



**LPP**

Local Pensions Partnership  
Investments

Responsible Investment  
and Stewardship  
Annual Report 2023-24

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# 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.

## Purpose and governance

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# Welcome by our Chief Executive Officer



**Chris Rule**  
Chief Executive Officer

We have long held the firm belief that environmental, social and corporate governance (ESG) considerations provide an integral lens for assessing the current and future sustainability (and therefore value) of our investments. We see responsible investment as a perpetual journey, with evolving standards both challenging and giving us valuable insights on focus areas for continuing our underwriting, asset management and engagement activity.

The UK pensions and investment landscape itself is also transforming and being shaped on multiple fronts ranging from political policy, societal awareness, resource depletion and the urge for self-improvement by pension professionals. For LPPI, our ethos has always remained clear, and with the everchanging environment our plan is to remain adaptable and open minded as to how we can evolve our approach and seek opportunities to be an active steward of client assets and a well-regarded active investor.

Our role, through the examination of fundamentals in specific investment context, is to ascertain and monitor the likelihood of sustained value and consequential investment returns with longevity. Stewardship is core to this role, and we are proud signatories of the UK Stewardship Code. A status which has been documented with our publication for the last three editions of this report, and here we present the benefits of another year of diligent and persistent maturing of our process.

Over the last year, stewardship has continued to be driven by our ESG programme, which is a key strategic initiative as part of our Business Plan 2024-27. This has included increasing our assets under scope of net zero targets and significant progress towards the publication of our TCFD entity and product reports (published after the end of the reporting period for this report). Engagement on material ESG issues continues to be a key part of our approach to delivering effective stewardship for clients.

I would like to thank each of our teams for the ongoing work that this report documents, and acknowledge significant work required to pull together the report itself. 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.

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# LPPI overview



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# About us

## Who we are

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

We were 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. Our purpose, culture and strategy are driven by this heritage and the strong fiduciary responsibilities imparted by our founding shareholders.

We currently have three Local Government Pension Scheme (LGPS) fund clients, managing some £26 billion of their assets. We work with these three clients through our Whole Scheme Management model, by which we provide investment advice and investment implementation. We do this across a number of different investment vehicles – some of which are based on in-house investing, and some outsourced.

## Our two other business partnerships

Firstly, we are the Alternative Fund Manager for GLIL Infrastructure. This venture was set up in 2015 by two LGPS funds. GLIL now has six member funds, including three additional LGPS funds and Nest, the government-established defined contribution workplace pension scheme, with £4.1 billion in committed capital. GLIL invests across renewable energy, water and ports, trains, hospitals and schools.

Secondly, we are the investment manager for The London Fund. This was launched in 2020 as a collaboration between LPPI and the 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<sup>1</sup>. We think as an asset owner in acting as an asset manager and this dual focus informs how, where and what we invest in, on behalf of client pension funds, and how we act as responsible stewards.

<sup>1</sup> The use of the term sustainably/sustainable is not a reference to specific social or environmental outcomes being targeted or achieved, but to the longevity of investment returns expected through the presence of durable sources of value.

# LPPI at a glance

## £25.7 bn

Assets under management

## £201 m

Cumulative net cost savings since inception

## 7

Major asset classes

## 72

Investment professionals



1

## Our purpose

Our 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<sup>2</sup> in better futures.**

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 employers and their hard-working employees.

<sup>2</sup> The use of the term sustainably/sustainable is not a reference to specific social or environmental outcomes being targeted or achieved, but to the longevity of investment returns expected through the presence of durable sources of value.



# Our values and behaviours

Our values and ambitions 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.

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.



## 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.



## 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.



## 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.

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# Our Business Plan 2024-2027

In March this year, we agreed our Business Plan 2024-2027 as an update of our business plan for 2023-2026.

Our business planning is underpinned by seven strategic goals:

1. First class investment outcomes
2. Client orientation
3. Responsible investment and building better futures
4. Industry leadership
5. Value for money
6. Proud to work at LPPI
7. Robust foundations

We have made good progress on last year's business plan. The focus for this next phase is to build on strong foundations and plan and prepare for significant growth, while maintaining investment performance, client alignment and strong stewardship.



Initiatives delivered within the reporting period, in line with LPPI's Strategic Business Plan, have matured elements of LPPI's operating model and include:

- Net zero roadmap phase 2 metrics agreed
- Progressed planning for a new LPPI Environmental Opportunities Fund
- Critical foundational understanding and updates to LPPI's data and applications
- Governance enhancements, including delivery of a Type 2 Audit and Assurance Faculty (AAF) Report
- Advancing the employee value proposition including reward, learning and development, and recognition

LPPI's refreshed strategic Business Plan 2024-2027 continues the focus on business maturity and improvements to the operating platform in line with discussions with clients. The outcome of the long awaited LGPS pooling consultation provided clear support for the nature of the pooling model adopted by LPPI and calls for greater scale in the long term.

The Board has considered the objectives for the coming year which will be delivered in line with LPPI's Business Plan 2024-2027.

LPPI's strategic objectives can be summarised as:

- Outperformance of policy portfolio benchmark
- Launch of the new Environmental Opportunities Fund
- Enhancements to client reporting and servicing
- Delivery of the initiatives within our multi-year data and technology roadmap of systems and data enhancements
- Delivery of the ESG Programme – net zero, TCFD Reporting and the Sustainability Disclosure Requirements (SDR) regime
- Focus on business maturity and the enhancement of operational resilience
- Continuing to build internal management capability

1 2

# People and Culture

## Making LPPI an even more attractive place to work

Our culture is something we continue to be particularly proud of 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 continue to operate our hybrid working approach of two to three days in the office on average. We understand that flexibility is important to our employees for several 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. Quarterly town halls 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, with the results shared at our town halls and actions being taken as a direct result.

### Rewards and benefits

We aim to offer employees an appropriate and competitive reward structure. We participate in an annual salary and compensation survey provided by Aon, who provide finance and investment sector salary benchmarking. This allows us to assess our compensation levels for each role and to benchmark ourselves against the finance sector generally and specifically against companies and peers who are competitors for our talent.

All employees sit within a single variable pay scheme which includes the communication of a target bonus level relevant to the specific role occupied. Individual awards are determined following performance appraisal against both objectives and conduct behaviours. The overall size of the bonus pool available for distribution is decided by the Remuneration Committee considering business performance against key performance indicators.

Other benefits include competitive pension provision, holiday allowance, all-family cover private medical insurance, life insurance, electric vehicle leasing and/or cycle to work together with the opportunity to buy or sell up to five days leave per year.

## Learning and talent development

Creating personal growth opportunities for employees at all levels continues to be a top priority. The Talent Profile tool is now well embedded, allowing individuals to have their say around personal ambitions and plan for a development planning discussion with their manager.

Managers are of course key in leading, coaching and developing their teams. Following the introduction of toolkits last year on self-learning themes such as onboarding, capability development, inclusive leadership and performance management, the People and Culture team has turned their attention to recruitment. A one-day Interview Skills Workshop has been introduced as mandatory learning for all managers. The workshop focuses on ensuring recruitment is an inclusive and fair process – from drafting the job description right through to the screening of CVs, interview shortlisting and selection of appropriate candidates.

In early 2024, we launched a bespoke Women in Leadership programme led by an external facilitator and coach. This is a programme designed to recognise the important strengths and specific challenges women can face in our industry and introduce practical techniques which build self-awareness and self-confidence, with the desired outcome of increasing the representation of women at senior levels over the medium term.

The challenges unique to women stem from:

- the financial services industry having historically favoured masculine approaches; and
- individual (and often unconscious) beliefs about the role of women and feminine identity due to social programming.

These influence how individual women show up to work, which means a customised and intuitive development framework supportive to women from where they individually start out creates the best chance of them thriving, being leaders within the business, and acceding to senior positions.

The programme consists of four modules over five in-person sessions, with one taking place each month. The first two cohorts will be finishing their programme in July 2024 and there will be a third cohort starting in late 2024. Feedback from delegates thus far has been excellent.

We continue to support learning and development externally through our participation in the 10,000 Black Interns programme. Our new interns join in the summer for our fourth year in the programme.

## Equity, Diversity, and Inclusion (ED&I) Network

The ED&I Network was relaunched at the end of 2023. There are eight core members of this network and a diverse range of broader members, in terms of age, gender, tenure and business area.

The network has focused its efforts on LPPI marking a couple of key dates each month in the ED&I calendar, for example:

- **Pride month in June** - desktops and screensavers were changed across the company to mark this significant date in the ED&I diary. An article on the EDI page of the intranet specifically looked at the history of Pride and what it stands for, a dedicated playlist of articles, podcasts and books was also set up on Learnerbly<sup>3</sup> – encouraging employees to develop their understanding of what Pride means and how this has impacted the LGBTQ+ community.
- **Black History Month (BHM) in October** was marked by an article on the intranet highlighting the focus areas and advancement achieved by more recent activists. The article encouraged staff to educate themselves on the history of BHM and how they can get involved. A Learnerbly playlist was also set up to raise awareness and educate.

<sup>3</sup> Learnerbly is a self-service online learning platform that our employees can use to purchase learning resources such as books, training courses, webinars and useful podcasts.

## Recognition at LPPI

A sense of belonging as an employee is nurtured by feeling both recognised and appreciated for the value each of us adds at our place of work. We have recently celebrated its third round of Employee Recognition Awards with winners announced at a celebratory gathering prior to the summer social event. These awards are a peer-to-peer recognition scheme set up by and for employees to recognise one another's achievements and contributions.

Individuals nominate their colleagues across four different categories of awards as follows:

**The Cape** – recognises those who go above and beyond, who put in the effort in order to successfully deliver, who go the extra mile. It is about that person who gets a difficult project across the line, a superhero in our midst.

**The Samaritan** – recognises that person who supports their colleagues who is always there, a supporter, a cheerleader and a helping hand, practically and/or emotionally. This could be a shoulder to cry on, a wise mentor and advisor, or a practical pragmatic cheerful fixer of problems.

**The Eureka** – this award is for innovation and problem solving. It is for that person who comes up with a great idea, a new solution perhaps. This is someone who continuously improves and identifies well thought-out, effective, new and better ways of doing something.

**The Ninja** - recognises the unsung hero who tirelessly and quietly works behind the scenes, out of sight and not seeking attention or praise. This person is in the background, getting things done and making a real difference.

There is also a separate annual award called the Team Award. This is the only award that is decided by the LPPI Executive Committee and recognises those who have made a significant contribution to the business. This may be by delivering a project that achieves a great outcome or who, as a team, have consistently done an excellent job. This could be a functional team, or a group assembled for a particular task or project who work across departmental borders. Winners will also have demonstrated and modelled the organisational values in their delivery.

Engagement with these awards has been consistently high, with the awards committee having reviewed 244 individual nominations covering 80 individuals since inception.



## Wellbeing

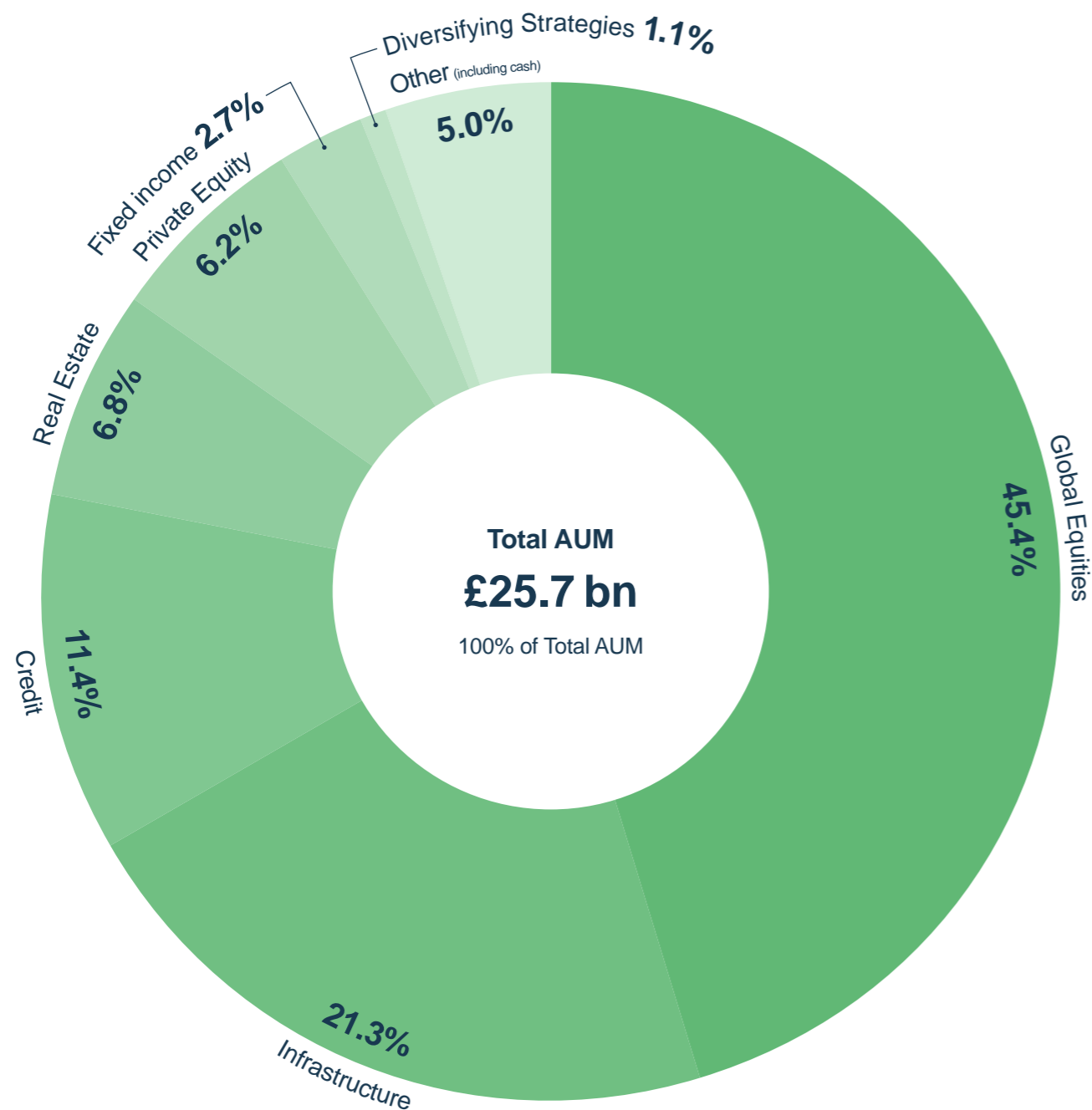
Physical and mental wellbeing remains a priority and an aspect of our culture where colleagues feel we go the extra mile. We offer employees all family private medical cover with Vitality at the highest level available. Through Vitality, regular onsite health checks are made available to colleagues and covers metrics such as Body Mass Index, blood pressure and cholesterol levels. The results feed into individual Vitality status, potentially reducing the excess to be paid on medical claims and generally encouraging a healthier way of life.

Members of the People and Culture team organised a Wellness Event in June 2023 (so successful it will be repeated in June 2024), in celebration of Global Wellness Day and World Wellbeing Week. This year's event was spread across two days and included an onsite masseuse, a workstation assessment specialist, personal trainer and nutritionist but also saw the introduction of interactive activities such as art therapy sessions, a virtual reality headset competition, punch bag boxing challenge as well as table tennis. These events are exceptionally popular and encourage employees to take that break away from their desk.

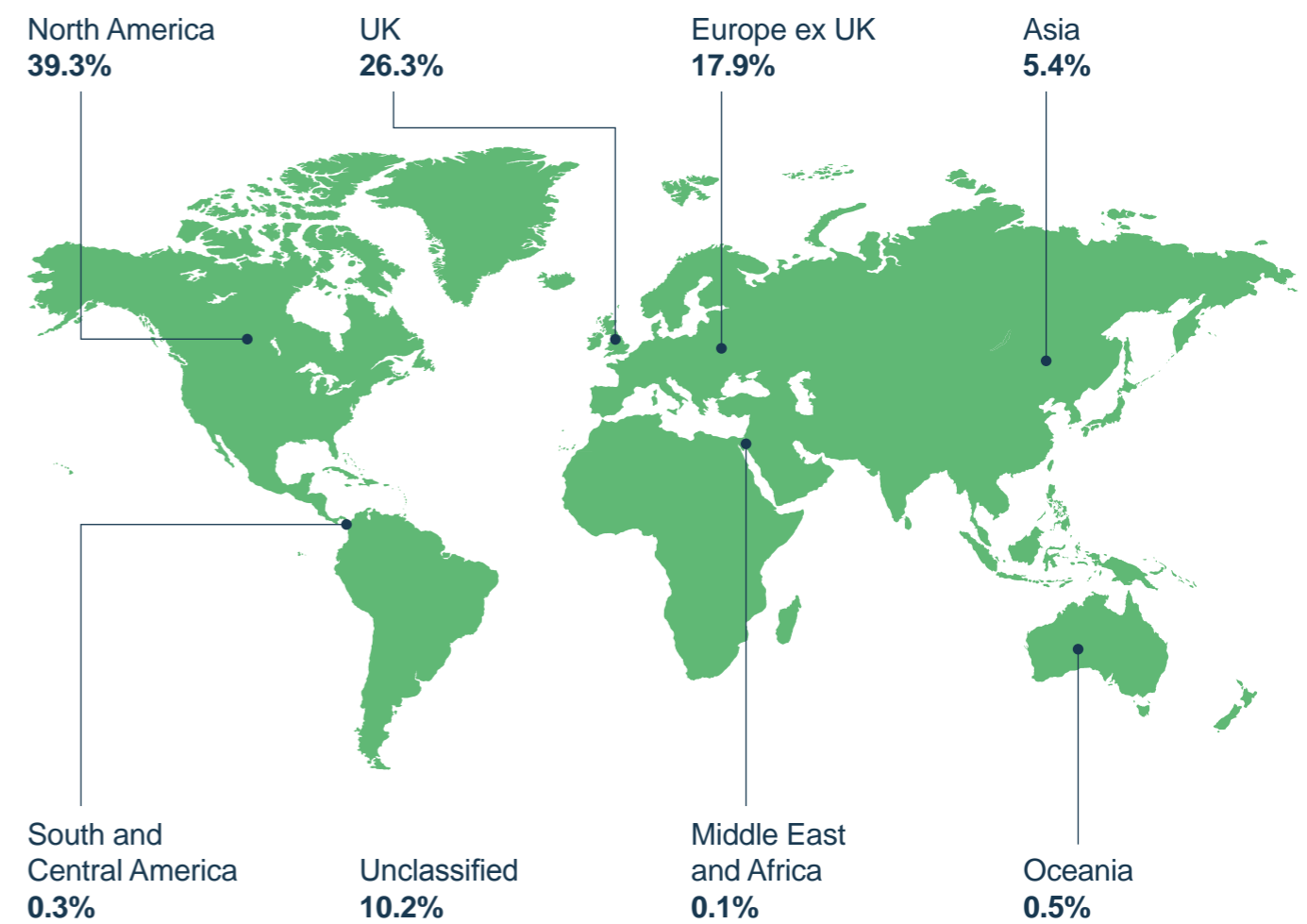
We continue to have a fantastic group of volunteer employee mental health first aiders, who are regularly accessed by colleagues for a chat and a point in the right direction to further support.

