



LPP

Local Pensions Partnership  
Investments

# Fixed Income Fund TCFD Product Report

For the period 01 January to 31 December 2023

## Fund details

<b>LEI</b>	213800LGLDNX2MGUFQ09
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<b>ISIN</b>	GB00BFMC1D84
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<b>Fund size</b>	£590 million
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<b>Date</b>	31 December 2023
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# Introduction

## Overview of the Fund

The LPPI Fixed Income Fund (“the Fund”) has a performance target of Bloomberg Global Aggregate (GBP hedged) +25bps p.a. over an investment time frame of at least 7 years. The Fund comprises at least 80% Investment Grade and at least 50% High Quality Credit (minimum AA-rating). The Fund focuses on high quality and highly liquid instruments, with a strong capital preservation bias. It is currently comprised of two delegated mandates, selected to maintain different investment styles.

The Fund is a sub-fund of the LPPI Asset Pooling Authorised Contractual Scheme (ACS), authorised by the Financial Conduct Authority. Local Pensions Partnership Investments Ltd (LPPI) is the ACS manager who is incorporated in England and Wales and is authorised and regulated by the Financial Conduct Authority. More information on the LPPI Asset Pooling ACS can be found on our [website](#).

## Background to TCFD product reports

The recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) set out how organisations across sectors and geographies should disclose climate-related financial information. The recommendations are structured around four thematic pillars that represent core elements of how organisations operate: Governance, Strategy, Risk Management, and Metrics and Targets. We make detailed disclosures under each pillar within our LPPI TCFD Entity Report, consistent with the TCFD Recommendations and Recommended Disclosures, and as required by our regulator, the Financial Conduct Authority.

Separately, we are also required to provide a product report for each of our authorised funds, consistent with the TCFD Recommendations and Recommended Disclosures (“TCFD product report”). This is the product report for our Fixed Income Fund, and contains information specific to the Fund.

Our approach with respect to Governance, Strategy, and Risk Management for the Fund does not materially deviate from LPPI’s overarching approach and information on this is available in our LPPI TCFD Entity Report, available at [www.lppi.co.uk](http://www.lppi.co.uk).



## Strategy

Our approach to assessing and managing the risks and opportunities posed by climate change reflects the following framing.

Climate-related risks include the adverse impact on the value of assets or income streams arising from transition risk and physical risk.

Transition risk is the risk of adverse changes in the value of assets or income streams arising from the nature and speed of mitigation and adaptation to climate change resulting from policies and requirements by governments, influential global bodies, and regulators.

Physical risk is the risk of adverse changes in the value of assets or income streams because of severe weather events, such as flooding, directly on physical assets or indirectly through business disruption, resource availability, and disruption to supply chains or service providers. Physical risks can be acute, which are event driven, and chronic, which are longer-term shifts in climate patterns.

We have set out the broader climate-related risks and opportunities in our TCFD entity report. Our approach for the identification of these risks and opportunities was based on the categories defined by the TCFD Recommendations and Recommended Disclosures.

Our short-term horizon looks at a three-year period, which aligns with LPPI's business plan horizon and the triennial valuations of our pension scheme clients. Our medium-term horizon looks forward up to 10 years, which covers the period to our interim investment net zero commitments. Our long-term horizon looks at the time horizon up to 2050, the target net zero-time horizon for the Fund.

This framing informs how climate change is incorporated into our stewardship of assets and considered as part of asset allocation decisions and portfolio monitoring activities.

Currently climate-related risks and opportunities for the Fund are monitored for the corporate bonds managed by our delegated managers, representing 17% of the assets of the Fund. We are at present unable to directly monitor the climate-related risks in the remaining portion of the Fund (sovereign bonds, asset-backed securities, and derivatives) due to a lack of data availability and lack of market solutions and methodologies to do so. We continue to engage with the industry, including our delegated managers and data providers, to increase the proportion of reported data.



In holding corporate bonds, investors hold the debt rather than the equity of listed companies. The assets are generally liquid and the main risk faced is loss of capital. In this context, the Fund's strategy for addressing climate change encompasses manager and mandate selection by LPPI and asset selection and corporate engagement by external managers.

