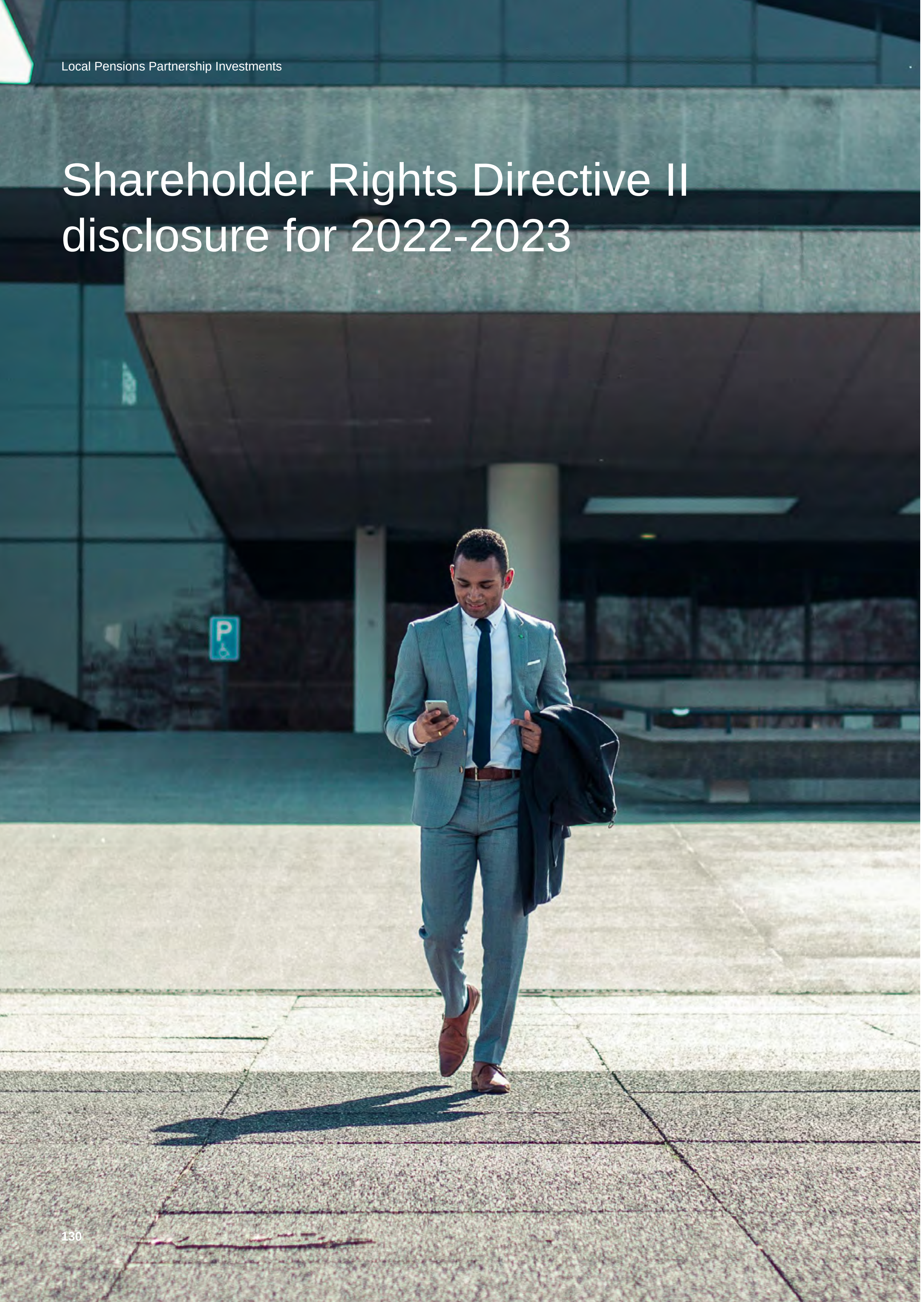
Standardisation would help us, our clients, and our members. It would reduce duplication, make comparison easier, and support better functioning markets. For example, if more people are using the same metrics to guide their investment decisions, we'll send the market a clearer message together.

In further efforts to drive standardisation and consistency, we're members of the Investment Association (IA), and the Alternative Investment Management Association and part of the IA's TCFD forum. Participating in this forum has given us clarity on how others are handling particular parts of their climate reporting, such as derivatives.

Being members of these bodies helps us to contribute to the industry's thinking and deal with any questions, and establish a clear industry voice, making sure we're aligned with efforts to make the markets function well for our members.

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

- Occupational Pensions Stewardship Council
- LGPS 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 Forum



Shareholder Rights Directive II disclosure for 2022-2023

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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: our Shareholder Voting Policy and our Shareholder Voting Guidelines (SVGs).