# Our assets under management

**Fig 1: Total assets under management<sup>4</sup>**



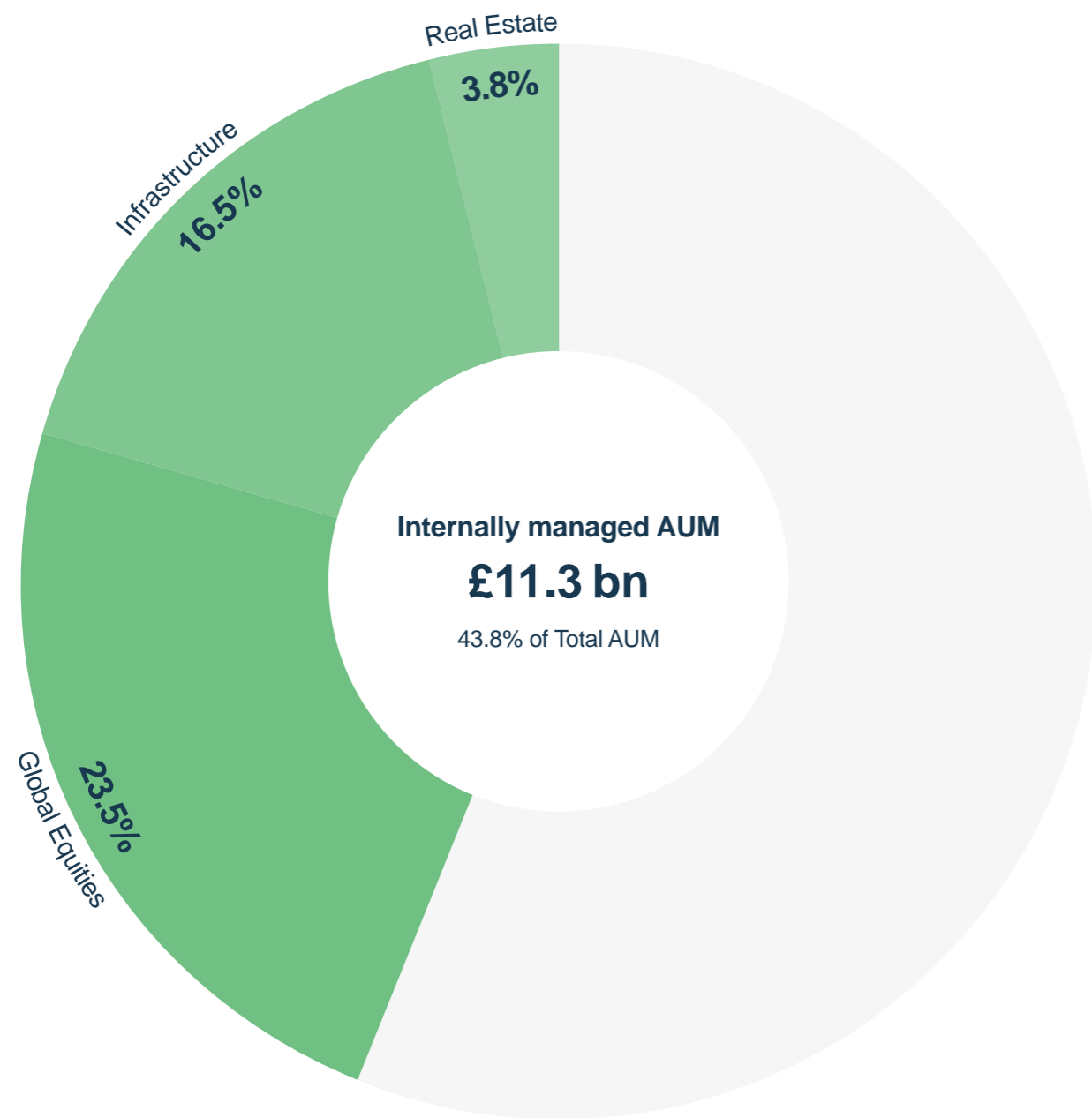
**Fig 2: Assets under management by geography**



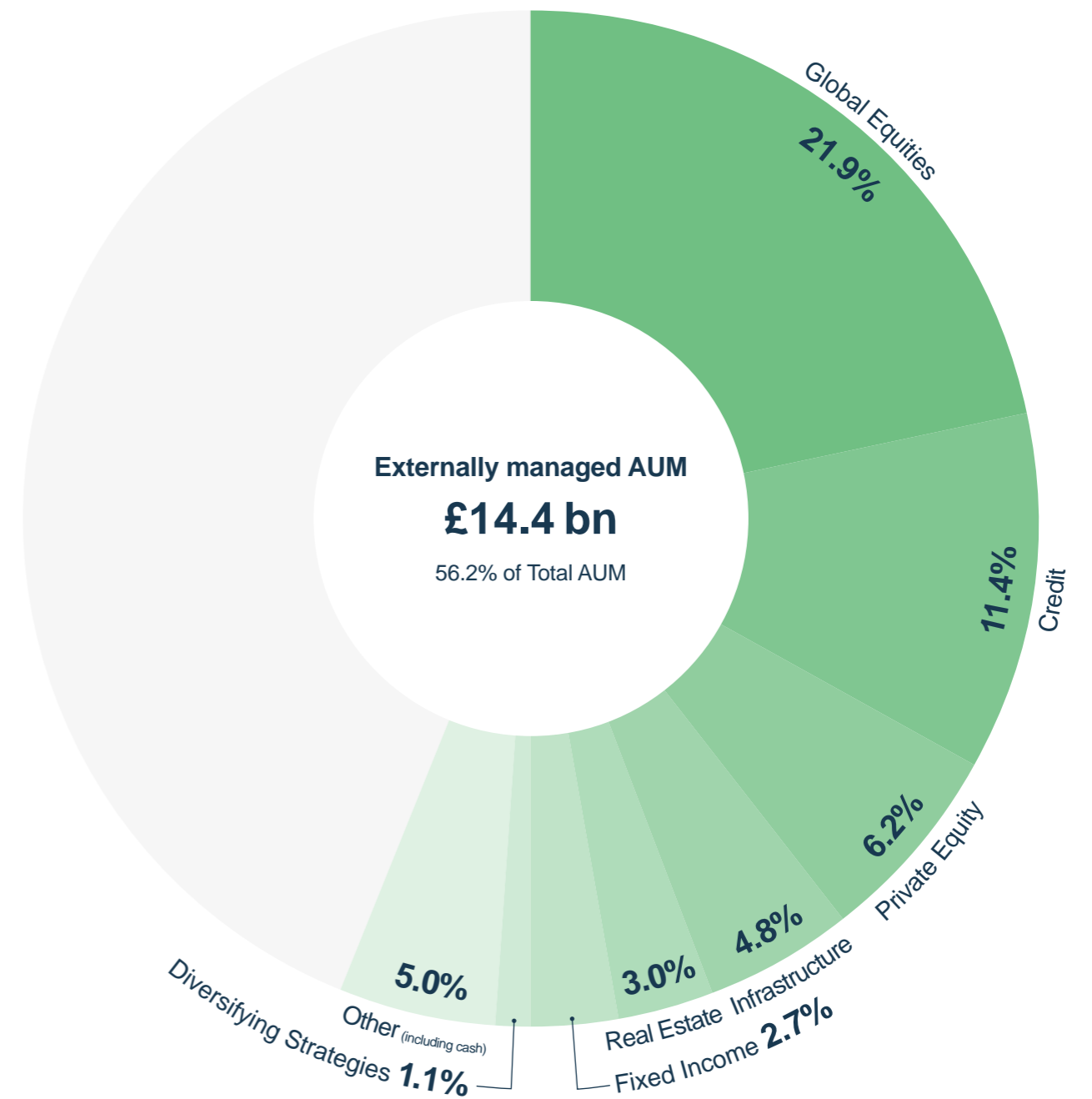
Figures present an aggregated summary for the asset classes comprising LPPi's assets under management.

10.2% 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**



**Fig 4: Externally managed assets under management**



2

## Governance

### Effective Board governance at LPPI

We have well developed governance, risk management and internal control frameworks which have been designed and implemented in proportion to the nature, scale and complexity of our business. Our Board, committees and senior management operate within these frameworks which have a strong stakeholder focus and ensure compliance with FCA regulation, helping to safeguard client assets and objectives. The LPP Group has agreed to follow the Wates Principles.

The LPPI Board sets the overall direction and culture of LPPI and maintains oversight of risks and opportunities. It approves the business plan, which includes key strategic initiatives such as the ESG programme, and then oversees LPPI's performance against it. The Board receives status updates on the progress of all strategic initiatives at its quarterly meetings, with additional updates in the interim periods as necessary or appropriate. It also receives quarterly updates from its committees and sub-committees (including the Stewardship Committee) from each committee's chair.

We are committed to the highest standard of corporate governance. The LPPI Board reports on a quarterly basis to the LPP Group Board, which is in turn responsible to its shareholders for the overall direction, supervision and management of LPP and its subsidiaries.

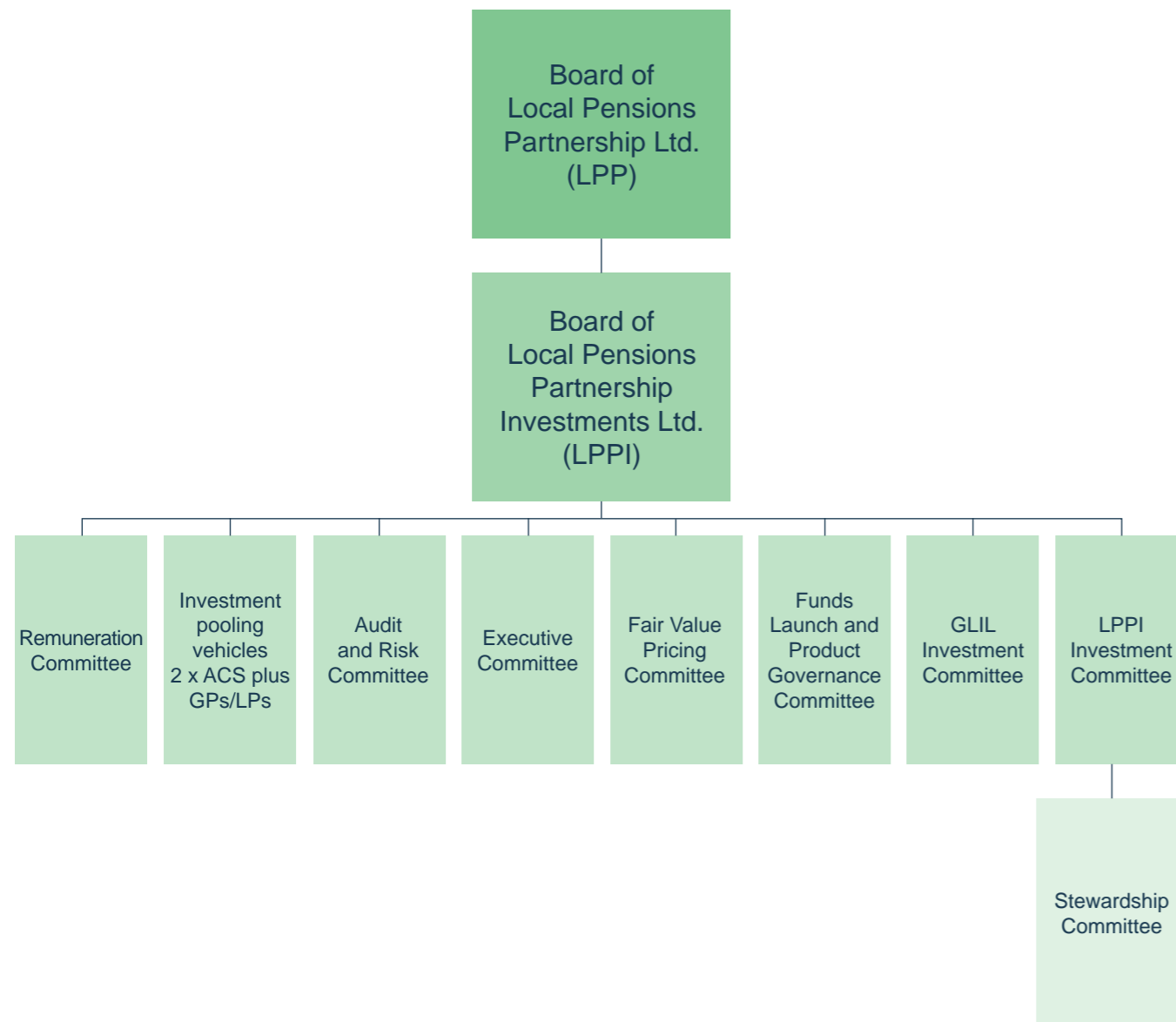
The day-to-day running of the business is delegated to the CEO and the Executive Committee, whose members during the reporting year were:

- Chief Executive Officer
- Chief Investment Officer
- Chief Legal and Compliance Officer
- Chief Operating Officer
- Chief People and Culture Officer
- Chief Risk Officer

We also run an annual investment conference which provides the opportunity to bring clients together in a structured learning environment, as well as connecting them with senior members of our investment team and some of our most trusted and valued specialist partners and peers.

The chart below shows our governance structure, below which we detail the Stewardship Committee's role in providing effective oversight of and accountability for stewardship and also list the participants to stewardship during the reporting year.

# Our Stewardship Committee



Our Stewardship Committee helps enable oversight and accountability for effective stewardship across LPPI. Our Stewardship Committee is a sub-committee of our Investment Committee and its remit was updated in February 2024. It is a forum for the discussion of stewardship matters which reserves adequate time for dedicated focus on matters arising from across the business.

The Committee's role is to consider stewardship from a holistic perspective with a strategic lens. Its purpose is to provide corporate oversight of LPPI's status in relation to appropriate external standards of good practice. The Committee's scope of review includes:

- Sufficiency of our processes (the doing)
- Efficiency of evidencing/recording activities and outcomes (the demonstrating)
- Quality of stewardship reporting (the disclosure).

The Committee's main duties are to:

- Monitor our positioning against applicable external standards of stewardship good practice
- Identify gaps or shortcomings detrimental to our attaining or retaining good standing (re philosophy, policy, strategy, implementation, data collection, measurement, transparency, reporting etc) and brief the Investment Committee/notify responsible parties as appropriate
- Ensure work to address material shortcomings is given appropriate priority internally by department or process owners (BAU) or our change management process
- Deliver work commissioned from it or delegated to it by the Investment Committee (discuss/engage/consult/survey/research/analyse/compile data/identify options/provide recommendations on a specific topic etc)

# Our stewardship participants during the reporting year 2023-2024<sup>5</sup>

## Formal governance bodies

<b>LPPI Board</b>	<b>Members:</b> Non-Executive Chair and four other Non-Executive Directors; Chief Executive Officer (CEO), Chief Risk Officer (CRO), Chief Operating Officer (COO), Chief Investment Officer (CIO). <b>Regular attendees:</b> Members of the Executive Committee and the Company Secretary.
<b>Audit and Risk Committee</b>	<b>Members:</b> Four Non-Executive Directors. <b>Regular attendees:</b> Non-Executive Chair, CRO, CEO, Chief Legal and Compliance Officer (CLCO), Head of Finance, COO, Company Secretary.
<b>Executive Committee</b>	<b>Members:</b> CEO, CIO, CRO, COO, CLCO, Chief People and Culture Officer.
<b>Investment Committee</b>	<b>Members:</b> CEO, CIO, CRO, Head of Real Assets (HRA), Head of Global Equities (HGE), Head of Investments – GLIL Infrastructure, Head of External Managers and Head of Investment Strategy. <b>Additional Members:</b> Heads of each asset class from the Investment Team and a Compliance representative. <b>Regular attendees:</b> CLCO, Investment Team members, as appropriate.
<b>Stewardship Committee</b>	<b>Members:</b> CIO, CEO, CRO, CLCO, Head of Responsible Investment, Head of Global Equities, Investment Director – Strategic Partnerships, Responsible Investment Team Manager.
<b>Other participants</b>	
<b>Heads of Service (Investment Team)</b>	CIO, HRA, HE, Head of Investments – GLIL Infrastructure, Chief of Staff, Head of Investment Strategy, Head of Operational Due Diligence, Head of External Managers, Head of Responsible Investment, Head of Asset Management.
<b>Asset class teams</b>	Analysts, senior analysts, deputy portfolio managers, portfolio managers, Head of Asset Management.
<b>Regulatory Change Working Group</b>	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.
<b>Responsible Investment Team</b>	Head of Responsible Investment, Responsible Investment Team Manager, three Responsible Investment Analysts.
<b>External (asset) managers</b>	Delegate asset managers selected and overseen by LPPI.
<b>External providers</b>	Companies selected by LPPI to provide specific services including proxy voting and Engagement.



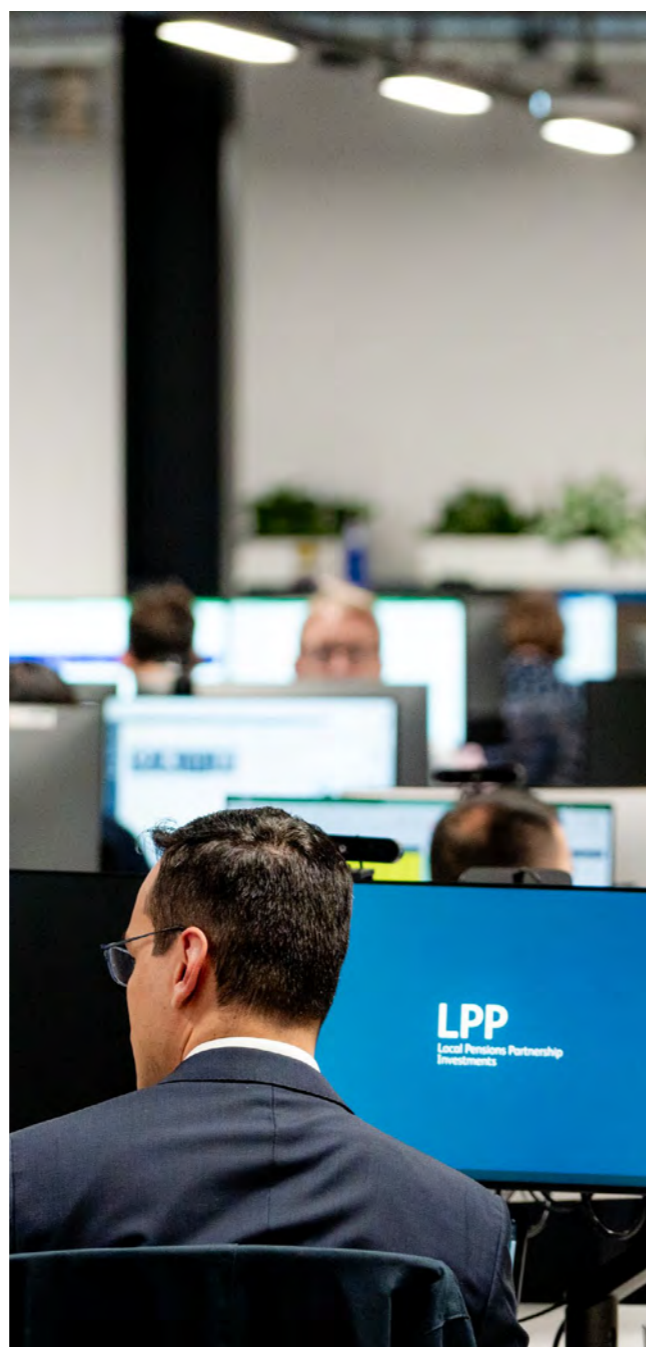
# Our Responsible Investment Team and internal resources

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. We continue to embed resourcing for responsible investment activity within a broader range of teams. A number of analysts have been hired into our real asset investment teams over the past year to support the growing demands in this area.

The current reporting year saw two new joiners to the Responsible Investment Team. This included the creation of a new ESG Analyst role focused on the development of internal ESG integration frameworks across asset classes, alongside the provision of thematic research and portfolio analysis. Growing the number of staff with ESG experience in broader teams supplements the strength of our dedicated team of responsible investment professionals.

On the right is a summary of our responsible investment specific team resources.



Job title	Team	Joined LPPI	Key responsibilities within reporting period
Head of Responsible Investment	Responsible Investment	2016	Leading our approach to Responsible Investment across the business from the bottom up
Responsible Investment Team Manager	Responsible Investment	2021	Management of Responsible Investment Team, driving net zero strategy and policy development for LPPI Environmental Opportunities Fund.
Senior Responsible Investment Analyst	Responsible Investment	2024	Stewardship and ESG integration within the broader Global Equities Fund, with a focus on proxy voting and engagement.
Responsible Investment Data Analyst	Responsible Investment	2021	Responsible Investment client reporting processes, including data systems management with a focus on climate analysis. Implementation of net zero strategy and ESG due diligence support for The London Fund.
ESG Analyst	Responsible Investment	2024	Oversight of LPPI's approach to ESG integration across core investment processes and asset classes, review of LPPI policies and ownership of corporate ESG tools and frameworks.
Senior Analyst – ESG	Internal Global Equities	2021	Integration of ESG factors within the LPPI Global Equities Fund, leading on direct engagements with underlying companies. Working alongside Senior Responsible Investment Analyst on shareholder voting process.
ESG Analyst	External Managers	2019	Embedding ESG within selection, appointment and monitoring of our external managers with a particular focus on private equity and fixed income asset classes.
ESG Risk Manager	Investment Risk	2023	Monitoring, assessment, and reporting of ESG investment and enterprise risks including alignment of investment strategies with net zero targets and broader sustainability goals. Risk team representative at asset class review meetings.
ESG Integration Programme Manager	Legal, Compliance and CoSec	2022	ESG programme project manager focused on both net zero and TCFD projects.

We supplement and complement internal resourcing and expertise by working with experienced external partners where appropriate.



**Chronos Sustainability**

Chronos Sustainability are supporting the implementation of our net zero commitment through the provision of advice and focused subject matter expertise.



**Robeco Active Ownership**

Robeco Active Ownership provide additional resourcing for our stewardship of public market assets, which increases our internal engagement capacity in global equities and corporate fixed income. Additional experienced personnel physically located in key markets extends the reach of LPPI's engagement activities and also has the benefit of access to specialist climate and human rights expertise.

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. For more information on Robeco's engagement activity on our behalf, please see the 'Our public markets engagement partner – Robeco' section later in the report.



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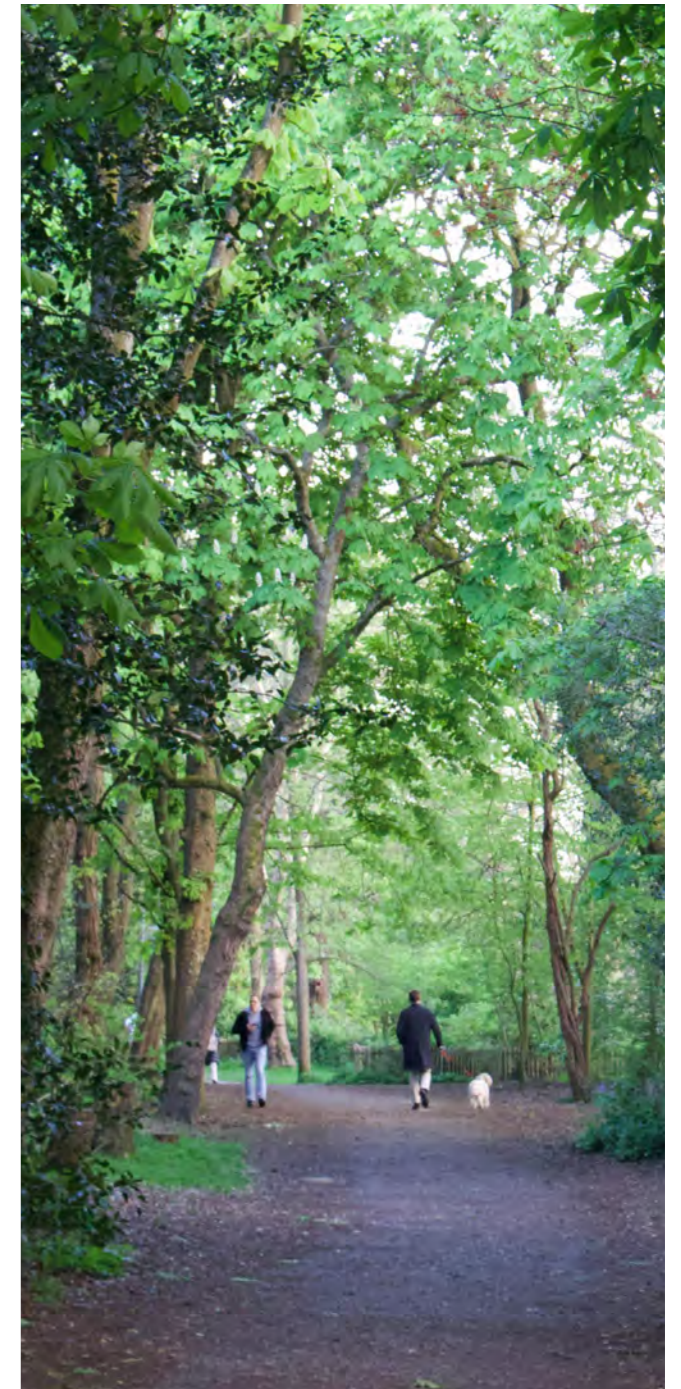
## Review and assurance

## Assessment against industry benchmarks

At LPPI, we recognise the importance of articulating our stewardship approach, demonstrating our stewardship activity and updating and expanding our policies where necessary. For more information on our responsible investment policies and updates within the reporting year, please see the 'Our approach to responsible investment' section later in the report.