Manager selection incorporates a detailed due diligence questionnaire which includes specific questions on : i) how external managers assess, monitor, and report on climate change, ii) their approach to responsible investment, and iii) the integration of ESG factors into their investment processes.

Managers implement LPPI's climate change policy which excludes investment in thermal coal companies, requires reporting on any exposure to extractive fossil fuel companies, and expects engagement aligned with underlying companies actively progressing towards net zero.

LPPI's portfolio and manager monitoring incorporates climate change and prioritises exposure to carbon intensive sectors in Energy, Utilities, and Materials as defined by the Global Industry Classification Standard (GICS).

Delegate managers report the position on most metrics quarterly with engagement activities reported on an annually. Dialogue with delegate managers is through a mix of regular meetings and calls and emails when specific questions or issues arise.



# Metrics and targets

We use a range of metrics to quantify and monitor climate related considerations for the Fund. The majority of metrics focus on carbon emissions which provide an indication of the relative positioning of the Fund.

The metrics presented in this section are emissions intensity and portfolio alignment metrics for corporate bonds, where data is available, as of 31 December 2023.

Fig. 1 shows the proportion of carbon emissions data for corporate bonds that is reported, estimated or where there is currently no data available.

**Fig. 1: Data availability by AUM Covered (%) as at 31 December 2023**

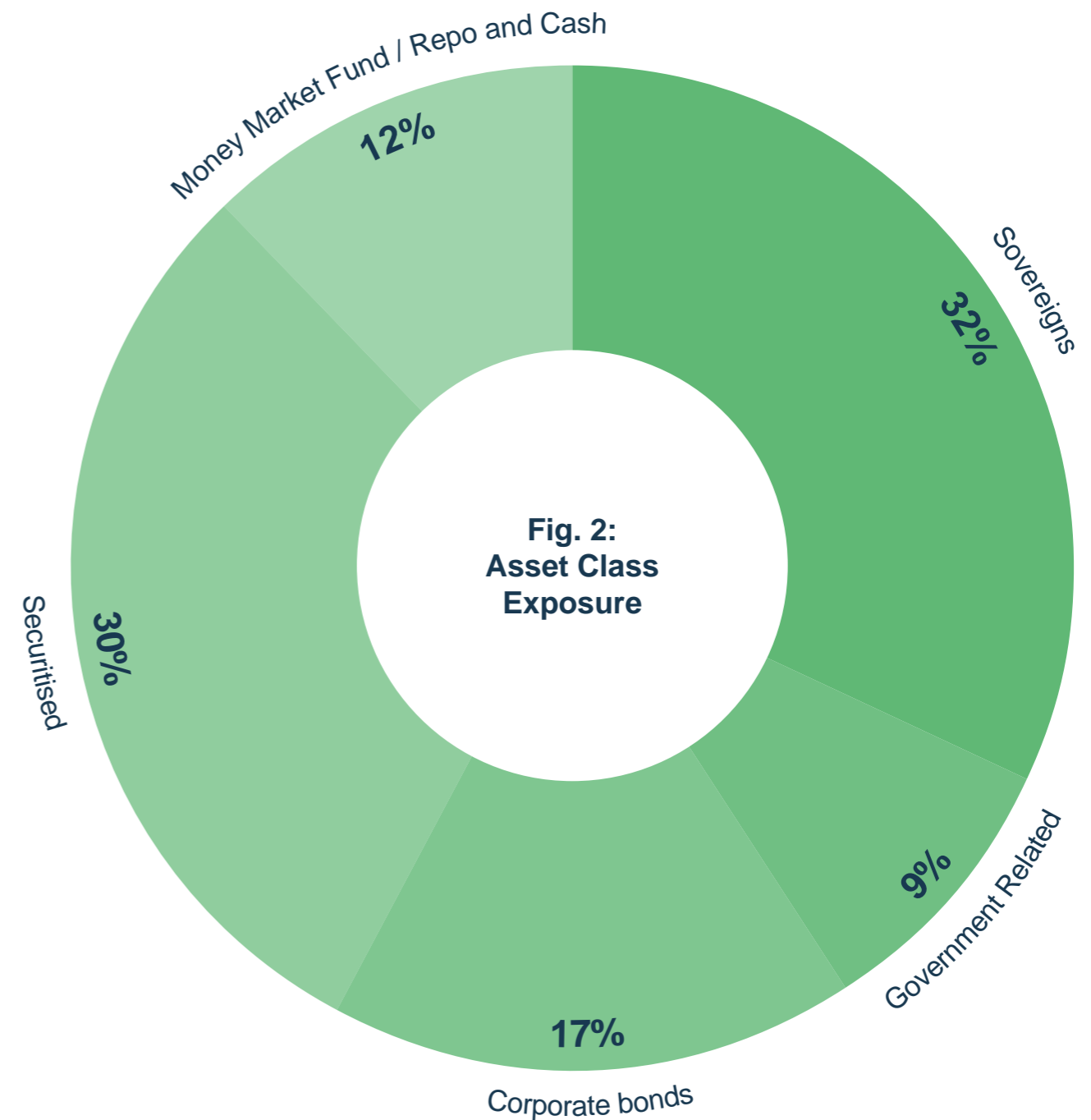
Asset class	Fixed Income
<b>AUM Covered (%)</b>	17.0%
of which	
<b>Reported Data</b> (% of AUM Covered)	86.7%
<b>Estimated Data</b> (% of AUM Covered)	0.0%
<b>No Data</b> (% of AUM Covered)	13.3%