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 SVGs, which have been developed over the past 12 months, provide guidance for all stakeholders on the application of the Policy in practice. They include more detail on LPPI's beliefs, outlines the factors that influence how votes are cast on common items on the ballot, and identify 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 with 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 on Responsible Investment and Stewardship we also address disclosures required of us annually under the Shareholder Rights Directive II which, in addition to a general description of our voting behaviour includes an explanation of our use of the services of proxy advisors and the most significant votes in the past 12 months.

Our use of proxy advisers

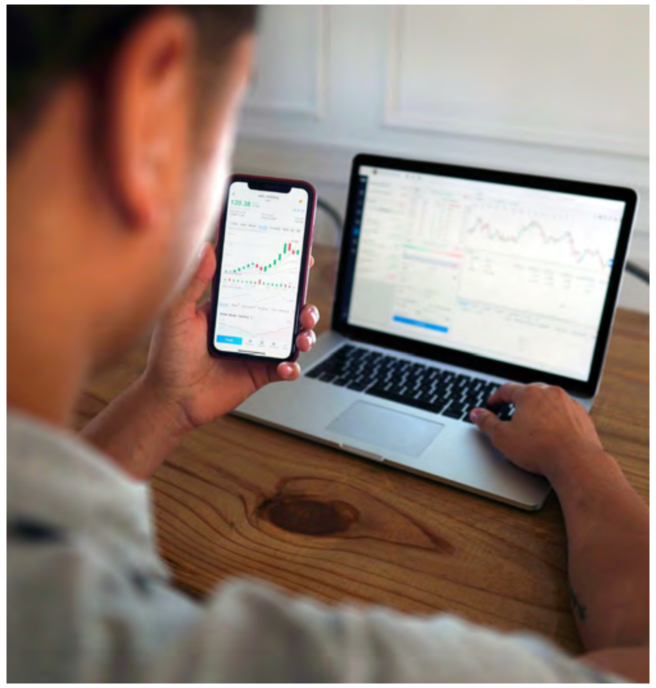
LPPI retains final say on vote direction. We liaise with our asset managers, engagement partner, and proxy voting provider as needed to reach final voting decisions. The analysis and voting recommendations we receive for each company meeting from our external provider of proxy voting and governance research (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 like gender equality or where we take a more nuanced view such as on our internal equity holdings or shareholder resolutions.

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 an issue with 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.

General voting behaviour (by theme)



In the 12-months from April 2022 to March 2023, LPPI voted at 367 out of 380 (97%) possible company meetings. The 3% shortfall reflected the following:

- POA issue (detailed above)
- LPPI policy of not voting in share-blocking markets to preserve liquidity
- "Do Not Vote" elections for all Russian holdings not liquidated prior to the introduction of trading restrictions

The breakdown of our votes on the 4,412 separate resolutions as follows:

Against	Theme	For
250	Election of Directors (and related)	2075
116	Compensation	404
0	Anti-takeover (and related)	27
68	Capitalisation	249
77	Routine Business	585
68	Shareholder Proposals	153
8	Audit-related	269
10	Strategic Transactions	53
597	**Total**	**3815**

Source: ISS ProxyExchange

87 %

of company proposals supported

69 %

of shareholder proposals supported

53 %

Meetings with at least one vote against management

LPPI supported 87% of company proposals and 69% of shareholder proposals. We voted against management (on at least one resolution) at 53% of company meetings in the period.

In summary, LPPI voted:

- Against 20% of management resolutions relating to executive compensation. Votes against management are motivated by a range of factors, including, but not limited to, poor transparency, mis-aligned incentives, and pay magnitude.
- In support of 100% of shareholder proposals seeking reporting on human rights assessments and the improvement of human rights-related standards.
- In support of 81% of shareholder proposals related to gender and/or racial diversity. Typical proposals supported requested specific disclosures (such as pay gaps) and actions such as the conducting a racial equity audit.
- In support of 100% of shareholder proposals seeking greater transparency on company tax practices.
- In support of 64% of shareholder proposals on climate change. LPPI typically supported proposals that sought greater information on how companies are managing risk.
- In support of 100% of shareholder proposals seeking greater transparency on corporate behaviour relating to political lobbying (for example through enhanced reporting).

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

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Examples of LPPI supporting shareholder proposals on priority themes

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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 discloser on matters such as target setting and lobbying.

During 2022-23, LPPI supported 64% of shareholder proposals on climate change. LPPI typically supported proposals that sought greater information on how companies are managing risk.