Objective external assessment gives our clients assurance we are acting as good stewards on their behalf and provides us with actionable feedback on the progress we've made. We do this in three ways:

- By adopting appropriate industry standards as benchmarks. The standards we apply include the Principles for Responsible Investment, the UK Stewardship Code, and the Task Force on Climate-Related Financial Disclosure. This ensures that we keep abreast of changes in industry best practices.
- By regularly reporting to our clients on what we are doing, being accountable, listening, and working on the areas they ask us to evolve.
- By auditing and undergoing external assessment of our stewardship processes, for example through our submissions as a signatory to the Principles for Responsible Investment (PRI) and the UK Stewardship Code.



## External reporting standards

The Principles for Responsible Investment and the UK Stewardship Code involve mandatory 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 alongside the associated reporting involved in this process evidences to our clients that we are a responsible steward of their assets and ensures we remain in good standing amongst our peers.

Our Responsible Investment and Stewardship Annual Report 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 also chosen to be a Principles for Responsible Investment (PRI) signatory and have maintained signatory status since 2018. Our responsible investment practices are externally assessed against their five-star rating framework. 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 have reported to PRI and received an assessment of our disclosure annually which enables us to evaluate progress and compare ourselves with relevant peers.

In our latest PRI assessment report, covering the period 2022-23, we have achieved four-star and five-star ratings and more than 70% in each module. This means we have scored significantly higher than the PRI median and either at or significantly above the Asset Owners Peer Group median. Our results, and a link to the full report, are available on our website [here](#).

## Recognised best practice standards

We also aim to align our responsible investment approach to best practice standards for specific topics or themes we cover. Aligning our approach to portfolio climate change risk management with leading frameworks in this field such as the Institutional Investors Group on Climate Change (IIGCC) and CA100+ means we benefit from 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 continuous 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.

Within the reporting year, we have also commissioned Deloitte to carry out an internal audit to assess the governance and control frameworks in place within the business with regards to the monitoring of our responsible investment approach and external reporting with relevant regulatory requirements. The audit focused on the controls around our Stewardship Report and the submission of the UN Principles for Responsible Investment data.

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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## Identifying and managing conflicts of interest

We operate in a 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.

During the execution of our role as an asset manager, there is the potential for conflicts of interest to arise. These could be between an asset manager and clients, for example in the timing and nature of holding a given security. They could also occur between clients, who may share similar responsibilities, interests and concerns but also have individual local priorities and perspectives.

Our Conflicts of Interest Policy is now in its sixth version, most recently issued in June 2024 in accordance with our review process. The policy has received only minor changes over the 2023-2024 reporting period. The policy is owned by LPPI's Chief Legal and Compliance Officer and 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.

The conflicts of interest policy details 12 examples of possible conflicts – including the way they could arise and the measures, tools and processes we should use to combat, prevent or avoid them.

Our policy defines 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.”*
- *“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.”*

Overall, we seek to have appropriate measures in place that identify and manage conflicts to avoid any adverse impact on the interests of clients:

### Identification of conflicts

All employees are responsible for identifying and managing conflicts on an ongoing basis. Potential conflicts are documented in the Conflicts Register, maintained by our Compliance Team.

Employees are expected to assess potential impacts of the activities they undertake. Our 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 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; and
- avoiding the service/activity giving rise to the conflict where it cannot be prevented or managed effectively.

### Disclosure of conflicts

We share our policy with clients before we start work with them. If, in a given situation, there is any doubt about the likely success of us managing a potential conflict, we escalate it to the board.

### Conflicts of interest and responsible investment

In the stewardship area, it is acknowledged that conflicts may arise between LPPI, its employees and clients where we exercise 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. Although none were identified during the reporting year, 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; and
- has a proxy vote in respect of a company who has investments managed / administered by LPPI.

The following general mitigations are reflected in our Conflicts of Interest Policy should this eventuality occur.

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

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## Effective risk management at LPPI

We oversee 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.

Our approach to risk management, including how we identify and respond to market-wide and systemic risks is key to providing a good fiduciary service for our clients whilst also helping to promote a well-functioning financial system.

## Responding to market-wide and systemic risks



We adopt a holistic enterprise-wide perspective on risk, operating on a three lines-of-defence<sup>6</sup> model, which is facilitated through a strong risk culture. Our objective is to meet our obligations to our clients and treat them fairly, whilst making better risk-return based returns resulting from a balanced awareness of the opportunities and threats. We achieve this by linking our strategic objectives and approach to risk management through to the key business processes.

As part of the enterprise risk system, we undertake a regular review of emerging risks that could impact our business and the assets we manage for clients (assets under management) so that appropriate responses to the threats can be developed. We define emerging risks as emerging trends or potential future events where the nature and timing of their impact are uncertain. Emerging risks are identified from internal and external sources and include geopolitical and macroeconomic risks.

Market-wide and systemic risks are managed by our Investment Strategy team (first line), who develop responses to geopolitical and macroeconomic risks. Current and emerging global conflicts, such as the Russia-Ukraine and Israel-Gaza-Iran conflicts create significant uncertainty in financial markets. We continue to monitor these risks and their potential impact on our business, the investment portfolio, and on our outsourced arrangements.

<sup>6</sup> The three lines of defence for risk management helps ensure that risk management is embedded in the day-to-day management and decision-making processes and provides organisational separation of the controls operated by the first line, and

independent oversight by the second line and third line functions respectively. 1st line includes business operating areas, the 2nd line Risk and Compliance functions and the 3rd line Internal and External audit.

# Identification and management of systemic risks – climate change

A core element of LPPI's approach to ESG integration is the integration of climate change as a systemic risk into investment decision making, at the fund and portfolio level. The effective identification and management of climate-related systemic risk is driven by the continuous enhancement of our internal tools and capabilities<sup>7</sup>, as well as considerations of the policy landscape, alongside the use of external data sources, such as climate data procured from MSCI. Discussions about climate-related risks and opportunities are a regular aspect of delegated investment manager engagement which contributes to LPPI's net zero by 2050 ambition.

We monitor exposure to high emitting sectors and activities likely to lose value because of global industrial transition. This informs our stewardship, voting and engagement activities which are discussed and reported on as part of the quarterly and annual asset class review meetings. Our main focus within the reporting year has been on global equities where information is most readily available. For instance, we are using Transition Pathway Initiative (TPI) and Climate Action 100+ (CA100+) methodologies alongside data from CDP and our data and analytics provider MSCI as part of our application of the NZAM framework to aid our assessment of listed equities.



We also assess climate-related investment opportunities. We routinely assess the energy and resource efficiency of prospective and existing physical assets in our infrastructure and real estate portfolios. Identifying and managing the risks from climate change requires quantitative measurement along with qualitative interpretation. In partnership with our delegated investment manager, our Real Estate Investment Team reviews, assesses, and monitors climate-related risks and opportunities that arise from the investments that are in the current portfolio or that may arise from new investment opportunities. We also use the Carbon Risk Real Estate Monitor (CRREM) tool to apply the 1.5°C target to complement the retrofit budget needed to upgrade properties and relate this to internal budgets and available cashflows. The CRREM tool supports companies in assessing the required reduction in carbon emissions at asset level.

Primary responsibility for climate-related risk management is with the investment teams with a second line of defence provided by our Risk Team. Our risk policies, supported by the Risk Appetite and Tolerances Schedule, provide a framework for managing risk and form an integral part of management and board processes, including decision-making processes. The Risk Appetite and Tolerances Schedule includes the net zero targets for the LPPI Global Equities Fund and the status is reported to the Audit and Risk Committee and to the Board. The Risk Appetite and Tolerances Schedule will be updated in 2024 to include the net zero targets for fixed income and real estate. The net zero targets for the remaining asset classes will be incorporated into the Risk Appetite and Tolerances Schedule as and when they are approved by the Investment Committee.

More information on how we identify and manage climate-related systemic risks can be found in our TCFD Entity Report, which is available on the [LPPI website](#).

# Case study: Identification and management of market wide risks

## Triennial review of Strategic Asset Allocation

Strategic Asset Allocation (SAA) is the way our clients communicate their allocation preferences for the range of asset classes we manage based on their risk appetite, investment horizon and overall investment objectives, which we then implement. An SAA should be reviewed periodically to reflect changes in the economic environment and LPPI provides advice to our clients when they undergo this process.

Market-wide risk and externalities are a key component of Strategic Asset Allocation and can include interest rate changes, geopolitical issues and changes to currency rates. These market-wide risks can affect the performance of the entire market and hence LPPI's client's portfolios, if not managed appropriately. This in turn can pose a reputational risk to LPPI as an investment business.

In October 2023, our Investment Strategy Team provided analysis and advice around a client's fund SAA, following publication of its 2022 Triennial Valuation in March 2023.

As part of the review, our Investment Strategy Team evaluated the prevailing economic backdrop in relation to its SAA proposal. This included an assessment on the deterioration in geopolitical tensions as a key market-wide risk, which could stall the progress of globalisation and place upward pressure on inflation and nominal interest rates, amid long-term secular declines in both inflation and interest rates driven by slowing population and productivity growth. Their overall assessment was that real asset returns are unlikely to see a material decline over the next decade but acknowledged elevated economic uncertainty and greater asset risk.

Given the inherent uncertainty in geopolitical risks, our team focused on recommending a portfolio of assets that provides the client with some resiliency across a wide range of scenarios rather than have a narrow focus on one particular outcome. This is primarily assessed quantitatively through the team's stochastic economic scenario modelling, covering changes to both macroeconomic and market-based variables (including interest rates) and their respective impact on the fund's long-term objectives. This is supported through the team's qualitative assessment of risk factors including consideration of the prevailing economic backdrop.

The team also identified and advised on the client's Strategic Currency Allocation (SCA) which has been in place for two years, focusing on currency rates as a market-wide risk. This programme makes currency exposure a deliberate, strategic decision rather than an unintended outcome of other implementation decisions. The Investment Strategy Team provided advice to enhance outcomes for the fund by taking advantage of the defensive risk characteristics and attractive valuations of certain currencies. The team considered the client's changing currency exposure and the current currency market environment to recommend an update to the fund's SCA. This included an SCA framework, which applies a joint analysis alongside the fund's SAA, using a similar suite of tools as for SAA advice to analyse the impact on funding metrics related to the fund's risk management framework.



# Investment approach



## Stewardship insights from our Chief Investment Officer



**Richard J Tomlinson**  
Chief Investment Officer

LPPI has an unwavering commitment to stewardship and I see this as not just a responsibility but a fundamental aspect of our identity.

We are stewards of our clients' capital and reputation and this role guides every decision we make. Responsible investment parameters are evolving in many mandates to become the third dimension alongside risk and return.

Being a good steward is at the heart of our investment philosophy. Our approach is rooted in the Principles for Responsible Investment, where environmental, social, and governance considerations are embedded into our investment process.

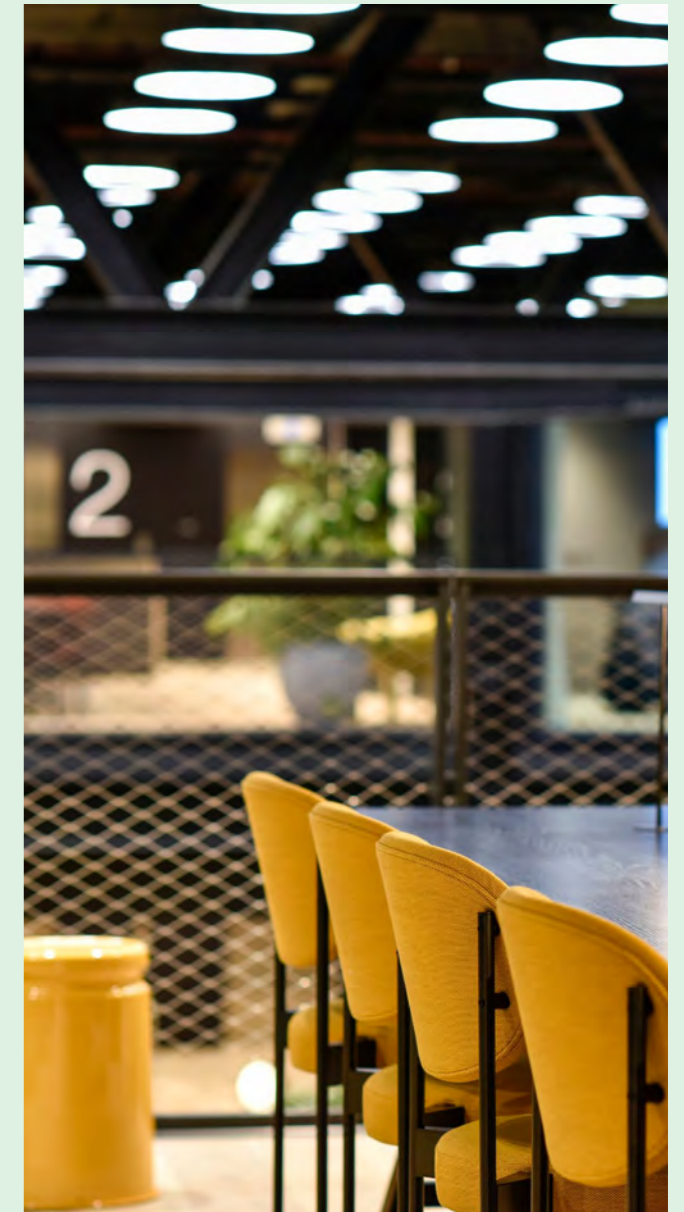
We recognise that our actions as investors have far-reaching implications. As stewards of our clients' reputation, we are committed to promoting transparency, accountability and integrity in the companies we invest in. We actively engage to drive positive change and address systemic risks.

Our collaborative efforts with other investors further amplify our impact, fostering well-functioning markets and contributing to a more sustainable future.

LPPI is also dedicated to continuous improvement in our stewardship practices. We regularly monitor and assess our managers and service providers to ensure alignment with our responsible investment principles. Our escalation process and exercise of shareholder rights are designed to uphold high standards of governance and accountability.

Stewardship is not just a duty for LPPI. It is a core value that defines who we are.

We are proud to be stewards of our clients' capital and reputation, and we remain committed to delivering this with excellence and integrity.

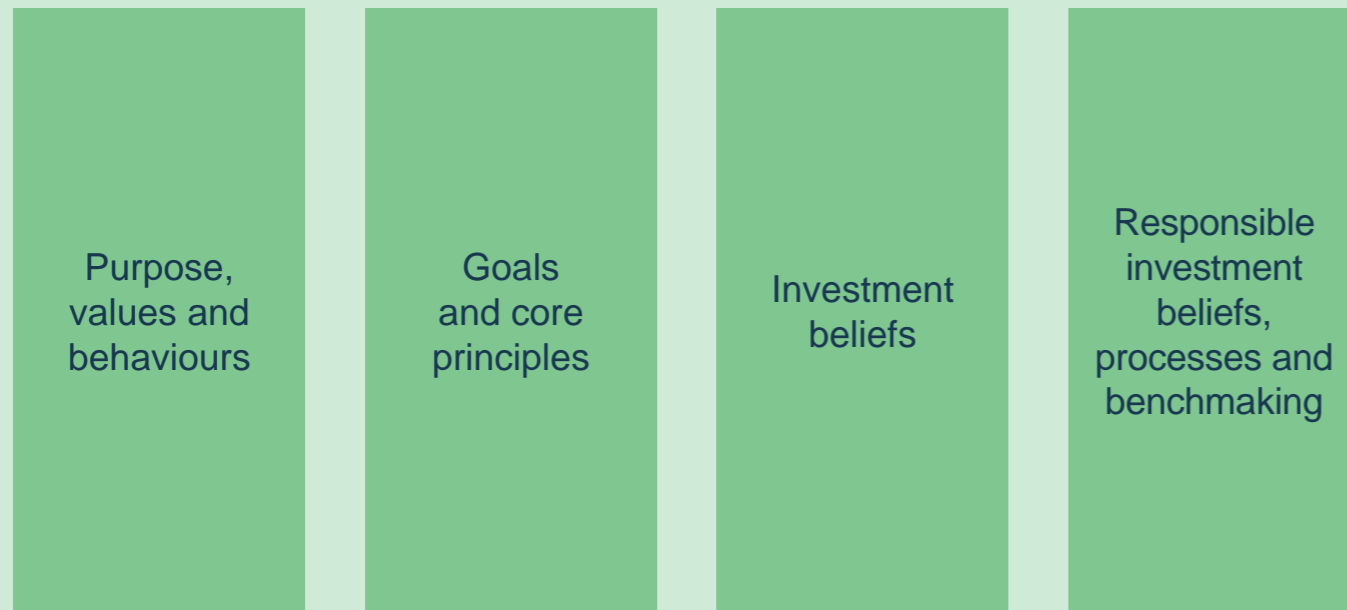


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# Our investment approach and core principles

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.

The foundations of stewardship at LPPI are comprised of our:



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

1. Meet their funding strategy objectives through improved investment outcomes.
2. Manage their assets and cash flows to meet future benefit payments.
3. Invest sustainably<sup>8</sup>.

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<sup>8</sup> and portfolio resilience.

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

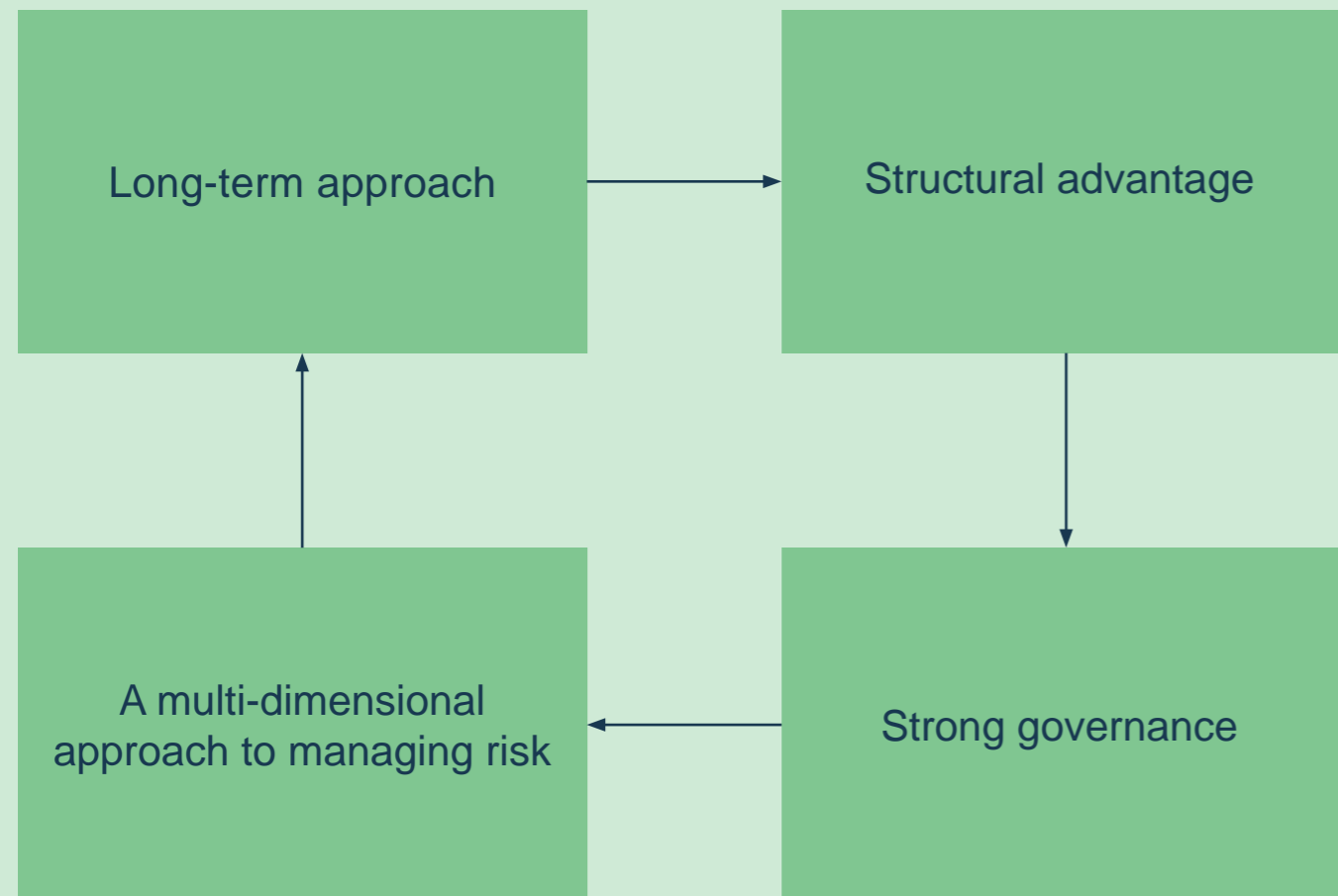
1. <b>Long-horizon investing underpinned by solid governance</b>	Commitment to strong governance structures with focus on generating liability aware long-term investment performance.
2. <b>Stable ownership</b>	Structure and investment beliefs aligned with clients.
3. <b>Experienced, collaborative team</b>	Strong client outcomes driven by a seasoned senior team working collaboratively.
4. <b>Lowering costs without compromising on quality</b>	Internalised investment management, alongside partnering with third party managers, to drive down costs without compromising outcomes.
5. <b>Investment beliefs aligned to client needs</b>	Investment beliefs based on international evidence of long-term pensions investment management success.