Fig. 2 highlights the fund exposure to the various asset classes held within the Fund. The Fund's corporate bond holdings account for 17% of the total Fund AUM.

## Carbon footprint of our investments

Considering the limitations implicit in the metrics and tools available (primarily data availability and scope of coverage), we currently refer to Scope 1 and Scope 2 greenhouse gas (GHG) emissions as part of our portfolio monitoring and risk management. While we consider Scope 3 emissions to identify actions, such as engaging companies on transition plans, the data quality and disclosure of this category is poor and less reliable for decision making.

Please refer to appendix for key definitions and formulas used for calculating emissions metrics.



## Total carbon footprint of our investments

Fig. 3 shows the key metrics for the corporate bonds in the Fund as of 31 December 2023.

**Fig. 3: Climate metrics**

Climate Metrics	Unit of Measurement	FIF		Bloomberg Global Aggregate (Corporates)	
		31/12/2022	31/12/2023	31/12/2022	31/12/2023
Scope 1 and 2 emissions	tCO <sub>2</sub> e	907	5,069	1,333,285	1,396,927
Scope 3 emissions	tCO <sub>2</sub> e	25,686	28,436	5,453,789	8,280,338
Total carbon emissions	tCO <sub>2</sub> e	26,593	33,506	6,787,074	9,677,265
Total carbon footprint (Scope 1 and 2)	tCO <sub>2</sub> e / \$million invested	16	44	149	148
Weighted average carbon intensity (Scope 1 and 2)	tCO <sub>2</sub> e / \$million revenue	48	114	222	209
Implied Temperature Rise	Degrees Celsius	2.11	2.25	2.49	2.30
Reported and estimated emissions data (%)	AUM (%)	81.0%	87.0%	96.0%	97.0%

## Weighted Average Carbon Intensity (WACI)

The WACI for the corporate bonds in the Fund was 114 in December 2023, up from 48 in December 2022. It remains well within the Fund's net zero decarbonisation target and is significantly lower than the WACI of the Fund's internal emissions benchmark (Bloomberg Corporate Global Aggregate).

The WACI attribution analyses of the Fund versus its benchmark is presented below:

31 December 2023	WACI Scope 1 and 2 (tCO <sub>2</sub> e / \$m sales)
FIF	114
Bloomberg Global Aggregate (Corporate)	209
WACI Δ	-95

We are required to disclose additional details for funds that have concentrated exposures or high exposures to carbon intensive sectors. The term 'carbon intensive' or the identification of sectors with 'concentrated exposures' to carbon does not have an industry-wide, standard definition. We define carbon intensive funds as those which have higher carbon intensity than their equivalent benchmarks in two or more of the following GICS sectors: Energy, Materials and/or Utilities.