Case study

Berkshire Hathaway

At Berkshire Hathaway (USA: Multi-Sector Holdings), LPPI supported a shareholder resolution requesting the company publish an annual assessment addressing how the Company manages physical and transitional climate-related risks and opportunities. The vote received support of 26.5%, which is high considering the company’s dual class share structure. Engagement with Berkshire Hathaway on climate-related matters continues via our engagement services provider.

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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 2022-23, LPPI cast 107 votes against management on pay-related matters, equating to 20% of all management proposed pay-related votes.

Case study

Netflix

LPPI voted against the say-on-pay at Netflix (USA: Movies and Entertainment). Shareholder dissatisfaction was widely felt, with 72.9% voting against. Pay has been a contentious issue at Netflix for a number of years; some improvement was made following low support in 2022, for example, the introduction of base salary caps and of an annual bonus scheme for a portion of the base salary paid in cash, however, overall practices remained sub-standard. For example, stock option awards continued to lack performance criteria and meaningful vesting periods. This led to LPPI voting against the say-on-pay again in 2023.

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Most significant votes

Diversity

Most often, 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 2022-23, LPPI cast dissenting votes against 28 management resolutions at 25 companies due to a lack of gender diversity on the Board. This partially reflected the expansion of our minimum standards on board gender diversity in the LPPI Shareholder Voting Guidelines to capture the USA, however, the full scale of this impact will be captured in future reports covering the 2023 proxy voting season. Additionally, LPPI supported 81% of shareholder resolutions relating to diversity. LPPI is minded to support votes seeking greater transparency around company practices on diversity, or further action where company process is believed to be in sufficient. However, each vote is taken on a case-by-case basis, and this year saw a 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.

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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 and accountability. These factors lead to them being a priority for one of our client funds.

In 2022-23, LPPI supported 100% of shareholder resolutions on lobbying.

Case study

The Travelers Companies

LPPI supported a shareholder resolution requesting The Travelers Companies (USA: Property and Casualty Insurance) issue an annual report disclosing detail around approaches to direct and indirect lobbying (e.g. company governance and recipient name). The vote passed with 52.7% support. In response, The Travelers Companies published a list of trade associations where it gives dues over $25,000, capturing their names and the dollar amount. Disclosure regarding governance was also improved. While there remains some room for improvement, for example, on direct lobbying payments, the enhanced disclosure is a welcome outcome.

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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 voted in support of 100% of shareholder proposals seeking reporting on human rights assessments and the improvement of human rights-related standards.

Case study

Alphabet

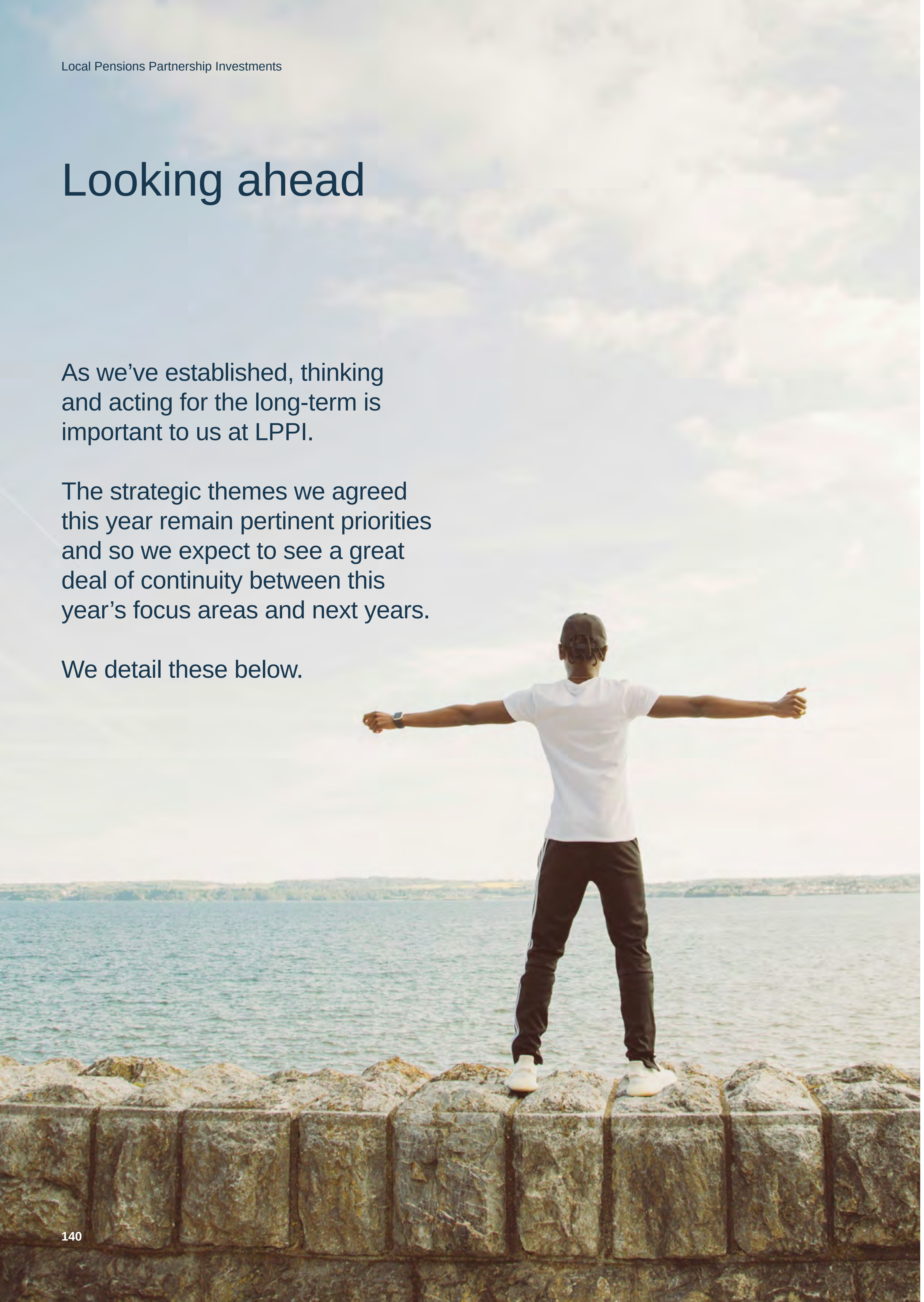
LPPI supported a shareholder resolution at Alphabet (USA: Interactive Media and Services). It requested the company commission an independent Human Rights Impact Assessment report evaluating the efficacy of Alphabet's existing policies and practices to address the human rights impacts of its content management policies. The resolution received 23.0% support which, due to Alphabet's dual class share structure, equated to 66% of independent votes. The resolution was co-filed by our engagement services provider, Robeco, representing an escalation as part of their programme following limited responsiveness. They continue to engage with Alphabet, building on the momentum of the vote.