<sup>8</sup> The use of the term sustainably/sustainable is not a reference to specific social or environmental outcomes being targeted or achieved, but to the longevity of investment returns expected through the presence of durable sources of value.

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# Our investment beliefs

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



## 1. Long-term approach

We believe that taking a long-term perspective on investing can lead to better returns than market averages.

- Long-term investment horizons provide opportunities that align with the duration of client liabilities
- We prefer strategies where the consistent application of rigorous processes give the best chance of reaching long-term goals
- Achieving sustainable, long-term returns requires careful assessment of all material investment drivers, including ESG factors
- Long-term ownership philosophy enables our stewardship goals
- A patient approach provides us with the ability to capture illiquid investment opportunities

## 2. Structural advantage

We believe that our scale, market presence and internal capabilities delivers access to attractive investment opportunities.

- Internal investment management can provide more aligned and focused client outcomes at lower cost
- Where we do not have internal resource, we look to partner with exceptional external investment managers
- Our scale and presence allows us to form partnerships that reduce costs and establish valuable strategic relationships
- We learn from our partners and understand our mistakes to continually improve

## 3. Strong governance

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

- Strong and effective investment governance is a key requirement for long-term investment performance and broader organisational success
- Clearly defined objectives are essential to the consistent realisation of good outcomes

## 4. A multi-dimensional approach to managing risk

We believe that better outcomes are delivered by a multi-dimensional approach to managing risk which is regularly calibrated against objectives.

- Investment risk reporting and management should be implemented at all levels of the investment process
- Effective risk management is the thoughtful analysis of both qualitative and quantitative risks
- Incorporating sustainability considerations into underwriting and oversight drives improved outcomes

## Our TCFD progress and ESG programme

## Strong progress with TCFD

The Financial Stability Board established the Task Force on Climate-related Financial Disclosures (TCFD) in 2015 to improve and increase reporting of climate-related financial information. In 2020, the UK became the first G7 country to commit to mandatory TCFD-aligned reporting across the economy, publishing a roadmap to achieve this by 2025. The FCA introduced TCFD-aligned disclosure requirements for asset managers, life insurers and FCA-regulated pension providers in December 2021, with a phased implementation based on the size of the firms.

The Financial Conduct Authority (FCA) requires firms to prepare and publish a report consistent with the TCFD Recommendations and Recommended Disclosures for our company (see LPPI Entity TCFD Report) as well as TCFD reports for our authorised funds (TCFD product reports) by end of June each year.

### Climate financial risk and opportunities workshops

Over the reporting year, we carried out a series of workshops and meetings across the business to inform our staff of our regulator's climate-related reporting requirements and timeframes, and identify and document climate related risks and opportunities.

Climate-related risks communicated in these workshops included business risk, reputation risk and operational risk.

More information on how these risks affect LPPI are discussed in our TCFD Entity Report.

## Scenario analysis conducted using MSCI and Ortec

Over the reporting period, we have made progress with our investigation of climate-related scenario analysis.

We believe that incorporating climate scenarios into our investment decision making may assist us in understanding the impact of climate change, with a view to better managing our outcomes and those of our clients. However, there are methodological and practical challenges to overcome.

We have undertaken initial scenario modelling using our asset-liability modelling tool which uses the Network for Greening the Financial System (NGFS) scenarios in line with the FCA and TCFD requirements.

We also receive the Climate Value-at-Risk (CVaR) metric from MSCI ESG as part of a range of inputs for assessing climate risk in the portfolio. MSCI's CVaR is a forward-looking risk metric designed to assess climate-related risks and opportunities in an investment portfolio. While we calculate portfolio CVaR internally and recognise its potential for framing our views on climate-related risks, we have chosen not to disclose this metric until we have fully assessed its usefulness to LPPI and our clients and will consider its disclosure in our future reports.

Our TCFD entity and product reports are available on our [website](#).

## Our ESG programme

Our ESG programme has continued to drive accountability for our net zero commitment and manage the production of LPPI's TCFD reports. The ESG programme is a strategic change project focused on shared ownership and efficient coordination of LPPI's responsibilities under external commitments and regulation. The 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 our net zero asset manager commitment, and supporting clients with their local commitments and production of reporting as LGPS funds.

The ESG programme has a steering committee and various working groups which report into it, covering a variety of topics from net zero targets and scenario analysis to climate risk governance – a structure which brings staff with strategic expertise and relevant delivery responsibilities together with project management and subject matter expertise.

The ESG programme steering committee comprises the Chief investment Officer, Chief Legal and Compliance Officer, 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 to centralise and co-ordinate tasks and timelines across the business.



# Our progress on net zero

In 2021, we signed up to the Net Zero Asset Managers initiative and since then we have progressively set targets on an asset class basis, meaning our targets can reflect the nuances of each investment strategy and better integrate into investment decision making for each fund. The Net Zero Asset Managers initiative is a group of international asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C; and to supporting investing aligned with net zero emissions by 2050 or sooner. We believe net zero is a commitment to stewardship and as a result we have focussed efforts on setting alignment and engagement targets as a priority, while ensuring decarbonisation targets can reflect engagement efforts where possible.

Making efficient progress depends on advocacy and sponsorship from senior staff and coordination across multiple aspects of investment and risk management.

During the reporting year, Phase 2 of the implementation of our net zero commitment was completed. Phase 2 expanded the scope of short- and medium-term targets to the remainder of LPPIs public markets exposure, covering corporate fixed income assets within LPPI's Fixed Income Fund and Credit Fund, and covered private markets for the first time by including the direct portfolio within LPPI's Real Estate Fund. The result is that LPPI's AUM under scope of net zero targets has increased from 42% to 50%. Details of our targets are published on the NZAM website [here](#).

The process is a significant undertaking. Chronos Sustainability supported our understanding of the target setting framework during the initial scoping stages and provided advice on best practice within corporate fixed income targets. Engagement took place over many months with the fixed income fund managers while the real estate fund exercise involved in-depth data analysis and modelling using the CRREM tool to develop decarbonisation pathways for each asset. The direct real estate targets were a great example of successful manager engagement over many years between ourselves and our delegated manager KFIM. For example, a carbon foot printing exercise and a tenant engagement survey were key priorities for the direct portfolio in 2021/2022.

In 2022, both exercises were completed successfully which enabled Scope 3 emissions to be reported for the first time. Supported by green clauses in lease agreements, data coverage reached 95% reported and 5% proxied across Scope 1, 2 and 3 which was a significant achievement. The subsequent baseline for the targets showed that we were in a good position and the targets set for the direct portfolio were ambitious but achievable.

The new set of targets were commended by our clients, especially the real estate decarbonisation targets which were adopted by one client under their individual net zero commitment.

All of this work on data analysis, modelling and target setting contributed to LPPI's first regulatory TCFD reports.

A significant proportion of the funds currently or expected to be under scope of our net zero targets are externally managed. Externally managed funds create a challenge for target setting as the influence on the underlying investment is one step removed and a lack of transparency leads to a reliance on the managers processes and analysis. This can be made easier if the manager has adopted a similar net zero target setting framework and made progress against this, but this is not always the case.

The issue is greatest in private market funds and hence we joined a working group of the IIGCC focused on how to apply the NZIF guidance to external third-party fund managers. The group first aimed to share good practice and experiences between members, but it was soon agreed that the nuances these funds presented required additional tailored guidance to support consistent and effective implementation.

Guidance was successfully drafted by the IIGCC working group and published under consultation at the start of 2024, to which we responded with feedback and support in anticipation of applying this guidance as part of Phase 3 in 2024-2025.

Preparations for Phase 3 of the project have now commenced where indirect real estate investments, the LPPI Infrastructure Fund and the Credit Fund will be assessed and come under scope of quantitative targets.

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## Maintaining high levels of stewardship on behalf of our clients

## Serving our clients' needs

Our clients include three LGPS Whole Scheme Management client funds based in the UK:



**The London Pensions Fund Authority**



**The Lancashire County Pension Fund**



**The Royal County of Berkshire Pension Fund**

We collaborate with them as partners and also act as their investment adviser and portfolio manager.

We provide clients with a high quality, fiduciary service, we also anticipate clients' investment and operational needs and work with them to enhance mutual understanding. As the clients' advisor, we are their trusted partner, and our culture and objectives align with their interests.

These relationships begin with an advisory and investment management agreement, that references the client's funding strategy statement which encompasses the overall strategic direction and targets. Clients retain ownership of their strategic responsibilities while we are responsible and accountable for investment decisions and implementation.

We communicate and meet with our clients regularly. This contact covers market performance, asset allocation, portfolio performance, risk, responsible investment and other significant issues.

These contact points include:

- Frequent informal client meetings
- Attendance at pension fund committees and boards
- Training for pension fund committees and board
- Quarterly CEO review meetings
- Annual client conference
- Quarterly reporting
- Issues-based assistance on demand

We conduct quarterly CEO review meetings, which are a vital way of engaging with our clients and getting their feedback on how we are performing as a service provider and serving the best interests of our clients. In these quarterly meetings, our Client Management Team and CEO have discussions with key stakeholders from our clients, such as Committee Chairs, Board Chairs, Officers and CEOs, to hear their views on LPPI's performance.

At these meetings, the three clients have the opportunity to subjectively share feedback on past activity and telegraph future priorities or areas where LPPI's support may be required. They also provide a rating indicating how well we had met their expectations in the past quarter, where one is poor and 10 is excellent. This financial year, our average score from the clients has been eight. The outcomes of these meetings, including the quarterly client ratings, are documented and stored for future reference.

As part of our stewardship role for client funds as asset owners, we regularly help them to:

- Evaluate the responsible investment and stewardship aspects of scheme policies and strategy documents (Investment Strategy Statements)

- Enhance the knowledge and understanding of the Pension Fund Committee and Board members through workshop training from our Responsible Investment Team and deep dives into specific asset classes and our processes
- Prepare information for, and present at, Fund Member Forums
- Respond to Freedom of Information requests
- Track and participate in securities litigation
- Address member queries
- Create stewardship content for inclusion in a funds' annual reporting
- Learn and access further information about topical matters and issues arising
- Monitor and report on the carbon footprint and climate risk exposure for asset classes that are currently in scope of our and our client's net zero targets

### **Communicating and gathering feedback with clients**

We communicate regularly with our clients on various topics, such as their portfolio performance, the quality of service we provide, and their changing needs for regulatory or other purposes.

In Q1 2024, we asked our clients for feedback on the current reporting that we provide. We held a meeting with each of our three clients and involved the teams responsible for LPPI's suite of reports in the discussion. The meetings focused on the extent to which the current reporting fulfilled client needs, whether any reporting could be rationalised and what, if any, additional reporting may be required in the future. Feedback was also received on the content, structure and visual aspects of the current reporting suite, which included aspects such as the visual display of responsible investment information within report packs.

In Q2 2024, based on the client feedback received and as part of the client reporting and servicing initiative, we established a formal project group to manage and oversee the refresh of our client reports. This initiative has been designed to deliver reporting updates in line with feedback from our clients. In addition, the project aims to use data and technology to increase efficiency, improve user interface and reduce repetition in the current reporting.

### **Informing clients of net zero progress**

Over the course of the year, we have kept clients updated with our progress in relation to net zero, both in terms of our progress against the targets we have set and the evolution of our targets as more asset classes have come into scope.

We have initiated six-monthly reporting to clients on LPPI's progress against our net zero targets. As one of our clients has made their own asset owner net zero commitment, we have also provided reporting to support the monitoring of the client's progress against their own targets too.

### **Communicating TCFD with our clients**

With TCFD reporting requirements on the horizon for our clients, we focused on keeping them informed about our own progress and clear about how we would be supporting them to meet forthcoming disclosure requirements. These included:

- In Q2 2023, sharing a short summary of regulatory requirements relevant to us and the deadlines for disclosure, including latest insights on reporting requirements for LGPS funds
- In Q4 2023, providing an update on our progress and confirming the reports we would be producing and publishing
- In Q1 2024, providing a template indicating the content of the portfolio reports we would be producing, alongside insights on how they would support pension fund reporting

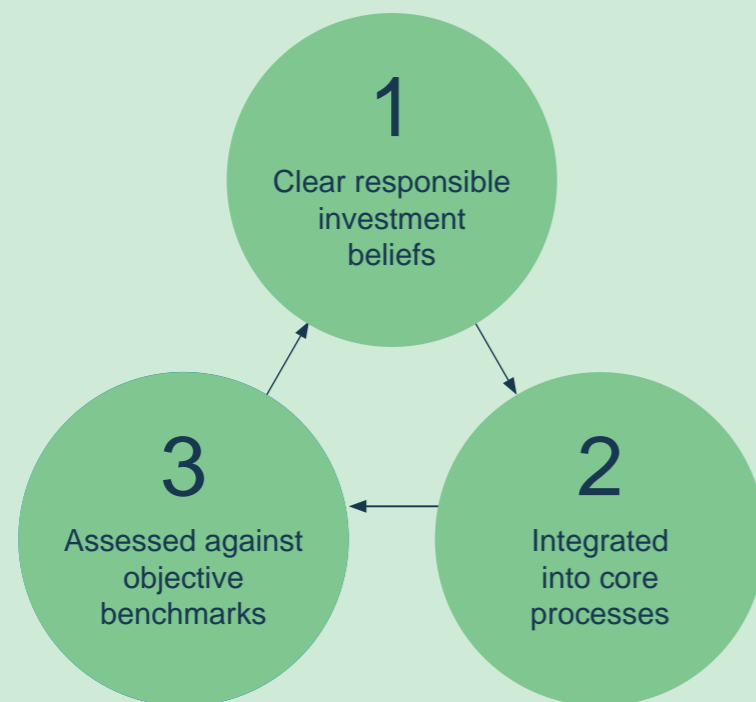
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# Our approach to responsible investment

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 clients we serve.

We've codified our thinking into a high-level Responsible Investment Policy and dedicated thematic annexes, which includes our new Annex on Human Rights, providing the necessary detail for clients and other stakeholders.



LPPPI responsible investment approach



# Our responsible investment beliefs



## Fiduciary duty

We have a contractual responsibility to act in the best long-term interests of our clients.



## Optimum returns

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



## Sustainable basis

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



## ESG factors

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



## 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.

# Responsible investment policies



Further detail on specific ESG themes is specified in our related policies, which include the following:

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

All responsible investment policies are available on our website.

Policies are reviewed and updated annually by the Responsible Investment Team, to ensure they are effective in covering our stewardship requirements. 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 go through approval by the Board.

## Development of a human rights policy

In October 2023, the board approved LPP's first policy on human rights. This policy was created following our commitment as an endorser to the PRI Advance initiative, which is an engagement programme that aims to support institutional investors to collaborate and act on human rights and social issues in companies exposed within their portfolio.

This new policy is an annex to our Responsible Investment Policy and outlines LPP's recognition of international standards on human rights and the processes through which oversight occurs in investment research and portfolio monitoring across LPP's assets.

Our approach to human rights within our corporate operations and supply chain is captured through LPP's internal People and Culture policies, alongside the LPP Group level Modern Slavery Statement, prepared in compliance with our responsibilities under the UK Modern Slavery Act. This human rights annex focuses on the risks arising from our direct investments or mandates delegated to third-party investment managers where we believe that we are most likely to be connected to adverse human rights outcomes.



## Updated Shareholder Voting Guidelines: climate change, net zero and biodiversity

LPP's Shareholder Voting 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 on our approach, reflecting our beliefs, expectations, and priority themes. In December 2023, the guidelines were updated to include a section on climate change and net zero.

This update provided clarification that we view climate change as a systemic risk and that being a signatory to the Net Zero Asset Managers Initiative, we use shareholder voting rights to encourage companies to align their activities with the achievement of targets for global decarbonisation under the Paris Agreement. Our principal focus is on high impact sectors as identified by the IIGCC's Net Zero Investment Framework (NZIF) guidance, but voting may form part of our escalation for any company engaged on climate-related matters.

Our Shareholder Voting Guidelines also highlight that we are a signatory to Nature Action 100 and that the initiative's Investor Expectations for Companies on nature loss inform our shareholder voting decisions for companies targeted by this global investor engagement initiative, focused on driving greater corporate ambition and action to reverse nature and biodiversity loss.



# Our target outcomes and 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 that sit across our core 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.



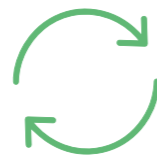
## Diligent in selection

Selecting suitable assets on appropriate terms is a critical investment discipline and requires a holistic appraisal. We integrate ESG considerations within our evaluation of opportunities ([see Annex on ESG Integration](#)).



## 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

We take a resolutely commercial approach to asset selection and ongoing asset ownership. As a commercial enterprise, we have 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

We are 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.

# 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.

We believe the consideration of ESG factors is relevant at every stage in the investment cycle for every asset class - from the investment strategy to investment selection, and within the stewardship of assets in ownership. This applies to all asset classes. 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).

We have 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 policy and provide real life examples of their implementation across the portfolio from the reporting year. The diagram on the right summarises the various elements of our investment process:

## Investment policies

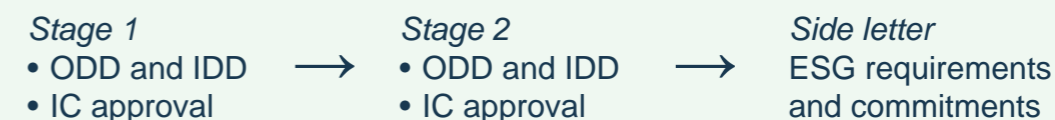
- Responsible Investment Policy and annexes
- Annex on ESG Integration
  - Annex on Climate Change
  - Annex on Controversial Weapons
  - Annex on Human Rights

## Practice standards

- Principles for Responsible Investment
- UK Stewardship Code

## Investment procedures

### Investment selection (direct and external managers)



### Portfolio monitoring

- |                                                                                                                                            |                                                                                                         |
|--------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• Manager monitoring calls</li> <li>• Asset class review meetings (quarterly and yearly)</li> </ul> | <ul style="list-style-type: none"> <li>• ODD rating refresh</li> <li>• Stewardship committee</li> </ul> |
|--------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|

### Active ownership

- |                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                |                                                                                                                |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|
| <p><i>Investor collaborations</i></p> <ul style="list-style-type: none"> <li>• Industry forum membership</li> <li>• Collaborative engagement</li> <li>• LP advisory committees</li> <li>• Policy advocacy</li> </ul> | <p><i>Company engagement</i></p> <ul style="list-style-type: none"> <li>• Shareholder Voting Policy</li> <li>• Shareholder Voting Guidelines</li> <li>• Board seats</li> <li>• Direct dialogue</li> <li>• External manager dialogue</li> </ul> | <p><i>Broader commitments</i></p> <ul style="list-style-type: none"> <li>• Net zero</li> <li>• TCFD</li> </ul> |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|

We ensure that stewardship is integrated across all our asset classes and funds. The ESG annex of our Responsible Investment policy explains how this differs between asset classes and those investments that we manage either externally or internally. The majority of LPPI's portfolio is invested through the selection and appointment of external managers, however some asset classes are also internally managed.

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?**

Every investment strategy consists of inherent ESG risks and opportunities. To identify potentially material ESG factors, the investment team uses an internally developed ESG factor checklist, the ESG SatNav tool.

The 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 1 and revisit it in detail in Stage 2 of the investment due diligence process outlined above. An ESG risk rating is assigned to the investment, and where relevant, ESG-related opportunities are also flagged.

### **Investment processes – are the manager's processes adequate to successfully steward the assets on LPPI's behalf?**

Even for a given investment strategy, investment manager decisions can produce a variety of resulting portfolios. We employ an extensive ESG due diligence process focused on evaluating an investment manager's ESG integration approach to ensure adequate management of potential ESG risks and opportunities.

Our manager rating framework 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.

More information on the range of ESG factors we consider within investment due diligence and monitoring are highlighted in our [ESG Annex](#).



### **Portfolio monitoring**

Where addressable weaknesses are identified during the initial due diligence, we may elect to work proactively with a manager to remedy these, subject to a commitment from the manager to engage on these weaknesses.

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.

## ESG integration of internally managed portfolios

### *Listed equity*

LPPI's internal equity team aims to fully integrate ESG into its investment process. Given investments are made at a company level, the team takes a different ESG approach compared to externally managed assets, which 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.