The relative WACI of -95 is primarily explained by security selection relative to Bloomberg Corporate Global Aggregate, with the Fund's underweight allocation to Utilities, Industrials and Energy sectors and overweight to the financial sector.

## Implied Temperature Rise

We have begun to review the Fund's Implied Temperature Rise (ITR) which is a metric calculated by our data provider MSCI, but currently question its usefulness as measure of climate risk. As of 31 December 2023, the Fund had an Implied Temperature Rise (ITR) of **2.25°C** (Bloomberg Global Aggregate Corporate **2.30°C**, portfolio coverage: **86.7**).

ITR flows from a complicated model which calculates a given portfolio's implied temperature rise (the warming it is contributing to) based on whether individual investee companies exceed their "fair share" of global emissions (portion of the total emissions budget for planet earth to remain below 2°C of warming). All companies exceeding the model's calculation of their "fair share" contribute to a portfolio being "over budget" in aggregate, which converts to an ITR above 2°C. Please note there is significant uncertainty related to this temperature estimate, and outputs differ amongst different data vendors as methodologies continue to evolve and mature.

We consider ITR alongside CVaR and other metrics currently available through our data provider, MSCI. We continue to engage with the industry, including our delegated managers and data providers, to increase the availability of other useful metrics.

# Carbon sector exposure

We have assessed whether the corporate bond holdings of the Fund have concentrated or high exposure to carbon intensive sectors for the purposes of determining whether further qualitative or quantitative scenario analysis could be informative. For the purposes of this assessment Energy, Utilities, and Material are designated carbon intensive sectors, and a concentrated or high exposure is when the Fund has an exposure exceeding 15% for that respective sector.

For the Fund, we break emissions down by sector using the GICS system, and measure all GHG emissions, not just carbon. GICS is widely used by finance firms and covers 11 economic sectors.

The following table provides the Fund's portfolio weight within the carbon intensive GICS sector and its overall contribution to portfolio carbon intensity.

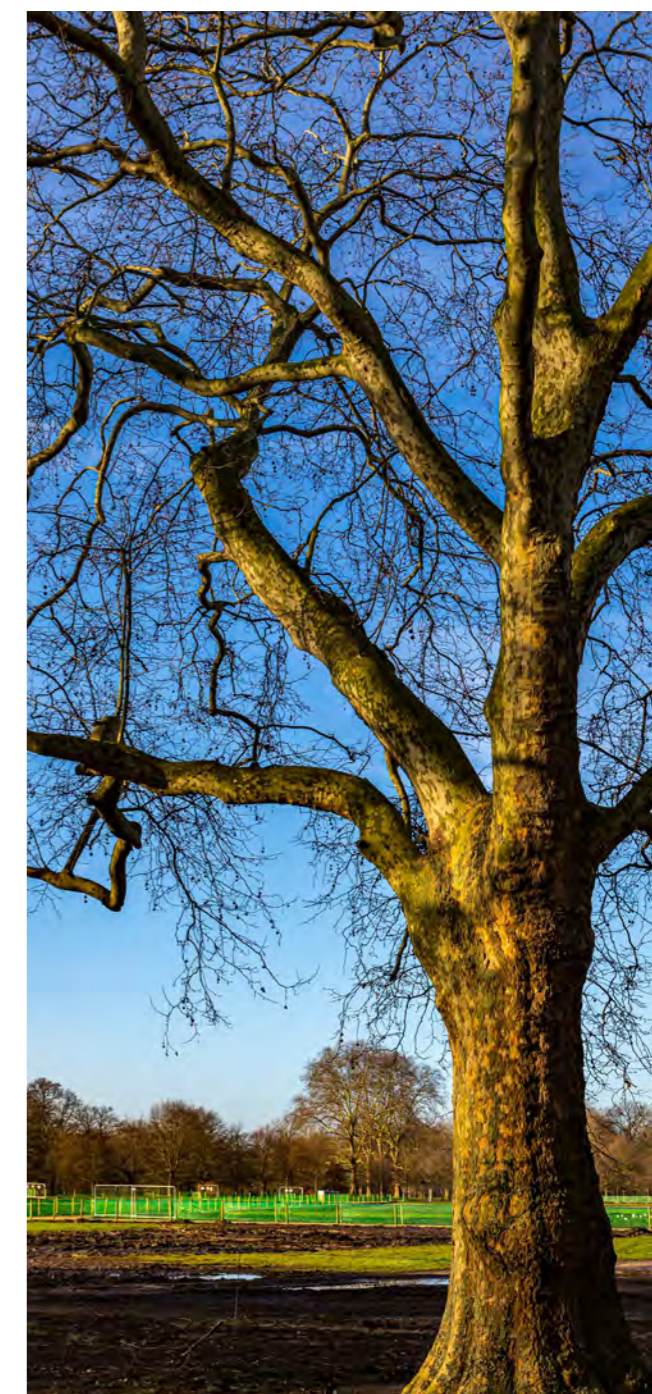
GICS Sector	WACI (tCO <sub>2</sub> e /\$m Revenue)	Contribution to Portfolio WACI (%)	Portfolio Value 31/12/2023 (£m)	Overall FIF (Corporates) Portfolio Exposure (%)
Utilities	1199.3	71.2	6.1	5.3
Energy	408.6	14.1	3.5	3.1
Materials	255.1	4.5	1.8	1.6