Looking ahead

As we've established, thinking and acting for the long-term is important to us at LPPI.

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

We detail these below.



Climate change

We will be working to progressively bring more assets into scope of our net zero commitment and our TCFD reporting each year. The NZAM commitment envisages 100% of assets under management being brought within the scope of target setting over time. We will approach the work in tranches, determining the timing and phasing for different asset classes depending on the availability of reported emissions data (or robust proxy data) and the information and tools to measure, analyse, and forecast future net zero alignment. In year two (2023) our focus is directly managed real estate and corporate bonds. At the same time as working to baseline and set targets we will continue to press for better disclosure by companies and focus stewardship and engagement on companies in material sectors which are not yet net zero aligned or clearly taking steps which will bring them into alignment. We have joined the IIGCC's recently launched Net Zero Engagement Initiative which will provide an additional route for collaborative engagement alongside our peers.

Climate solutions

We will explore options for providing a focussed investment vehicle which enables clients to deploy capital to companies and assets which are directly supporting the global transition to more sustainable operations, products and services.

As part of this work our focus will include definitions and standards emerging from the International Sustainability Standards Board (ISSB) and the Taskforce on Nature related Financial Disclosure (TNFD). These recognise climate change as part of a broader complex of planetary imbalance that poses systemic challenges requiring the remedy of sustainable industrial systems and value chains.

Systematic ESG integration (sESGi)

We will continue to make progress against our objective of ensuring ESG considerations are systematically embedded within our core investment processes. The current focus is portfolio monitoring which comprises our oversight of directly owned assets and delegate asset managers. Private market assets are a particular focus area. We are seeking improved data through better disclosure. We will be exploring routes for capturing ESG metrics to increase quantitative measurement within our monitoring and reporting. Work will focus on addressing a KPI in our Business Plan to increase the overall proportion of the portfolio for which we have identified appropriate ESG metrics and increase the share of metrics that are actual versus estimated or proxied.

The S in ESG

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 previous12 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 advisors.

Taskforce on Climate-related Financial Disclosures (TCFD)

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

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

Recommended disclosures are under 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.

Task Force on Climate-related Financial Disclosures (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. A delay in regulation being finalised means this timeframe has slipped and the expectation is now that reporting will be mandatory from 2024.

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

lppi.co.uk
info@lppi.co.uk
+44 (0) 20 7369 2666

Local Pensions Partnership Investments
1 Finsbury Avenue
London EC2M 2PF

@LPPInvestments
Local Pensions Partnership Investments

LPP
Local Pensions Partnership Investments

Incorporated in England and Wales and trading as LPPI (Company registration number: 09835244)

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