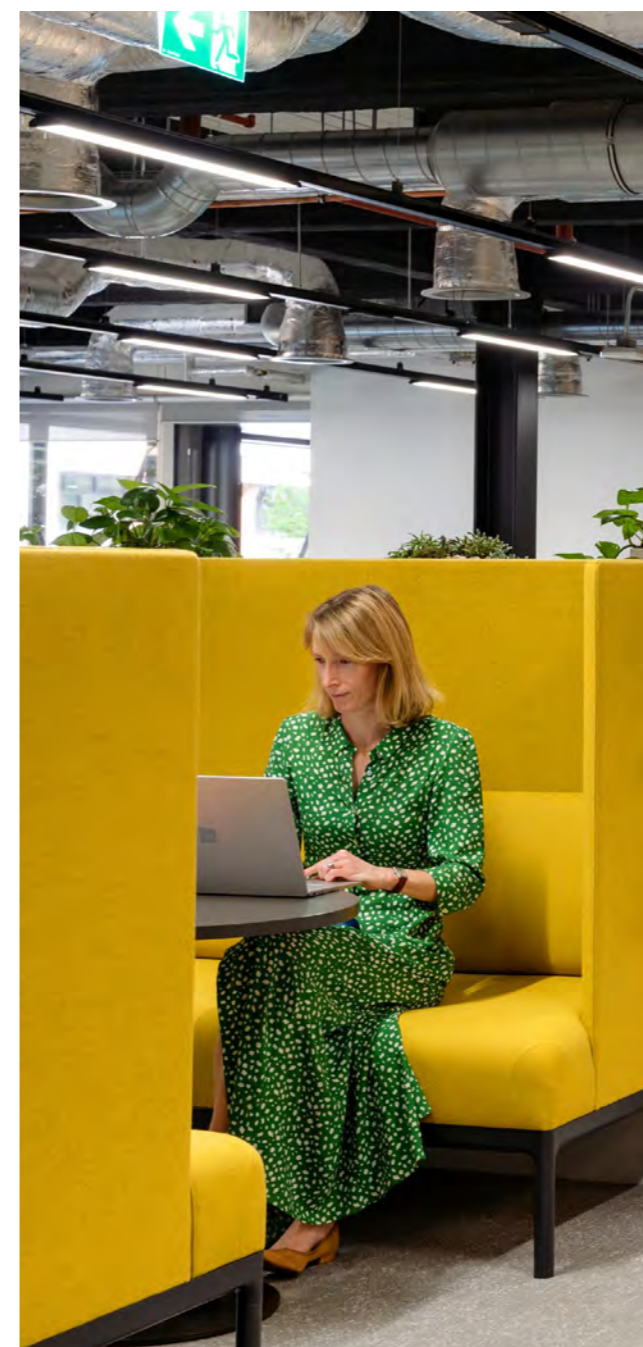
Company-level ESG analysis is guided by an ESG checklist, which aims to identify key ESG risks, mitigating factors and opportunities for engagement. Informed partly by the broader ESG SatNav tool, these risks can include treatment of minority shareholders, human rights and climate change amongst others. The checklist is maintained and reviewed by the Senior Equities ESG Analyst.

### *Direct infrastructure*

For direct infrastructure, ESG considerations are embedded early in the investment appraisal process. The aim is to ensure capital is deployed at financial returns consistent with portfolio objectives and meets our broader responsible investment objectives.

Relevant ESG factors can vary significantly depending on the type of asset under consideration. A systematic appraisal is therefore carried out on a sector and asset specific basis to understand the relevant risks to consider. This may be on the grounds of financial materiality but also of reputation and corporate conduct. Every investment proposal submitted to a CDG integrates ESG analysis and outlines potential engagement opportunities, where appropriate.

More information on ESG integration within our internally managed portfolios in our [ESG Annex](#).



## ESG integration of externally managed portfolios

### *Integration of stewardship within credit*

During the manager due diligence process, our credit fund team thoroughly reviews their ESG integration process to ensure material ESG risks are considered within the credit selection process. Given most of the mandates going forward are likely to be deployed via separately managed accounts, this gives the team further scope to tailor investment guidelines to reduce exposure to investments with higher associated ESG risks and to meet our broader responsible investment goals. Most of our credit exposure is to developed markets with stronger corporate governance frameworks.

### Case study: Private equity fund debt financing

In 2023 the credit team spent a significant amount of time underwriting a new Asset-Backed Lending strategy for investment to ensure the manager's ESG integration process was robust and aligned with LPPI's responsible investment philosophy. The strategy provides conservative debt financing to private equity funds (the borrowers). While we accepted that the manager has little influence over the borrower's portfolio management decisions, we ensured the manager had a clear and consistent process to screen through the incumbent portfolio companies and exclude those that conflicted with our ESG exclusions. Since we sought to access this strategy via a separately managed account, we were able to incorporate, amongst other things, our ESG exclusions into our side letter with a commitment from the manager to support us in our net zero and TCFD commitments on a best-efforts basis. Furthermore, we negotiated detailed portfolio reporting of our account's sub-industry exposures which would allow us to monitor the strategy on an ongoing basis for exposure to industries with potentially high ESG risks.

### Case study: Alternative lender debt financing

In 2023, the credit team completed a two-stage due diligence on an asset-backed lending strategy which provides debt financing to alternative lenders to the real economy. Although we believed the manager had a robust ESG integration process overall, we identified some areas of potential improvement and provided detailed feedback on their ESG process to their Head of Sustainability based on our own observations of practices used across a broad spectrum of alternative credit peers. We view ongoing feedback as an important part of our monitoring process with a view that this may lead to incremental improvements in our managers' processes. This feedback was well-received and led to positive incremental action to improve the consistency of how they documented material ESG risks within their investment process. Furthermore, prior to funding, we negotiated a detailed portfolio reporting pack which included details of each borrower's ESG score, financed emissions and commitment to net zero.

### Case study: Updates to ESG manager survey within private equity

During the reporting year, the private equity team designed a new PE manager ESG rating system which was rolled out over Q1 and Q2 2024. The data for our manager ESG ratings were to be sourced from the teams annual PE manager ESG survey. In the design of the survey, the team had systematically integrated questions on the investment manager's stewardship approach. Specifically, these updated questions included:

#### Governance

- Does the manager have a stewardship policy?
- Any material changes and improvements to the implementation of the stewardship policy?
- Does the manager have a human rights policy?

#### Active ownership

- Where the manager has board control, is ESG a standing item in board meetings and integrated into value creation and strategic plans?
- Is the investment team involved in stewardship activities?
- Is there an escalation process for engagements with portfolio companies?
- Has the manager participated in collaborative engagements in industry initiatives?

The data received from future ESG manager surveys will help inform our engagement priorities.

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## Investing collaboratively

Investing collaboratively with like-minded parties continues to be an important part of LPPI's investment strategy and accelerates partnering, scale and efficiency. We collaborate with a wide range of organisations and have two formal collaborative investment agreements: The London Fund and GLIL Infrastructure. These sit outside the asset class specific pooled funds that we manage under delegated arrangements.



The London Fund is a collaboration between two Local Government Pension Scheme pools: LPPI and London CIV.

The Fund aims to create a double bottom line by providing investors with sustainable long-term risk-adjusted returns and generating positive social and environmental outcomes for Londoners.

The Fund focuses on investments in the City of London, the 32 London Boroughs and their immediate surrounds, in assets such as residential property – specifically build-to-rent – and affordable housing, community regeneration projects, and infrastructure including digital infrastructure and clean energy.

London CIV is the Alternative Investment Fund Manager and Local Pensions Partnership Investments is the portfolio manager. By pooling their resources and networks, London CIV and Local Pensions Partnership Investments expect to have access to a greater range of investment opportunities for The London Fund than would be available to either entity acting alone.

In Q1 2024, we announced that the combined Royal Borough of Kingston upon Thames Pension Fund and London Borough of Sutton Pension Funds had committed £55 million to The London Fund. The Fund closed to new commitments on 31 December 2023 with total fund assets of £250 million.



GLIL Infrastructure (GLIL) is an innovative collaboration between aligned and like-minded investors who are seeking investment into core infrastructure opportunities predominately in the United Kingdom.

The fund was established in 2015 by Greater Manchester Pension Fund (GMPF) and the London Pensions Fund Authority (LPFA) with £500 million of capital commitments.

GLIL now has commitments totalling £3.6 billion from six of the UK's largest Local Government Pension Scheme funds, as well as Nest, the government-established DC workplace pension provider. At the reporting date, GLIL has deployed in excess of £3.1 billion into a variety of UK infrastructure assets.

The fund was designed by the founding members to better address their needs compared to many of the commercially available alternatives.

## Implementation of Net Zero Investment Framework (NZIF) for Infrastructure

In January 2024, the GLIL executive committee approved the IIGCC NZIF Guidance for Infrastructure Assets as GLIL's consistent framework for the assessment of portfolio company's net zero by 2050 alignment strategies. The approval of the commitment was in response to GLIL ESG policy and TCFD requirements, as well as a request from LPPI and member fund data requests.

The gap analysis of GLIL portfolio companies' current position against the framework was completed in December 2023, to collect the data in time for TCFD report production by March of 2024. The coverage was over a calendar year period of 2022 for consistency in reporting purposes.

In March 2024, GLIL built a portfolio company engagement plan for 2024. The Investment Team will lead on engagements over a six-month period targeting focus areas identified via the Net Zero Investment Framework alignment exercise and ESG survey metrics.

The next annual ESG data collection exercise and monitoring will run to December 2024 and result in a full portfolio view across the framework application inclusive of progress made. Further project plans will be drawn up to include actions required following assessments and progress of engagements.

Moving forwards, the results of the framework assessment at portfolio company level will be used to create a GLIL portfolio level view of net zero strategy for broader target setting and milestone development to complete a verified pathway to net zero by 2050.



GLIL Infrastructure - Burbo Bankwind Farm Park

### Case study: Forth Ports

In May 2023, Forth Ports Limited announced their commitment and intended 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.

Over the past year the team has progressed plans to overhaul and electrify equipment and machinery, such as the adoption of Hydrotreated vegetable oil (HVO) fuel in 2023 reducing emissions for landside equipment historically using white diesel. Upgrades were also given to the Tilbury lock gates in conjunction with the Environmental Agency to improve efficiency and reduce electricity consumption. A solar PV array has now been installed and is in operation on a warehouse at the Grangemouth facility, while plans are underway to install PV on all new warehousing going forward.

GLIL is committed to monitoring and engaging with Forth Ports on further developments across their assets, to ensure viability and alignment with industry standard net zero initiatives and possible certifications for maximum success.



GLIL Infrastructure - Forth Ports Group

### Case study: Championing ESG stewardship with Semperian

Semperian PPP Investment Partners launched in October 2007 with the aim of investing in UK social infrastructure, providing essential public services to local communities. The company primarily owns and manages a large, diversified portfolio of mature Public Private Partnership (PPP) concession-based investments within the social infrastructure environment. GLIL owns a 25.6% stake in Semperian and is the largest shareholder to date.

Semperian is in the process of developing its ESG credentials by introducing various new initiatives, as part of the next business plan period. The main and most imminent target is to make Semperian Group carbon neutral by 2025. To achieve this, business travel must be reduced and Semperian plans to offset any emissions which cannot be abated.

In addition to Semperian Group achieving carbon neutrality by 2025, the business wishes to reach net zero at portfolio level by 2050. Semperian plans to align with the SBTi and will explore additional certifications.

In December 2023, the GLIL team discussed the upcoming business plan with Semperian, including ESG stewardship, other metrics and certifications. A draft business plan was created in February 2024, which includes a new host of ESG reporting metrics, including carbon emissions and social impact, to be formalised in the next business plan period. These will also include TCFD reporting.

The group's sustainability officer is in the process of preparing an annual report which will consider TCFD and CSDR requirements. Semperian is planning to establish a clear decarbonisation roadmap which will identify decarbonisation opportunities and which will be presented to clients to support the achievement of net zero.

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## Monitoring service providers

We both select and oversee assets directly (in-house asset management) and appoint and oversee 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.

## Our vendor risk process – championing climate risk

Our Vendor Risk Team monitors service providers to ensure services are being delivered to meet LPPI's business needs.

For a new service, vendor or system to be approved from a governance perspective, it must be within budget or receive approval in accordance with our Scheme of Delegated Authorities Policy. If the expenditure is unbudgeted and the contract value exceeds £20,000, then a business case must be produced for approval. Our Scheme of Delegated Authorities Policy outlines these key requirements in detail.

The vendor due diligence process includes financial checks, risk due diligence and IT due diligence. A Supplier Authorisation Setup Form is completed, and the contract undergoes a review with the involvement of the Business Change and Legal Teams. The supplier is then set up on the MS Dynamics finance system and ongoing annual monitoring is conducted. Although we do not have a dedicated procurement team, procurement matters are initially directed to the Legal Team.

As part of the Risk Due Diligence Questionnaire, new vendors must provide information regarding climate risk which is scored on a scale of one to five (lower score indicates higher risk).

Examples of climate risk questions include:

- Is your organisation recognised as a supporter of the Task Force on Climate Related Financial Disclosures (TCFD) and Sustainability Disclosure Requirements (SDR)?
- The Transition Pathway Initiative (TPI) established in 2017 has 5 levels of awareness for companies and their climate change initiatives. Which level would you rate your company?
- Have you implemented the TCFD and / or SDR reporting framework?
- Has the company set a net zero target, a Science-Based Target or a Carbon Budget, joined Race to Zero or similar?
- Does your company monitor and report on its greenhouse gas emissions and other environmental impacts? Are these reports independently verified?
- What, if any, steps have been taken to minimise the environmental and related social impacts of the company?
- Does the company have an environmental or sustainability policy which sets out commitments and targets to improve the company's sustainability standards?

## Monitoring of existing vendors



Across the current financial year, the monitoring of existing vendors has seen significant activity.

Relationship owners maintain regular meetings with suppliers, while the Vendor Risk Team participates in service review meetings with key and material vendors such as BNY Mellon, SA Global, Virgin/O2, NatWest (Depository), and MyComplianceOffice. Quarterly reviews by Vendor Risk and relationship owners cover onboarding and termination of vendors, peer reviews, service assessments, breaches, incidents, and overall monitoring to ensure third-party service providers meet LPPI's standards.

Vendor Risk, Legal and IT hold weekly meetings to discuss vendors, service agreements, extensions, renewals and terminations. Reporting includes quarterly updates to the Audit and Risk Committee via the Chief Risk Officer (CRO) report and monthly updates to the Executive Committee (ExCo), with significant concerns escalated to the Operational Risk Manager and upwards as required. Matters concerning IT security are addressed during bi-weekly Security Working Group meetings. Reports are also provided to the Fair Value Pricing Committee (FVPC) on third party Valuers, Valuation Agents and the Annual Due Diligence Exercise.



## Delivering effective stewardship

We view engagement as a key part to the success of systematic ESG integration and delivering effective stewardship.

We encourage asset class teams to engage on ESG issues that pose a material risk to the funds they manage, alongside priority engagement themes specific to LPPI's targets (such as net zero). We can engage on ESG topics either directly with companies held in the portfolio of our funds, directly with our external managers themselves or through our external managers and engagement partners.

We also value the importance of collaborative engagements with our peers through industry initiatives.

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## Engaging directly with companies

## LPPI Global Equities Fund – internally managed

Our internal equities team manages 50% of the LPPI Global Equities Fund (GEF) in-house. The team manages both large-cap and small-to-mid-cap (SMID) strategies and engages on ESG issues material to their portfolios. They have identified the following priority engagement themes:

1. Minority shareholder rights
2. Independent challenge
3. Appropriate remuneration
4. Biodiversity
5. Net zero
6. Diversity, equity and inclusion, and human rights

The aim of our engagement efforts is either to build on our understanding of our holding companies - namely whether they have adequately identified material ESG risks and how effectively they are managing them - or to identify specific areas for improvement, with a view to driving some degree of positive change over the medium- and long-term.

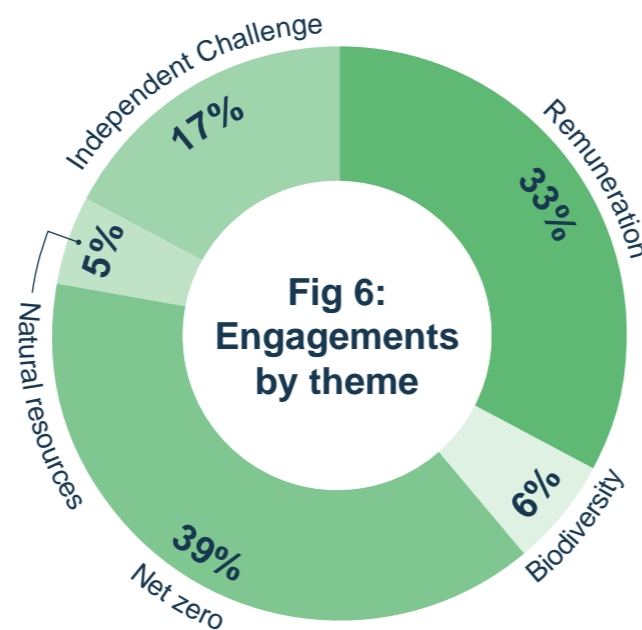
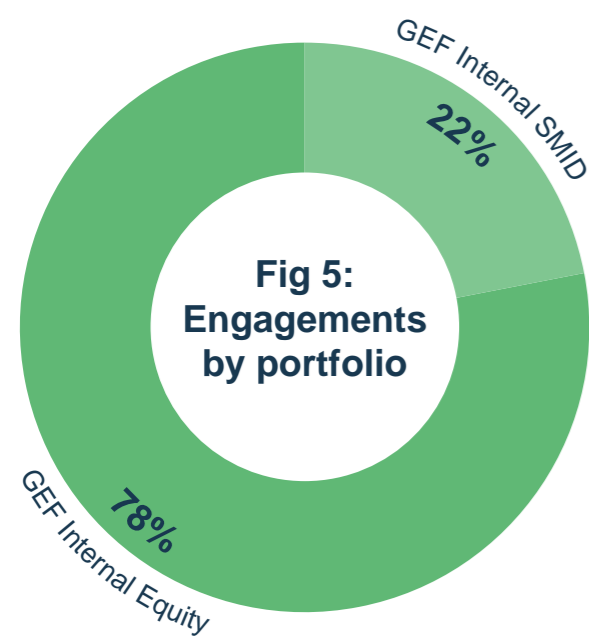
We have created a framework and repeatable process for engagement that has been rolled out across the internal portfolios over time. The starting point for this exercise was to conduct a materiality assessment for both portfolios, with a focus on identifying those ESG factors with the greatest potential to impact the long-term competitive advantages or durability of cash flows for our investee companies. The outcome was an engagement dashboard for the portfolios, mapping out the most relevant and pressing engagement themes, which guides our engagement efforts over time. We update this dashboard on a monthly basis, to reflect portfolio movements and any broader industry developments.

Across 2023, net zero engagement remains a key priority for the team. We have now engaged with 100% of internally managed assets within the internal equity fund's priority list for engagement. The responses received have been generally positive, with the majority of target companies replying in a timely and open manner.

We continue to collaborate with other like-minded investors – namely via the Institutional Investors Group on Climate Change (IIGCC) and via Robeco – on various net zero engagements, which should increase the effectiveness of our efforts in this area.

We have also been encouraging those companies where responses have been less forthcoming for improved disclosures and communicating escalation steps. This includes advising unresponsive or non-net zero-aligned firms that we will consider voting against directors responsible for environmental matters at upcoming AGMs.

Elsewhere, we have made good progress on additional engagement themes, most notably on biodiversity and natural resources. Our continued membership of the Nature Action 100 collaborative initiative has proved useful in this regard, particularly when engaging with investee companies such as Costco.



### Direct engagement on net zero with specialist distributor of landscape supplies

In Q2 2023, the internal equities team engaged with a specialist distributor of landscape supplies on net zero. The objective of the engagement was to better understand how aligned the business is to net zero, with a particular focus on emissions disclosures, reduction target setting and decarbonisation strategies. Although the company's direct environmental impact is reasonably low, due to the fact it is a service-led distributor with minimal fixed assets or capital requirements, its indirect carbon footprint (that is, Scope 3) is higher. In addition, the company was flagged as a priority under LPPI's net zero engagement framework, due to operating in a sector deemed as high impact.

We began the engagement with an email to the company setting out LPPI's net zero commitment and requesting a conference call to further discuss the issue. We also referenced our membership of the Institutional Investor Group on Climate Change (IIGCC), particularly its efforts to encourage greater company disclosure of net zero transition plans.

### Outcome

Our engagement with the company showed that despite being relatively early on in its environmental journey, company management are making good progress in this area. This includes engaging sustainability experts to better understand the firm's carbon footprint, improving emissions reporting and taking initial steps to reduce its direct environmental impact. The company has also recently begun reporting in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). However, there are several areas for improvement, most notably Scope 3 reporting and setting of emissions reduction targets.

We continue to monitor the company's progress in this area, particularly its environmental performance over time and the extent of its emissions reduction ambitions.

### Direct engagement on water stress with global alcoholic drinks company

In Q2 2023, the internal equities team reached out to a global alcoholic drinks company as part of our natural resources engagement theme. The aim of the engagement was to gain a better understanding of the firm's approach to its natural resource usage, including target setting and reduction strategies in place. The engagement began with an email to the company before a conference call with specialist sustainability staff to further discuss the issue.



#### Outcome

The company remains a resource-intensive business that requires significant levels of water, and this is unlikely to materially change in the future. However, following the engagement, we are reassured that management takes its responsibilities in this area seriously, having assessed water stress risks within the supply chain and set ambitious reduction goals backed by a clear water use reduction strategy. In addition, management have succeeded in significantly reducing the firm's water use footprint and intensity in recent years. This has resulted in the company receiving a strong score for its first ever Carbon Disclosure Project (CDP) water security submission. Overall, the discussion increased our level of confidence that the firm is mitigating the risks in this area, and provided further evidence of how the company considers multiple stakeholders.

In terms of next steps, we will continue to monitor the company's performance in this area, particularly progress against its water use reduction targets and planned investments in water efficiency projects.

## GLIL Infrastructure

### Engagement with Anglian Water on total pollution events

Within the reporting year, GLIL Infrastructure engaged with Anglian Water on serious and total pollution events. This included continued engagement with the Board, which involved overseeing a series of measures including new appointments, the inclusion of financial penalties into senior executives' compensation packages, the creation of an Environment and Quality Directorate, and the introduction of new technology to monitor the network and provide greater visibility of performance.

#### Outcome

The work undertaken by GLIL Infrastructure and Anglian Water's shareholders has led to significantly more engagement with the senior management team, including regular scrutiny of their performance, as well as influence over the content of the current Pollution Incident Reduction Plan 2023-2025.

In December 2023, GLIL Infrastructure members attended pollution workshops to understand the root cause of the pollution incidents and subsequently deployed additional shareholder capital to support pollution reduction at Anglian Water.