We have determined that, in the reporting period, the Fund did not have a high and concentrated exposure to these respective carbon intensive sectors. Most of the Fund's positions are invested in Financials and Real Estate which have significantly lower emission intensity. In the table above, we have disclosed our exposure to the three high impact sectors of Energy, Utilities and Materials. They are a small part of the investable universe for the Fund but represent a large share of the total carbon emissions for corporate bonds.

The exposure to these sectors is liable to change at short notice depending on market movements. It is not a structural feature of the Fund. If the positioning were to be reversed with the Fund taking an overweight position in the high impact sectors for investment reasons, then the Fund's carbon metrics could be substantially higher than the benchmark.

The Fund has 1.6% in green (corporate) bonds which aim to incentivise and/or directly support investment to reduce emissions of the issuer. LPPI recognise the emergence of new sectors and products may expand the investable universe as an opportunity for the Fund.



# Scenario analysis

To provide long-term resilience to the transition to a low-carbon economy, we recognise that weather and climate projections can support our investment decision making.

We are in the early stages of considering integrating climate-related scenario analysis in our decision-making processes. We believe that incorporating climate scenarios into our 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.

We have undertaken initial scenario modelling, using our asset-liability modelling tool, which uses the Network for Greening the Financial System (NGFS)'s scenarios, in line with the FCA and TCFD requirements. These give us three scenarios to consider alongside our baseline. We have started to assess asset class risks from NGFS scenarios using MSCI ESG's Regional Model of Investment and Development (REMIND) model. 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 Climate Value-at-Risk (CVaR) is a forward-looking risk metric designed to assess climate-related risks and opportunities in an investment portfolio.

CVaR provides a return-based valuation assessment. It considers both transition risk (related to the transition to a low-carbon economy) and physical risk (impacts of climate change on assets). CVaR reflects the change in value of a company, a security, or portfolio in different real-world scenarios. For instance, if the CVaR is -2%, it implies a potential -2% loss in portfolio value due to climate-related risks under a hypothetical scenario.

While we calculate portfolio CVaR internally and recognise its potential for framing our views on climate-related risks, it is not without limitations. For instance, CVaR relies on assumptions about future climate scenarios and their impact on asset valuations. If these assumptions prove to be inaccurate, this will almost certainly misrepresent risk. Additionally, CVaR primarily considers long-term climate risks creating misalignment with investor needs for insights over shorter horizons (i.e. market fluctuations due to climate events).