By the end of 2023, Anglian Water has already installed more than 10,000 new sewer monitors across its network and completed an Event Duration Monitoring programme, allowing it to monitor 100% of its storm overflows and access the data it needs to continue targeting and reducing spills, one year ahead of the plan agreed with the regulators.

GLIL Infrastructure is continuing to engage with Anglian Water's senior team as they roll out the plan. It will use its active approach to stewardship, alongside the financial support, to give our investors confidence that Anglian Water is building on the progress made to date to meet its environmental targets, including achieving a 70% reduction in capital carbon<sup>9</sup> by 2030.



<sup>9</sup> Anglian Water's use of the term capital carbon aligns with the definitions within HM Treasury's Infrastructure Carbon Review (2013), which refers to capital carbon as the emissions associated with the creation of an asset. This is measured from cradle to 'as built', in line with the UKWIR framework on whole life carbon reporting.

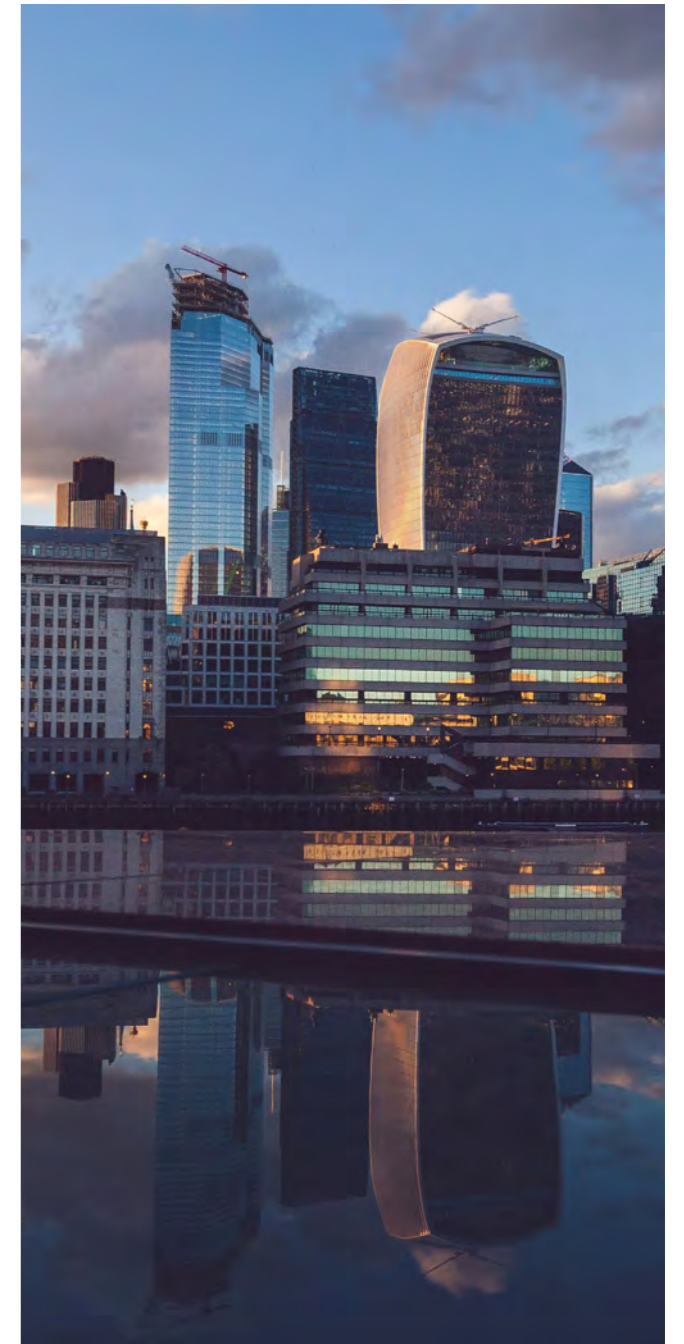
## Engaging directly with external managers

## Global equities

### **LPPI Global Equities Fund (GEF) – direct engagement with our external managers**

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, which 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 require our external fund managers to engage on our behalf. 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. 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.



### Manager engagement on our Responsible Investment Due Diligence Questionnaire

During Q2 2023, we conducted annual responsible investment focused meetings with each of the external managers in the GEF. In advance of each discussion, we requested the manager update their response to our Responsible Investment Due Diligence Questionnaire (RI DDQ) which comprises the following sections:

- Governance
- ESG integration
- Active ownership
- Reporting

This structure allows us to deep dive into both operational and investment related changes, building on the discussions that occur throughout the year as part of regular portfolio monitoring.

Analysis of the RI DDQ response, alongside portfolio-specific questions, determined the agenda for each of the meetings. The year in review also captured the roll out of LPPI's net zero enhanced engagement and reporting expectations, which allowed for further conversation on the progress of implementation and firm and portfolio-level thinking on the topic.

#### *Outcome*

Overall, we were pleased with the progress our managers demonstrated. All managers have been able to meet our enhanced engagement and reporting baseline meaning we now receive novel insights regarding their climate-related stewardship. We also value their varying approaches to ESG, allowing us to learn from best practice, while also sharing these insights internally to improve portfolio-wide practices.

## Fixed income

### LPPI Fixed Income Fund - manager engagement on net zero target setting

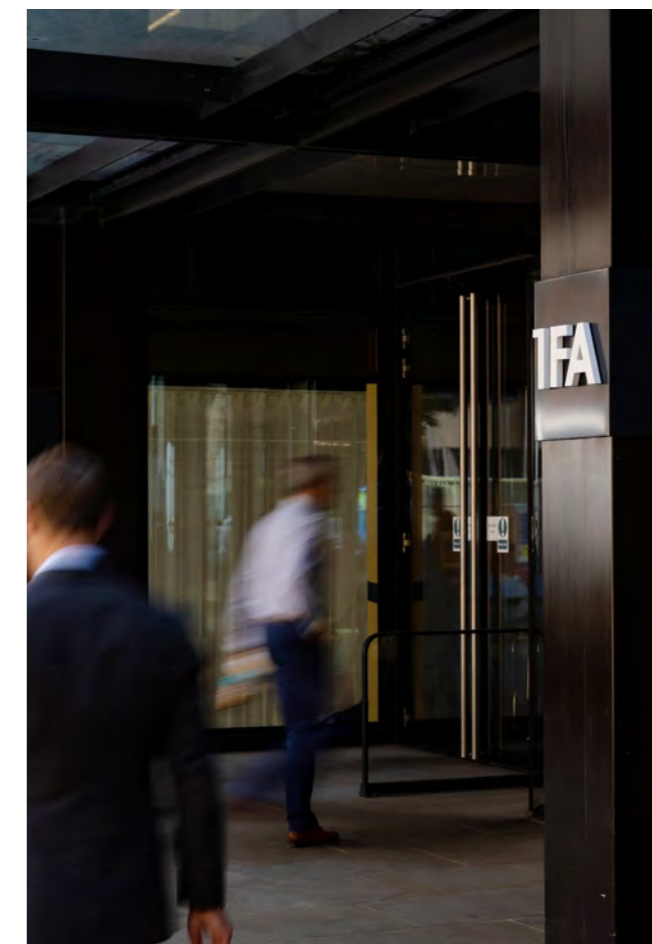
In Q4 2023, as part of LPPI's second phase of net zero target setting, the Fixed Income Team undertook an in-depth net zero engagement initiative with each external manager in their portfolio. Each manager was provided with a list of requirements, in line with the IIGCC Net Zero Framework, that outlined the specific methodologies and measurements that we would need to set their net zero targets for corporate bond holdings. These requirements focused on providing information in the following areas:

- Alignment with the IIGCC categorisation framework
- Emissions intensity baseline
- Coverage baseline
- Engagement baseline
- Engagement strategy

Focused meetings were also held with each manager on portfolio implications from the different potential net zero targets. In light of these discussions, we opted for a benchmark relative approach, and one based on weighted average carbon intensity.

#### *Outcome*

Overall, we are pleased with the response that our managers have demonstrated. All managers have been able to meet the initial reporting requirements and have also now integrated these metrics into their quarterly reporting packs. This provides us with a platform to monitor and track progress against the fund's net zero targets.



# Infrastructure

The Infrastructure Team has identified various priority themes for their engagements, which are material to the asset class. Across 2023-2024, these included:

- Physical climate risk
- Decarbonisation
- Human rights

## Manager engagement – review of alignment with net zero

In Q3 2023, LPPI's Infrastructure Team engaged with an external manager on specific initiatives as part of ongoing portfolio monitoring. The first initiative was a review of the alignment with net zero, progress towards targets, and importance of net zero in their investment strategy. This review consisted of a dialogue to explore the assets current alignment with the IIGCC Net Zero Framework, and the actions identified to meet targets. The manager's pre-defined commitments as a signatory of the Net Zero Asset Managers (NZAM) initiative supported a top-down portfolio approach, combined with asset level greenhouse gas (GHG) emissions reductions.

The second initiative related to a deep-dive review of the recent UK Biomass Strategy, scope of the UK Emissions Trading Scheme (ETS), and potential developments for Carbon Capture and Storage (CCS) at the asset. The review sought to understand the policy implications to identify the key risks and opportunities for the investment, and whether there is potential for inclusion in the UK ETS as the scope expands in the future. Furthermore, our Infrastructure Team has been collating and monitoring the quarterly GHG emissions in comparison to the electricity generated, to understand the carbon intensity of the electricity exported.

These activities directly contribute to our ambitions to bring infrastructure under scope of LPPI's net zero targets and to manage climate change risks and opportunities overall in line with TCFD.

## Priority theme engagement on physical climate risk

In Q3 2023, the infrastructure team engaged with a manager on physical climate risk. The target outcome was to:

- Ensure physical climate risk is being assessed for material holdings in the IPV and to learn from manager experiences with different data providers and systems that assess physical climate risk.

### *Outcome*

Following the engagement, the Infrastructure Team was able to confirm that the fund was in the process of undertaking the mapping of physical climate risks for Fund II assets using the Munich Re tool, initially to identify the fund's exposure to risks from extreme weather events. The manager also shared that it aims to include such assessments in future investment due diligence and incorporate the impact on biodiversity and nature.

Once physical risks are detected, the assets' current resilience will be considered before exploring adaptation strategies to increase future resilience. The manager also uses scenario analysis to assess risk profiles in different climate scenarios and the potential impacts on asset value and exit. This gave the Infrastructure Team confidence that physical climate risk was appropriately being considered by the fund.

### Priority theme engagement on physical climate risk and decarbonisation

In Q3 2023, the Infrastructure Team engaged with a manager on physical climate risk and decarbonisation. The target outcomes were to:

Ensure physical climate risk is being assessed for material holdings in the IPV and to learn from manager experiences with different data providers and systems that assess physical climate risk.

Ensure that external managers fully consider the transition risk for assets and have a credible plan to decarbonise assets where possible or put in place a plan in line with sector and geography context.

#### Outcome

Following the engagement, the team received insights on the climate analysis undergone by the manager, to present the transition and physical risks of assets across the energy, renewables, transportation, telecom, and waste/water sectors. The manager initially considered the 'unmitigated risks' associated with sectors/assets, before considering the steps taken by management teams to mitigate known risks. The team confirmed that:

- To assess transition risk, the manager used the NGFS scenarios to undertake a portfolio assessment to identify sub-sector transition risks.

- To assess physical risk, the manager used the Notre Dame Global Adaptation Initiative (ND-GAIN) index which measures a country's vulnerability to climate risks and readiness to implement adaptation solutions. The manager's view of sub-sector risks was layered with the ND-GAIN view of geographic risks. Further, the manager used the AXA climate risk tool to validate risks.

The team also discussed how the manager had applied the IIGCC framework and different emissions pathway methodologies that infrastructure assets can use to set net zero targets. In addition to the IIGCC and SBTi, the team confirmed that the manager used a top-down approach with a regional or national carbon budget for assets without a clear pathway.

The Infrastructure Team will continue to monitor external managers' progress in assessing physical climate risk and resilience of assets, with further engagement on how managers intend to use this data to inform their approaches to future-proof assets. The team will continue to engage with platform investments (with underlying greenfield projects) to determine how physical climate risk considerations and mitigants are incorporated. The team will further continue to observe how external managers apply the IIGCC net zero framework, set targets, plan a decarbonisation pathway and integrate into business plans.

### Event driven engagement – Storm Hilary and flooding risk to physical assets

In August 2023, the tropical Storm Hilary set record rain fall and caused significant flooding in Southern California. In response to concerns about the effects of flooding on an asset, the Infrastructure Team engaged with the manager.

#### Outcome

Following the engagement, the team had confidence that there were mitigation safeguards in place through the initiation of the manager's storm preparation and protocol, which resulted in no operational impacts and the systems continuing to run normally in the Los Angeles and Silicon Valley facilities.

### Engagement on human rights

During Q3 2023, the infrastructure team also engaged on the IPV's biggest holdings and high-risk sectors posing a risk to human rights as identified in LPPI's ESG SatNav. The engagement was focused on whether the investee companies had published a human rights policy.

#### Outcome

Following the engagement, the team found that managers who the team engaged with included human rights in their responsible investment policy or with a standalone policy, both designed with guidance from the UN Guiding Principles on Business and Human Rights (UNGPs). The Infrastructure Team will continue to engage with managers and assets in high-risk sectors and geographical exposures, include a due diligence question for a policy statement on managing human rights risks in line with the UNGPs, and continue monitoring for any human rights incidents in reporting.

# Real estate

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

We delegate the management of the fund's direct UK real estate to Knight Frank Investment Management (KFIM), which represents approximately 55% of the assets of the fund by value.

LPPI's 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 continues to use engagement to inform and maintain the red, amber, green ESG rating framework which 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 with all managers allow the Real Estate Team to continuously evolve both manager and mandate ESG ratings and set clear expectations. This has contributed to significant developments, especially in the acquisition of direct UK assets managed on a semi-discretionary basis by KFIM. All acquisitions 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
- PV generation

## Manager engagement on solar PV

In Q1 2024, our Real Estate Team engaged with KFIM to encourage the installation of solar PV systems at the direct UK properties within the LPPI Real Estate Fund. The engagement has resulted in every prospective direct investment being assessed for solar PV installation as part of the investment underwrite. Currently, roof mounted solar PV systems are in operation at 12 sites overseen by the external manager. During 2023 these systems generated an estimated 485,895kWh of electricity.

- Stage 1  
Engaging with tenants, conducting feasibility studies and undertaking financial viability modelling.
- Stage 2  
Overseeing technical assessments, grid connections, planning and advising on the required legal agreements with tenants.
- Stage 3  
Procuring, installing, and commissioning solar systems.

## Outcome

Following the engagement, it was confirmed that the external manager has completed the initial assessment of suitable sites in the existing portfolio for PV installations and 24 additional sites across the UK have been identified with a total estimated system size of 22,000 kW. Of these 24 sites, six have undergone Stage 1 assessments including tenant engagement and financial modelling. In 2024, they aim to advance to Stage 2 and Stage 3 for these sites.



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## Engagement through our external managers

## LPPI Real Estate Fund - working with our external manager

We continue to work in partnership with Knight Frank Investment Management (KFIM) to champion ESG performance and maintain high stewardship for its direct portfolio. In 2023, notable ESG performance highlights from KFIM include<sup>10</sup>:

- 100% Renewable Energy Guarantees of Origin (REGO) backed renewable electricity procured on all landlord sites
- On-site photovoltaic panels producing over 550,000kWh of solar power
- 54% of assets under management are EPC B or above
- GRESB reporting score of 67/100, a baseline to grow year-on-year
- Improved UN PRI scoring from 53% to 79% in the direct real estate category, reaching 91% in Policy, Governance, & Strategy, and 85% in Confidence Measures

### Championing EPC standards during refurbishment and improvement works

The previous tenant of an asset held in our portfolio entered into administration and vacated the asset prior to their lease expiry in February 2023. The asset was handed back in poor condition, with impact damage to the front of the building posing a health and safety risk. Additionally, the unit's EPC D rating presented an opportunity to enhance its environmental performance.

Between Q4 2023 and Q2 2024, KFIM undertook refurbishment works, with the aim to return the unit to good condition for re-letting and to enhance the EPC rating to a minimum of B. The unit achieved an EPC B rating in May 2024.

### Tenant engagement workshops led by KFIM

Tenant engagement is crucial for both the LPPI Real Estate Fund and tenants to better understand each other and increase transparency in terms of respective ESG strategies. Workshops provide an opportunity for both the landlord and tenant to discuss what their sustainability strategies and targets are, what potential opportunities for collaboration could be pursued to improve the ESG performance of sites (for example, solar PV installation and EV charging installations) and offer continued dialogue to maintain or improve the sustainability efforts of both parties.

On LPPI's behalf, KFIM conducted a targeted outreach programme via its property manager, BNP, reaching out to all tenants to offer calls and discuss their needs and current ESG features at their premises along with gathering waste and water energy data for GRESB 2023 reporting.

#### Outcome

In total, 45 interviews were completed, with KFIM receiving data for 68 of the 176 occupiers (39%), fostering productive conversations with a diverse range of tenants. A breakdown of the number of tenants contacted and the data collection success rate is presented in the table below.

Occupier engagement results summary	
Interviews completed	45
Tenant data received (email and interviews completed)	68
Declined participation	32
No response/data received	76
Total number of tenants contacted	176

KFIM are committed to ongoing engagement with our tenants and look forward to continuing the productive conversations in the coming year, adding social impact and monitoring social outcomes as a next step in its engagement strategy.

### PV tenant engagement by KFIM

The popularity and demand for solar photovoltaic panels (solar PV) installation is on the rise as both landlords and tenants aim to shift towards on-site renewable electricity generation. Promoting the adoption of solar PV comes with various advantages for the LPPI Real Estate Fund, such as higher revenue through Power Purchase Agreements, decreased risk of stranding, and improved tenant satisfaction. Environmentally, solar PV provides access to clean and renewable energy sources, leading to a reduction in global emissions, enhancing grid security, and boosting economic stability.

KFIM has also been engaging on LPPI's behalf with Jongor Ltd to implement solar on their multi-let industrial estate. This innovative project delivers significant environmental and financial benefits for the fund. Utilising a Purchase Power Agreement, Jongor can then purchase the electricity generated by the solar panels at a pre-determined, discounted rate compared to the grid price. Any excess electricity produced beyond Jongor's needs will be sold back to the grid.

The solar installation is projected to generate strong returns whilst demonstrating the fund's commitment to identifying sustainable investment opportunities.

#### Outcome

Besides generating returns exceeding the fund's target range, the solar installation contributes to the environmental performance of our portfolio. The asset's current Energy Performance Certificate (EPC) rating is B (43). On average, solar installations can decrease a building's EPC rating by 23 points, potentially propelling this specific asset to an EPC A rating (0-25). This significant improvement signifies a dramatic reduction in energy consumption, thereby minimising the building's environmental footprint and enhancing its long-term value. Installation of these systems is scheduled for Summer 2024.

## LPPI Global Equities Fund - external manager engagement

### Engagement with HDFC on climate change

In 2023, an external manager engaged with HDFC to discuss the bank's environmental strategy, with emphasis on financed emissions and the establishment of science-based targets. The manager conducted continued engagement with the bank's sustainability team and through participation in the Emerging Markets Investor Alliance (EMIA) Financials Working Group maintained a persistent dialogue to encourage progress on HDFC's environmental performance, including sustainable lending practices.

#### *Outcome*

Following the engagement, HDFC demonstrated an openness to the manager's and other investors' feedback and were proactive in integrating advanced environmental practices and disclosures. The bank, known for its leadership in retail lending, now aims to increase its transition lending with a proportion of its current lending portfolio deemed sustainable. Although HDFC has committed to carbon neutrality by 2032, it is distinct from a net zero pledge. However, they are progressing towards adopting science-based and Scope 3 targets. The manager plans to continue monitoring HDFC's progress on these issues and engaging through its Emerging Markets Investor Alliance (EMIA) Working Group participation as well as its direct communications with the company.



## LPPI Credit Fund - manager engagement

### Engagement at the issuer level – European utilities company

Over a period of more than five years which concluded in Q4 2023, one of our public credit managers co-led a collaborative engagement alongside Climate Action 100+ with a European utilities company on several topics including climate transition, net zero and just transition. As part of their engagement process, they had active dialogue with the senior management team and shared information on net zero frameworks.

#### *Outcome*

This engagement led to several positive outcomes including the company setting decarbonisation targets for carbon intensive areas of the business, making a public commitment to net zero, incorporating climate-related KPIs within executive remuneration, and moving towards renewable energy sources. This engagement demonstrated the depth and influence of our managers' engagement approach and their ability to hold issuers to account on their commitments.

### Engagement at the borrower level – inclusion of ESG linked covenant in real estate debt

In 2023, one of our European real estate debt managers provided senior debt financing to fund the development of an assisted living complex. This was a bilaterally negotiated deal where our manager saw an opportunity to improve the sustainability status of the properties by incorporating an ESG-linked covenant into the loan documentation which would provide the borrower with an interest rate discount if an "Excellent" BREEAM (Building Research Establishment Environmental Assessment Method) certification was achieved upon project completion. Such a certification is determined by an independent party and requires the building to score highly overall when assessed on several criteria including, amongst others, energy performance, water usage, pollution, materials, and waste.

#### *Outcome*

ESG covenants remain non-standard in the real estate financing market, however, our manager aims to incorporate these into more loans going forward with the view that higher quality buildings ought to be more attractive to buyers and protect the value of the development loan. The target certification was achieved, and the loan continues to perform well.



### Governance related engagement – asset-backed lending manager

In Q4 2023, we carried out due diligence on an asset-backed lending manager which invests in private debt. We initially explored accessing the strategy via a newly launched commingled fund which offered limited liquidity. Early on in our due diligence process, we reviewed the legal documentation to understand LP rights and oversight over the management of the strategy and found no Limited Partner Advisory Committee was in place. Given the limited liquidity of the vehicle and potential for the strategy to introduce different conflicts of interests, we engaged with the manager to create a similar governance structure in the spirit of providing transparency to LPs on items such as potential conflicts and expenses and making this a more attractive vehicle to investors.

#### Outcome

This was received well by the manager who subsequently agreed. For other reasons, we did not pursue this investment, however, this example reflects LPPI's engagement throughout the due diligence process and focus on strong governance at the manager level.

## LPPI Fixed Income Fund - manager engagement

### Corporate engagement on human capital - US telecommunications provider

In Q4 2023, our external manager conducted multiple engagements with a US telecommunication provider, which was held in the portfolio. Engagement was focused on a variety of sustainability topics, including climate strategy and human capital commitments. The company has a large workforce and has stated it is committed to diversity and inclusion of its employee base.

Discussions have focused on social and governance issues material to the sector, related to workforce management, including diversity, inclusion, labour relations, as well as data privacy and security.

The external manager recommended greater transparency related to workforce breakdown and linking ESG metrics with executive compensation, as well as disclosing the company's workforce management approach in its upcoming sustainability report.

#### Outcome

Following the engagement, the company improved its disclosure in relation to diversity and inclusion policy, including the addition of workforce breakdown by position, gender and ethnicity. These enhanced disclosures were in line with the external manager's recommendation for best practices.

### Corporate engagement on emissions reductions and net zero – Italian energy company

In Q2 2024, our external manager engaged with a global integrated electricity and gas operator on emissions reductions and a net zero plan.

#### Outcome

The engagement provided valuable insights into the company's trajectory towards a sustainable future. It was confirmed that the company remains on track to exit coal by 2027, with major closures expected in 2025. The shutdown of the coal plant by 2027 will necessitate significant transmission investment, aligning with Italy's ambitious decarbonisation goals to divest all thermal assets before 2040.

The company's end goal is to ensure the security of supply, which includes plans to convert some coal stations to gas facilities, reflecting a pragmatic transition strategy. This supports a more direct path towards investing in renewables and battery storage, ensuring a secure supply of energy.

### Sovereign engagement with a central European state on climate policy

In Q1 2024, our external manager met with the State Secretary for Energy and Climate and the country’s Debt Management Office of a central European country. The focus of the meeting was engagement on climate policy progress made within the past six months.

- Financially material climate issues, including the heavy state reliance on imported natural gas, primarily from Russia. This dependence impacts energy security and EU relations.
- Government goals, including the state’s aims for climate neutrality by 2050 and increased 2030 targets for emissions reduction and renewable energy.
- Policies to date: steps taken in the past year to reduce dependence on imported gas and put the country on path to meet its climate target. Policies have been aimed at increasing renewable energy penetration, including nuclear, and improving the quality of its green bond framework, and impact reporting.

- Diversification of imported gas: only 10-15% of gas is from domestic sources, with the remainder coming primarily from Russia. The government has focused efforts on options such as importing more from Croatia, working with Romania on a gas project, negotiating access to Poland’s LNG terminal and policies to reduce energy consumption by households.
- Renewable energy: increased solar and hydro capacity, and prolonged lifetime of existing nuclear power station.

#### Outcome

Following the engagement, the manager acknowledged the country had made significant progress but it was not matching this with adequate disclosure and so requested the department publish an ESG profile that outlines its main ESG targets and policies. This resulted in a positive outcome, with the government publishing a high-quality document.

In future engagements, the manager aims to discuss progress in these three areas:

1. Steps taken to reduce dependence on imported gas
2. Integrating renewable energy into the grid
3. Developing EV charging infrastructure



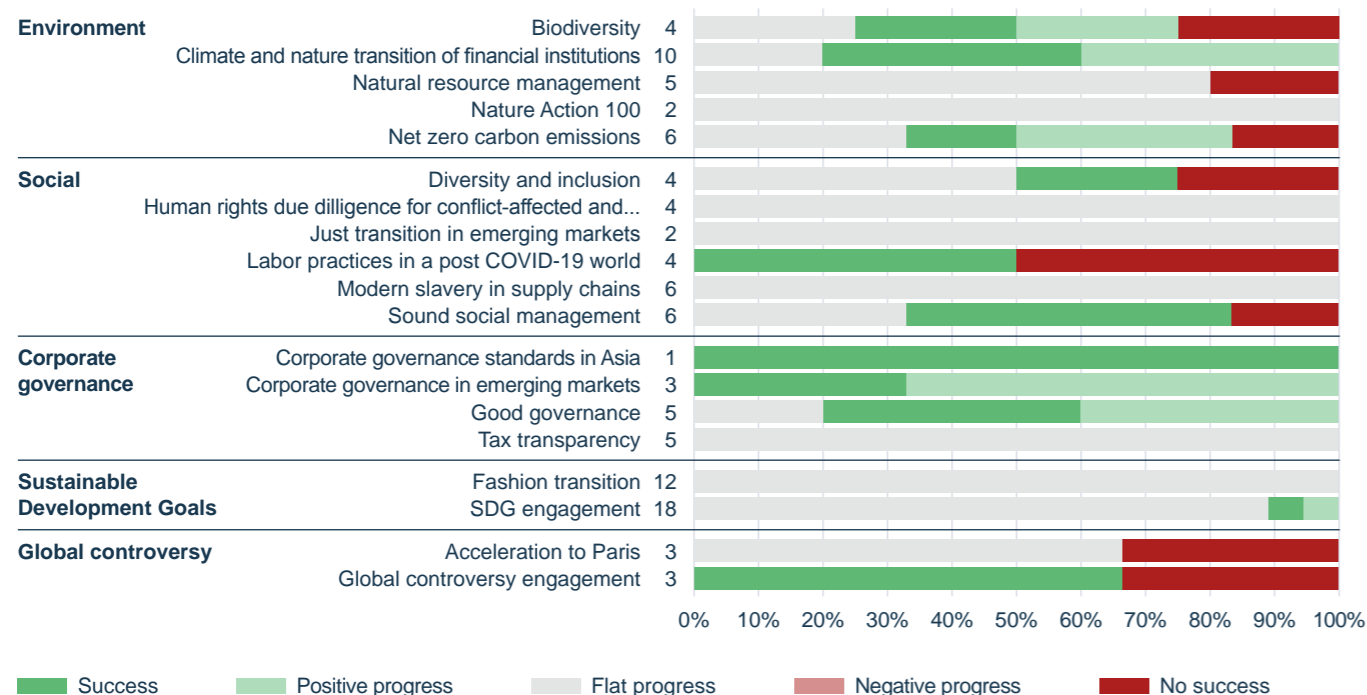
# Our public markets engagement partner – Robeco Active Ownership

LPPI's stewardship efforts are enhanced through our relationship with Robeco Active Ownership (Robeco), which commenced in early 2020. Robeco supplements our own engagement activities across listed (global) equities and corporate fixed income, bringing additional resource and expertise to expand the scope of LPPI's engagement universe. Robeco executes standalone engagement themes, informed by our interests 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.

Robeco's overall progress for each of the themes actively engaged on during 2023-2024 can be seen in the following chart:

## Progress per themes: Themes and number of companies under engagement



Between 01 April 2023 and 31 March 2024, Robeco has undertaken 233 engagements on LPPI's behalf, with the majority of these focused on environmental topics. These are displayed in the following table:

## Number of engagement activities per overall theme

Activity by focus topic	Count
Environment	81
Social	49
Corporate governance	35
Sustainable Development Goals	49
Global Controversy	7
Robeco-linked voting	12
<b>Total</b>	<b>233</b>

Robeco engages through various methods, with conference calls and written correspondence being the most common form of engagement as shown in the table below:

## Number of engagement activities per contact type

Engagement activity	Count
Meeting	12
Conference call	124
Written correspondence	130
Shareholder resolution	3
Analysis	79
Other	2
<b>Total</b>	<b>350</b>

### Robeco engagements in LPPI Global Equities Fund – Booking Holdings

In Q2 2023, Robeco engaged with Booking Holdings, the world's largest online travel agency. The company lists accommodations in conflict areas such as the Occupied Palestinian Territories and several controversies were highlighted by civil society organisations, including the lack of human rights policy and disclosures. Robeco continued to have an open dialogue with Booking Holdings since the start of the engagement.

#### *Outcome*

In 2023, the company published a human rights policy aligning with international standards. The policy explicitly included heightened due diligence requirements on listings located in conflict areas. The company also hired a human rights officer who will be responsible for integrating these commitments and increased its disclosures on its approach to human rights and CAHRA. Robeco will continue to focus on Booking Holdings' implementation of its human rights policy.

### Robeco engagements in the LPPI Global Equities Fund – Nike

In response to the effects of the pandemic, US athletic footwear company Nike implemented a “more flexible” short-term incentive structure based on two equally weighted, six-month performance periods. In Q4 2023, Robeco flagged its concern to Nike regarding the lack of transparency on certain adjusted performance goals.

#### *Outcome*

Following the engagement, Robeco was satisfied that the company has since transitioned back to the historical design whereby short-term incentive payouts are earned based on year-long targets.

### Sovereign engagement - Brazil

Robeco has carried out sovereign engagement with the Brazilian government, with the aim to support the end of deforestation in the Amazon. The engagement initially commenced in 2020 as part of the Investor Policy Dialogue on Deforestation (IPDD) collaborative investor platform and represented the launch of their sovereign engagement efforts. The Brazilian business sector has led the initial transition, as companies jointly developed a strategy to fight deforestation. Pressures to act were only met by the government by the end of 2021, when the country signed the Glasgow Leaders Declaration on Forests and Land Use at COP26.

However, progress remained stagnant until the new administration came into force in 2023, where Robeco and other IPDD members travelled to Brazil to discuss deforestation actions with the new government. The engagement dialogue focused on finding systematic and socially beneficial solutions to the deforestation challenge. One such solution discussed during the visit related to increasing the transparency and traceability of cattle supply chain data, empowering companies in their fight against deforestation.

The engagement also included numerous discussions focused on unlocking new channels to finance the country's green transition. They engaged with the Brazilian Central Bank and the Bank of Brazil to explore how to strengthen local sustainable credit markets, pushing the development of clearer taxonomies and verification systems.

#### *Outcome*

Following the engagement, Robeco discovered that the new elected administration seems to be standing behind its 2022 campaign promises, fostering cross-ministerial collaboration, and increasing budgets for environmental protection and enforcement by, among others, reviving the Amazon Fund. Despite the fact that the anti-environmental lobby remains strong in the Brazilian Congress, there has been a fall of 34% in deforestation rates during the first half of 2023.

## Collaborative engagements and external partnerships

We value the importance of engaging collaboratively with companies and stakeholders on thematic issues. This includes our participation in external industry initiatives, which is fuelled by LPPI's collaborative nature and a desire for best practice stewardship. The more we can benefit from pooled experience with partners, the more effective we can be for our pension fund clients and their beneficiaries.

### Collaborative engagement with the UK Government

In September 2023, we collaborated with 31 other investors as a signatory to an investor letter to the Prime Minister Rishi Sunak in response to the UK Government's announcement of changes in net zero policy.

The letter signalled deep concern with proposals to 'backtrack on vital policy measures that support the UK's transition to net zero'.

The IIGCC and PRI jointly convened investors to communicate concerns to the Prime Minister at policy changes which include the relaxation of some key dates. The letter reinforced the need for an enabling policy environment which supports investors to make long-term investment and asset allocation decisions in line with their fiduciary duty to clients and beneficiaries, and to manage risk and opportunities to maintain the long-term financial value of their assets.

We were invited to participate through its signatory status of both the IIGCC Net Zero Asset Manager initiative and the Principles for Responsible Investment.



## FCA consultation on changes to UK Listing Rules

The Financial Conduct Authority (FCA) issued Consultation Paper 23/10 – “Primary Markets Effectiveness Review: Feedback to CP22/2 and proposed equity listing rules” in May 2023. The consultation outlined proposals for a single listing category to replace the existing standard and premium listing regime and outlined what accommodating this change would mean.

We made a submission to the consultation acknowledging the importance of facilitating more companies to list in the UK and the appropriateness of reviewing current barriers to this, but voiced concern at aspects of the proposals which would place greater responsibility on shareholders to hold companies to account whilst simultaneously removing important shareholder safeguards. This reflected that some material matters requiring a shareholder vote under existing arrangements would no longer do so under the revised approach, removing the ability for shareholders to oppose company proposals pre-emptively.

Our submission was one of 100 written responses received by the FCA who responded in December 2023 via Consultation Paper 23/31 – “Primary Markets Effectiveness Review: Feedback to CP23/10 and detailed proposals for listing rules reforms”. This acknowledged the engagement by investors, recognised that trade-offs were required to achieve the objective of the reforms, and noted that “proposals would result in a rebalancing of risk...which may mean more failures as part of ensuring the market overall supports the risk appetite the economy needs”.

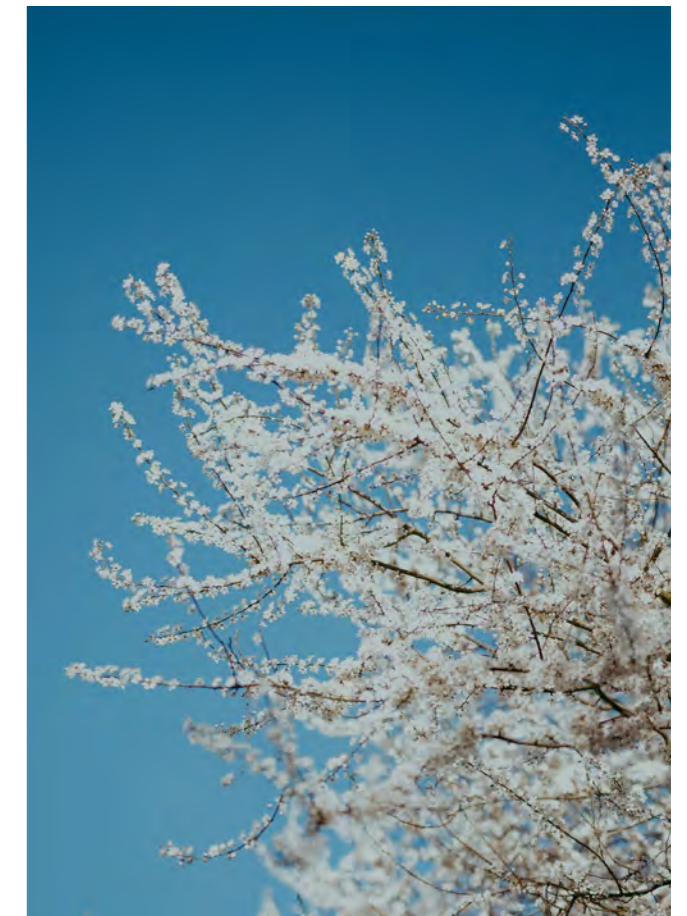


## Nature Action 100

During Q3 2023, we signed up as a founding participant to Nature Action 100, which is a global investor-led engagement initiative focused on supporting greater corporate ambition and action in key sectors deemed systemically important to reverse nature and biodiversity loss by 2030. The signatories include over 200 global asset owners and asset managers responsible for over \$28 trillion in assets under management or advice.

Letters highlighting baseline expectations were sent to all 100 companies at the start of the campaign, signed by investors including LPPI. We then began as lead engager on three companies held in our internal global equities portfolio but due to portfolio changes during the year we remained part of one engagement group at the end of the reporting year. As part of this group we have been engaging with a global wholesale retailer with specific objectives in mind around ambition, assessment, targets, implementation and engagement. The first step has been to request a call with the company to better understand their thinking in this area (we are currently awaiting a response from management).

While the initiative remains in its early stages, we have had several encouraging discussions with fellow member investors, who have been able to bring together different perspectives and experience with regards to the theme at hand. The members are confident that we can leverage our collective ownership and knowledge into some positive conversations with the company.



## 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 Q3 2023, we wrote to seven companies to encourage participation in the annual workforce survey, the completion of which produces novel and rich data insights on company practices used as part of portfolio monitoring. We received responses from three of the seven companies.

Our internal equities team uses the insights captured on workforce management practices to deepen their understanding of portfolio holdings, inform investment due diligence on prospective investments and align investments accordingly.



## Fair Reward Framework

We have supported the development of the Fair Reward Framework (FRF) as part of a group of UK asset owners convened by the Church of England Pensions Board and Brunel Pensions Partnership.

The proposed FRF provides a dashboard that compiles different indicators of executive pay and enables the ranking of individual companies against each of these 'fairness indicators'. Investors can then use this information to inform their own stewardship priorities and proxy voting decisions in line with their fiduciary duties.

The proposed framework poses a constructive challenge to all stakeholders to think more broadly about what factors lead to success and which approaches engender a fair division of the resulting rewards. The FRF is currently in a consultation phase, with input from asset owners and asset managers, alongside corporations and other bodies sought across Q3 and Q4 2024.

## IIGCC Net Zero Engagement Initiative

During Q2 2023, the IIGCC circulated responses to the Net Zero Engagement Initiative (NZEI) letter circulated to target companies, commencing the investor-led engagement phase of the initiative.

The letter outlined climate transition plan reporting expectations for the target companies. We have been selected as part of the engagement group for three companies. Of these, two did not respond to the initial letter. However, we have already separately engaged with one of them on climate-related matters. The remaining company provided a comprehensive response to the IIGCC and we are in discussions with co-leads on next steps.

### PRI strategy review

In late 2022, the Principles for Responsible Investment (PRI) ran a global signatory consultation titled ‘PRI in a Changing World’. Work has subsequently been underway on a new organisational strategy supportive of the PRI’s future role and delivery model. Details released via a consultation paper published in March 2024 entitled ‘Strategy Consultation 2024 – Responding to a changing world’ sought comments and feedback from signatories by May 2024.

We are a PRI signatory of long standing. Having participated in the original 2022 consultation, in March 2024, we submitted a response to the 2024 consultation. The PRI’s proposed organisational strategy addresses two overarching objectives:

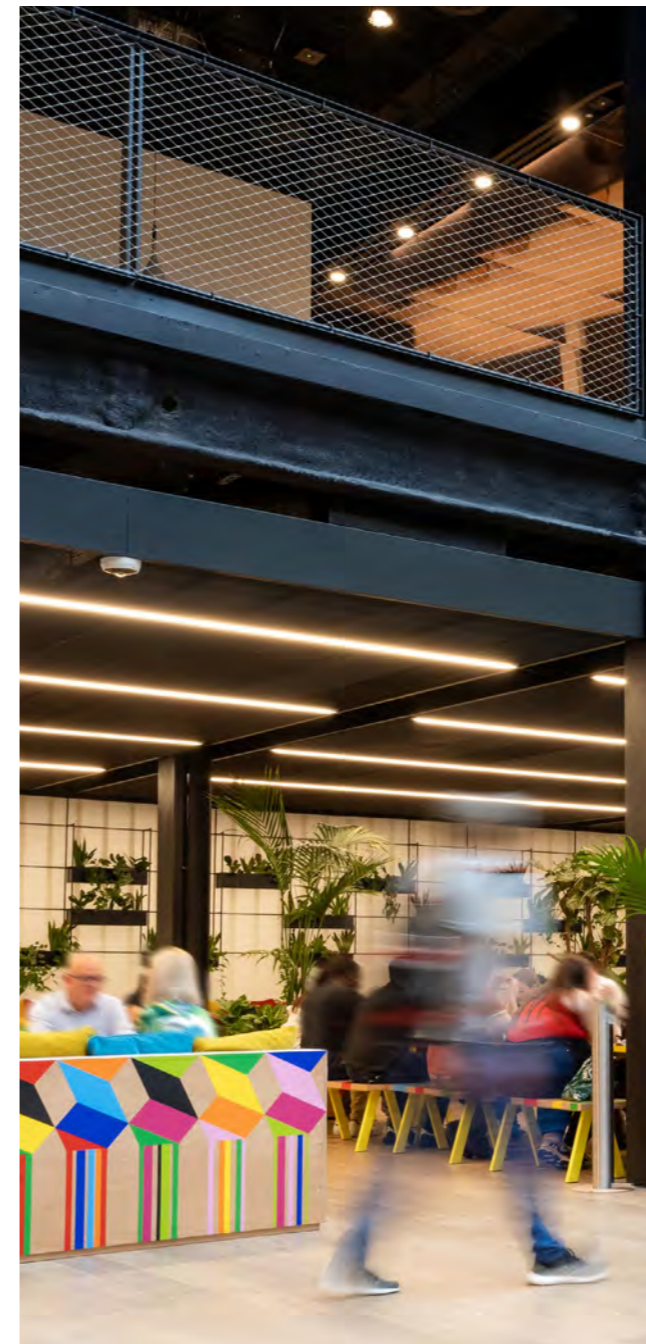
- To maximise the value the PRI delivers to signatories in a rapidly evolving environment
- To deliver on the PRI’s mission to create a sustainable financial system that benefits both the environment and society

We were generally supportive of the direction of travel and welcomed the clarity of purpose which focused on prioritisation and specialisation.

The four focus areas outlined in the strategy consultation are:

1. Driving signatory progression on responsible investment while streamlining PRI mandatory reporting
2. Strengthening regional responsible investment ecosystems and extending our reach in emerging markets and developing economies
3. Amplifying signatory impact by supporting and leading collaborative initiatives
4. Strengthening the enabling environment for responsible investment by influencing government and multilateral policy and financial market practices

The proposals explain different expectations around signatory reporting requirements which will be streamlined going forward, the focus moving from assessment against a single standard (through exhaustive completion of a comprehensive suite of indicators) to more tailored disclosure which demonstrates progress against locally set objectives for responsible investment practices and outcomes.



We recognise that objective external benchmarks benefit clients and stakeholders assessing LPPI’s stewardship. The PRI’s decision to move away from prescriptive scored assessment recognises responsible investment is increasingly diverse, a single standard has become progressively more difficult to define and rate signatories against, and the PRI’s priority focus is facilitation.