We have chosen not to disclose this metric until we have fully assessed its usefulness to us and our clients and will consider its disclosure in our future reports.



# Our net zero targets

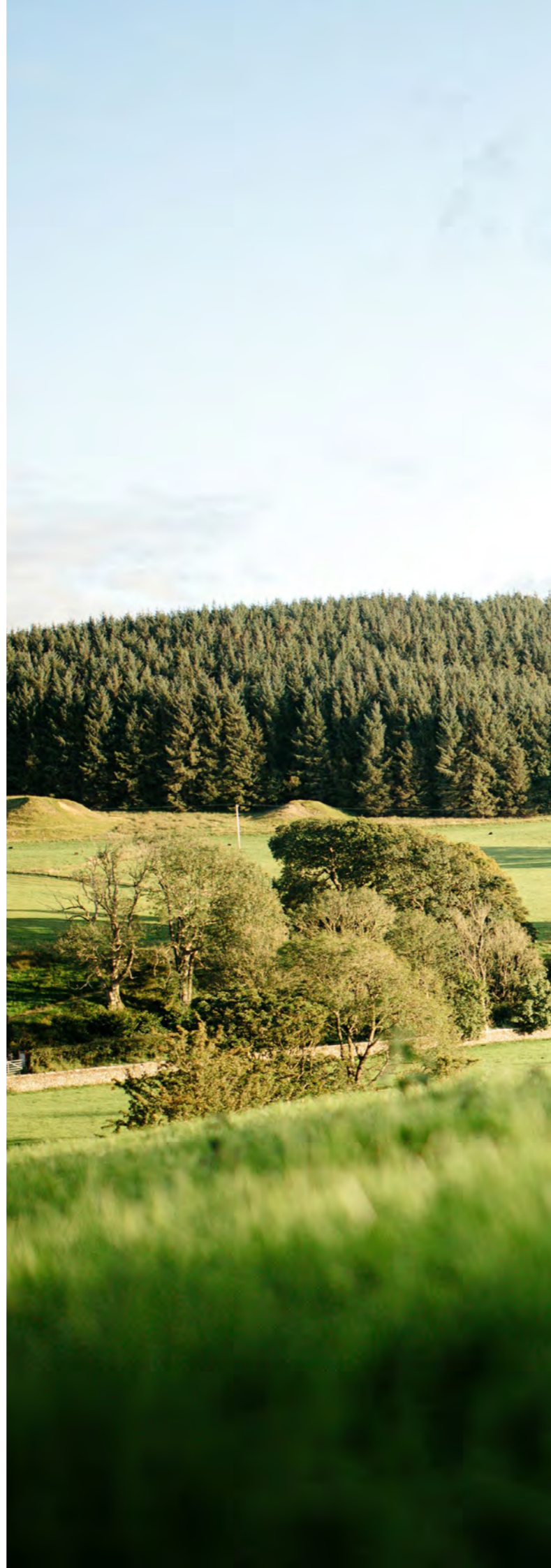
LPPI has voluntarily made a public commitment to the goal of aligning our portfolio with net zero emissions by 2050 in line with the IIGCC Net Zero Asset Managers Commitment (NZAM) and the IIGCC Net Zero Investment Framework (NZIF). We use net zero targets to help identify climate-related risks and opportunities by assessing the exposure and vulnerability of different sectors, regions, and stakeholders to the transition risks of climate change.

Net zero targets for the Fund were set in 2023 in the areas of decarbonisation, coverage in the sense of alignment to net zero, and issuing entity engagement. Currently our net zero targets cover the corporate bonds portion of the Fund only.