The introduction of progression pathways seeks to encourage reporting which reflects the circumstances and level of maturity of signatory organisations, maintain accountability to the six principles and deliver insight on the activities and outcomes being prioritised.

Further information on progression pathways will be shared once work to define their design is progressed in partnership with signatory representatives.

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## Escalating engagements effectively

Our approach to escalation is both issue and context specific.

Whilst we have set expectations for external 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 focusing attention on material asks. This can include liaising with us to identify shareholder voting which will reinforce the issues requiring priority attention.

### **Escalation with global snacks and beverage manufacturer on management compensation (internally managed global equities)**

Management compensation is an important engagement theme for the internal equity portfolios. Well-crafted management incentives can play a key role in ensuring alignment of management and shareholder interests.

In Q1 2024, LPPI's internal equities team engaged with a global snacks and beverage manufacturer after identifying some concerning amendments to the management's compensation structure. Namely, management's prospective long-term incentive plan cycle was advocating for the removal of return on invested capital (ROIC) from its calculation, meaning long-term awards were set to be based on earnings per share, organic revenue growth and relative total shareholder return. While organic revenue and profit growth are important to any business, if they are achieved at the expense of ROIC, this is value destructive for shareholders.

### *Escalation outcome*

Unfortunately, our discussion on the matter was underwhelming, with management's rationale for the proposed changes disappointing and fuelling concerns that the company's focus had shifted from returns to growth at all costs. As a result, this engagement formed part of our decision to remove the position from the portfolio.

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# Our approach to shareholder voting

## Context to proxy voting

The LPPI Global Equities Fund is composed of an internally managed global equities portfolio (circa half of its assets under management) and a further five externally managed underlying portfolios for whom we have retained voting rights. Voting decisions have been fully delegated to us from our three whole scheme management clients, and we see it as our fiduciary duty to exercise our responsibilities to both our clients and our portfolio companies through proxy voting in an informed and communicative manner.

## Proxy voting in practice

Our approach to proxy voting is detailed in our [Shareholder Voting Policy](#), available on our website. To ensure we apply a consistent approach, we endeavour to actively vote at all applicable shareholder meetings across all underlying portfolios in the global equities fund, demonstrating our conviction in our [Shareholder Voting Guidelines](#), also available on our website. Our Shareholder Voting Guidelines are updated annually and for the current reporting period were updated in December 2023 in acknowledgement of the evolution of industry best practices, our clients' identified responsible investment priorities, and issues material to our diversified portfolio.

## Stock lending

At present, we do not operate a stock lending process. Therefore, we are fortunate to not be tasked with recalling stock from the custodian ahead of upcoming shareholder meetings. This means we can always vote with the entirety of the shares we own in a company.

## Determining how to vote

We use Institutional Shareholder Services (ISS) as our sole proxy adviser and subscribe to their sustainability voting policy as our default policy, yet this can be overridden, most frequently when it diverges from LPPI's bespoke voting guidelines. We consider the research and recommendations provided by ISS alongside our own research and engagement to inform our ultimate voting decisions. We respond annually to ISS's Benchmark Policy survey which informs the application of specialty policies. Practically, should any issues arise in the execution of our voting rights, we work closely with ISS to resolve problems in the voting chain and we consider them to be very responsive.

With our externally managed portfolios, in some instances we liaise with the underlying asset managers to gain more in-depth understanding of their investment thesis for holding a company and tap into their deep knowledge of the company in question. We are also provided with write-ups of engagements undertaken by those external asset managers; where applicable, information gleaned from these may also inform voting decisions.

Through our proxy voting decision making, we hold portfolio companies to the same standard regardless of which underlying fund they are held in; as a result, we aim to have a consistent approach to stewardship of companies in our global equities portfolio. That said, we believe it appropriate to differentiate our expectations for companies operating in emerging markets and those in developed markets. This is reflected in LPPI's Shareholder Voting Guidelines, and one example of this is our treatment of board-level independence requirements. We expect a majority independent board members in developed markets and at least one third independent members in emerging markets.

Ultimately, there are occasions where we do override our voting guidelines. This is usually in acknowledgement of a company's idiosyncrasies and/or a result of our engagement activities. For example, we or one of our external managers may have engaged with a company, alerting us to mitigating rationale or a demonstration of motivation to align with our asks, which may lead us to grant lenience on a particular issue. Another instance is when our guidelines state a preference for a certain quota – that is, for 30% female representation on boards of Russell 3000 companies and the company has 28% female directors and has demonstrated a positive trajectory in the last few years. In cases such as this, we may reason that the company is making good progress and cannot round up a fraction of a board member.

### An example of a vote instruction which was not in line with our voting policy

LPPI’s proxy voting guidelines outline that we may vote against the chair of the nomination committee at boards of Russell 3000 constituents with less than 30% women. This was the case at HEICO Corporation (USA: Aerospace and Defence), yet we instead abstained on the nomination committee chair’s re-election. This was because, at the previous year’s AGM, we had acknowledged the company’s efforts to improve female representation at board level and upwards trajectory of female representation – as a result did not cast an adverse vote on this basis. The abstain vote instruction in 2023 represented our reflection on the previous year’s vote instruction and the positive trajectory balanced with our desire to hold the company to the same level of accountability as other Russell 3000 companies in our portfolio. We followed up with the company to communicate the rationale behind our voting decision this year and our desire to see longer term progress.

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.



### Headline voting statistics

In the 12 months from April 2023 to March 2024, of the 387 votable meetings where LPPI Global Equities Fund shares entitled participation, we voted at 376 company meetings (97.16%) on 4,440 separate resolutions. This captured:

- 13% of votes against management
- 54% meetings with at least one vote against management
- 5% were shareholder-filed proposals
- 54% support for shareholder proposals

Reasons for the 11 meetings where we did not vote include:

- The stock was a Russia-linked holding where Do Not Vote was cast as the position was not liquidated prior to trading restrictions. This is in line with LPPI’s position divesting from Russian securities following Russia’s 2022 invasion of Ukraine.
- The stock was domiciled in a share blocking markets where Do Not Vote is applied.
- Issues with Power of Attorney (PoA) documentation at the sub-custodian level. While we raised this with the custodian in advance of voting season, they were not in place in advance of company meetings. The operations team raises concerns around implementation speed at the following service review.

### Market breakdown votable meetings

Australia	2
Belgium	2
Bermuda	5
Brazil	4
Canada	10
Cayman Islands	23
China	32
Curacao	1
Cyprus	2
Denmark	1
France	15
Germany	4
Hong Kong	5
India	54
Indonesia	2
Ireland	7
Italy	1
Japan	16
Jersey	1
Luxembourg	5
Mexico	2
Netherlands	11
Norway	2
Philippines	2
Poland	1
South Africa	3
South Korea	12
Spain	1
Sweden	4
Switzerland	6
Taiwan	3
USA	131
United Kingdom	21
Virgin Islands (UK)	1

### Thematic trends identified (April 2023 - March 2024)

LPPI's latest iteration of its Shareholder Voting Guidelines published after the 2023 proxy season identified the following priority themes as further context for our decision-making:

- Adequate transparency
- Appropriate remuneration
- Effective management of climate change

We consider each company's market positioning, performance against metrics relevant to these themes, and our own research and engagement in determining our vote directions.

Please note the votes detailed below are reflective of AGMs held in the year under review from 01 April 2023 to 31 March 2024.



### Adequate transparency

To make informed judgements on the quality of investee companies' practices, shareholders need adequate information on their standing. Companies are required to publish a range of prescribed information under applicable laws and regulations, but the detail of the disclosure required is frequently open to interpretation. On issues of material importance to LPPI, we will consider whether a company has released sufficient information to support shareholder insight on the adequacy of their approach and assurance on reasonable outcomes. Where companies provide insufficient information on issues shareholders and wider stakeholders consider material, we will encourage them to improve their disclosures.

During the period from 01 April 2023 to 31 March 2024, we voted:

- In support of 100% of shareholder proposals seeking greater transparency on company tax practices
- In support of 100% of shareholder proposals on climate change where most proposals sought greater information on how companies are managing risk

- In support of 90% of shareholder proposals seeking greater transparency on corporate behaviour relating to political lobbying (for example, through enhanced reporting)
- We supported three shareholder-filed proposals requesting companies report on tax transparency at: Amazon.com, Inc., Brookfield Corporation, and Microsoft Corporation. In all cases, this was because the proposed Global Reporting Initiative (GRI) Tax Standard would enhance the company's transparency in communicating its tax practices to investors globally. The resolutions received support from shareholders of 28%, 27%, and 21% respectively.

## Appropriate remuneration

The 2023 proxy season saw some historically high levels of shareholder dissent on lead executives' pay; significantly those detailed below at Netflix and Unilever. Quantum of pay, insufficient disclosures – including of performance criteria – and irregular structures and practices formed the rationale for LPPI's lack of support for these resolutions. In the broader landscape, we noted total pay for executives in the US significantly outweighing that granted to their counterparts in the UK and the EU, contributing to a wider, ongoing debate surrounding attractiveness of listing in the UK, as US companies continue to attract top European executive talent with substantial pay packages.

During the period from 1 April 2023 to 31 March 2024, we voted against 22% 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.

- **At Netflix (USA: Movies and Entertainment), we voted against the say on pay**

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 lack performance criteria and meaningful vesting periods, and the company does not disclose a clawback policy. **Result: 71.3% against.**

- **At Unilever (UK: Personal Care Products), we voted against the say on pay**

The incoming CEO's salary was set higher than his predecessors at a level significantly higher than UK seven market peers. The company did not provide compelling justification for this remuneration package. **Result: 58.0% against.**



- **At Schindler Holding AG (Switzerland: Industrial Machinery and Supplies and Components), we voted against the remuneration report on the variable compensation of the executive committee**

Shareholder dissent shown at last year's resolution on variable remuneration had not been addressed. Furthermore, transparency was deemed poor with regards to both the explanation of variable outcomes and grants of substantial discretionary pay to executives. **Result: 11.7% against.**

## Effective management of climate change

In the wake of another year of record temperatures and natural disasters, it is not surprising that our portfolio companies' management of climate change was identified as a priority theme.

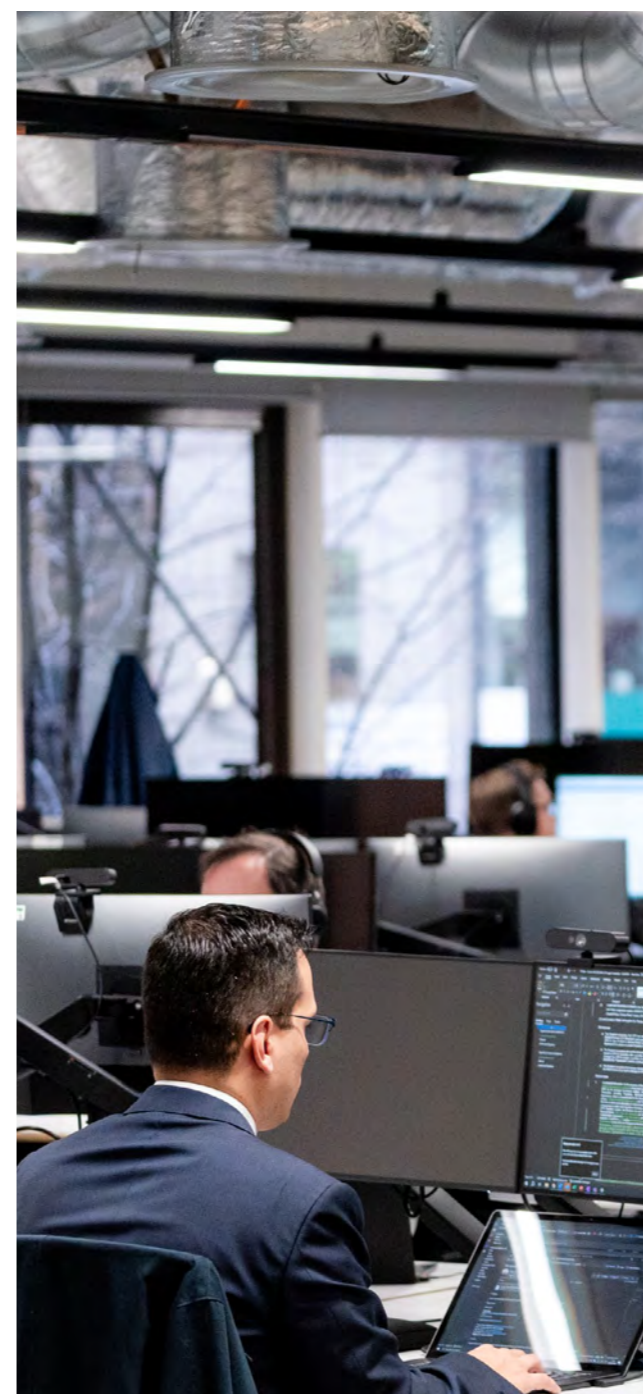
Our global equities fund contributed its assets under management in material sectors to our Net Zero Asset Managers commitment in 2021, and our implementation of our climate voting guidelines are designed to support this.

In determining whether to cast an adverse vote on account of climate, we are guided by the IIGCC's NZIF categorisation of corporate alignment and will vote against management at companies that are assessed to be in the bottom two tiers and are showing inadequate evidence of progress. This captures companies that have not set an ambition to decarbonise (not committed) or those that have set the ambition but not followed up with tangible action such as disclosure of targets (committed to aligning). In the absence of a 'Say-on-Climate' proposal, we may choose to vote against the annual report and accounts, or a relevant board member deemed responsible for the company's actions on climate.

During the period from 01 April 2023 to 31 March 2024, we cast an adverse vote against a management filed resolution on account of a company's perceived climate inaction at 10 companies.

- **Reliance Industries Ltd (RIL)** (India: Oil, Gas and Consumable Fuels) is the largest company by market capitalisation operating in the rapidly growing Indian economy and a large division of the company is dedicated to petrochemical, refining, and oil and gas-related operations. Therefore, the company's climate actions are deemed globally significant; for this reason, it is a CA100+ focus company. However, RIL has failed to disclose its material Scope 3 emissions, which make up >68% of the company's overall emissions and have subsequently failed to set carbon reduction targets for its Scope 3 footprint.

As a result, we voted against the incumbent members of the committee responsible for climate risk oversight. **Result: 1.9% dissent.**



- At **CRH** (Ireland: Construction Materials), Sarasin & Partners led a campaign seeking enhanced disclosure regarding critical accounting assumptions in company accounts and how these are consistent with the company's climate targets.

We aligned with these efforts, voting against the auditor and financial statements, while abstaining for the vote on the chair of the audit committee. **Result: 0.7% - 3.2% against.**

- At **Berkshire Hathaway** (USA: Multi-Sector Holdings), we also cast a withhold vote against the chair of Berkshire Hathaway's audit committee, in line with our Shareholder Voting Guidelines. This aligned with CA100+'s voting guidance.

Unlike the CA100+ recommendation, we did not vote against all audit committee nominees, saving this for future escalation. **Result: 13.8% against.**

## Shareholder proposals

During the period from 01 April 2023 to 31 March 2024, we voted:

- In support of 75% of shareholder proposals seeking reporting on human rights assessments and the improvement of human rights related standards.
- In support of 67% of shareholder proposals related to gender and/or racial diversity. Typical proposals supported requested specific disclosures (such as pay gaps) and actions such as conducting a racial equity audit.
- In support of 65% of shareholder proposals on climate change. We typically supported proposals that sought greater information on how companies are managing risk.

At their 2023 annual Stewardship Briefing, ISS provided a review of trends seen at the 2023 proxy season. They noted a drop in support year-on-year for environmental and social shareholder proposals. The 2023 season also saw the introduction of ‘anti-ESG’ proposals which often posed as ESG-supportive shareholder proposals. As the vast majority of shareholder proposals are filed at US companies, this was reflective of broader anti-ESG sentiment experienced in the US. In navigating this landscape, we did not change our approach, supporting proposals on issues material to the company in question, with asks which we believed to be proportionate to the underlying issue.

- **Deere & Company’s** (Deere) (USA: Machinery) AGM in February 2024 saw one such resolution, urging the Company to: ‘Oversee and report on a civil rights and non-discrimination audit of its DEI practices and policies’.

Filed by the National Legal and Policy Center, the proposal’s narrative purported that diversity, equity and inclusion (DEI) programmes are “deeply racist, sexist, and otherwise discriminatory” against “non-diverse” groups and suggests the company consults public interest legal groups, such as itself, to inform its DEI reporting.

In terms of Deere’s performance on DEI, they provide ample data on the diversity of all demographic groups making up its workforce. Indeed, whilst Deere does have robust practices in place, its workforce is predominantly composed of the traditionally “non diverse” demographic the proponent claims is being discriminated against, evidencing that the DEI policies are not actually systematically discriminatory in the way that the proponent was suggesting.

**As a result, we voted against this shareholder proposal which received support from just 1% of shareholder votes.**

- At **Berkshire Hathaway** (USA: Multi-Sector Holdings), in addition to exercising its climate voting policy, we supported two climate-related shareholder resolutions, which were also flagged by CA100+. One, co-filed by Robeco, sought disclosure for the mechanisms through which the board has oversight of climate-related risks. The second requested reporting on the management of physical and transition risk.

We deemed these resolutions to be proportionate and material to Berkshire Hathaway. **Results: 18.3% and 27.1% respectively in favour.**

- At **Wells Fargo & Company’s AGM** (USA: Banks), we supported a shareholder-filed proposal requesting the company adopt a simple majority vote. As minority shareholders, we are generally supportive of proposals of this nature as the elimination of supermajority vote requirements enhance our rights as shareholders, giving us a more meaningful representation when expressing our views through proxy voting.

**The proposal received support of 50.6%.**

## Fixed income

Our fixed income investments are entirely managed by external managers. Unlike our externally managed equities portfolios, any bondholder meetings pertaining to, for example, amendments to terms and conditions in indentures or contracts, seeking access to information provided in trust deeds; impairment rights; and reviewing prospectus and transaction documents, are managed directly by the relevant external manager. We are confident that this is managed well as a result of LPPI’s extensive manager due diligence (both investment and operational).

# Future priorities

Good stewardship means thinking and acting for the long-term.

The key stewardship focus areas for 2024-2025 are summarised here.

## Climate change

We will continue to manage our ESG programme and bring asset classes into the scope of our net zero framework, with our NZAM commitment ambition for 100% of assets under management being brought within the scope of target setting by 2050 at the latest. Preparations for Phase 3 of the project have now commenced where indirect real estate, the infrastructure fund and the credit fund will be assessed and come under scope of quantitative targets.

We will focus our efforts to champion better disclosure by companies and continue 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.

LPPI will also continue to work towards the launch of our new Environmental Opportunities Fund in 2025. The launch project has been an excellent example of cross-team collaboration with multiple departments involved within LPPI and close partnership with clients as the foundations have been laid during the reporting year.

## Engagement strategy

Forming a systematic and structured approach to engagement across all asset classes is a key priority for LPPI. We plan to create a formalised corporate engagement strategy, leveraging LPPI's internal and external resources across environmental, social and governance areas material to the asset class. As part of this strategy, we would also like to develop a stronger link between our engagements and voting.

Moving forwards, we will explore technological solutions to track and streamline our engagements to allow better reporting of stewardship and understanding of progress made in line with LPPI's commitments.

## 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, with a renewed focus on private market assets. We will continue to push for improved data through disclosure to increase quantitative measurement within our monitoring and reporting.

We also plan on finalising the development of an internal ESG Supplement document, for use by asset class teams when reporting on ESG focused stewardship within Quarterly Asset Class Review (QACR) papers. This document aims to deliver distilled insights on material ESG considerations for each asset class, by summarising the status of ongoing ESG materiality analysis and asset management activities underway. It is designed to support oversight and accountability via QACR meetings but will also help to meet the requirement for internal quarterly ESG reporting to our Investment Committee.

The ESG Supplement allows the adoption of a consistent reporting, which will:

- Provide a basis for setting and tracking internal metrics and KPIs and demonstrating sound processes
- Evidence systematic ESG integration through exception reporting which focuses on material matters and framing sources of risk
- Suggest content suitable for inclusion in client reporting and external disclosure on LPPI's stewardship



# Glossary of acronyms

<b>AGM</b>	Annual General Meeting
<b>AUM</b>	Assets under management
<b>CA100+</b>	Climate Action 100+
<b>CDP</b>	Carbon Disclosure Project
<b>CRREM</b>	Carbon Risk Real Estate Monitor
<b>CvaR</b>	Climate Value at Risk
<b>ED&amp;I</b>	Equity, diversity and inclusion
<b>EOF</b>	LPPI Environmental Opportunities Fund
<b>ESG</b>	Environmental, social and governance
<b>FCA</b>	Financial Conduct Authority
<b>FRF</b>	Fair Reward Framework
<b>IIGCC</b>	Institutional Investors Group on Climate Change
<b>LGPS</b>	Local Government Pension Scheme
<b>LPP</b>	Local Pensions Partnership Ltd
<b>LPPI</b>	Local Pensions Partnership Investments Ltd
<b>MSCI</b>	Morgan Stanley Capital International
<b>NGFS</b>	Network for Greening the Financial System
<b>NZAM</b>	Net Zero Asset Managers (initiative)
<b>NZEI</b>	Net Zero Engagement Initiative
<b>NZIF</b>	Net Zero Investment Framework
<b>PPP</b>	Public Private Partnership
<b>PRI</b>	Principles for Responsible Investment
<b>REGO</b>	Renewable Energy Guarantees of Origin
<b>RI</b>	Responsible Investment
<b>SAA</b>	Strategic Asset Allocation
<b>SCA</b>	Strategic Currency Allocation
<b>sESGi</b>	Systematic ESG Integration
<b>TCFD</b>	Task Force for Climate-related Financial Disclosures
<b>TPI</b>	Transition Pathway Initiative
<b>WDI</b>	Workforce Disclosure Initiative
<b>WSM</b>	Whole Scheme Management

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

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