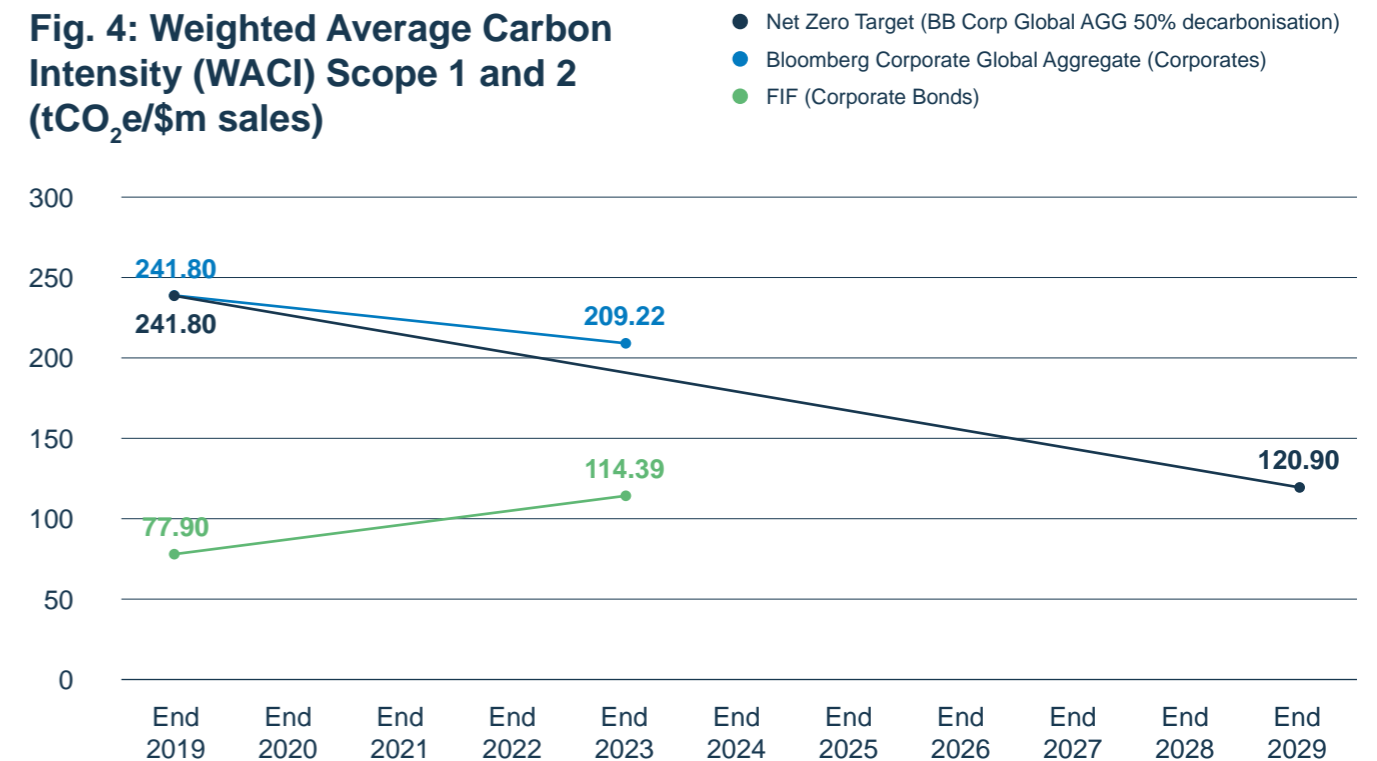
## Decarbonisation target

**Target:** The corporate bond component of the Fund aims to achieve a 50% reduction in emissions intensity (WACI) by 2030 (December 2029) relative to the corporate component of the Bloomberg Global Aggregate benchmark position in December 2019. To avoid interference from other sectors in the overall benchmark, the Bloomberg Global Aggregate Corporate index will be used for calculation purposes.

From December 2019 to December 2023, the Fund's WACI for corporate bonds increased from 77.90 to 114.39. During this time period there were two major changes to the investment strategy.



**Fig. 4: Weighted Average Carbon Intensity (WACI) Scope 1 and 2 (tCO<sub>2</sub>e/\$m sales)**



Corporate bonds are generally a liquid asset and Fund holdings will change regularly. Fig 4 shows the WACI of corporate bond holdings on single days in which a snapshot was taken. Volatility is expected and acceptable. The focus is on WACI remaining below the downward trajectory indicated by the Fund's net zero decarbonisation target.

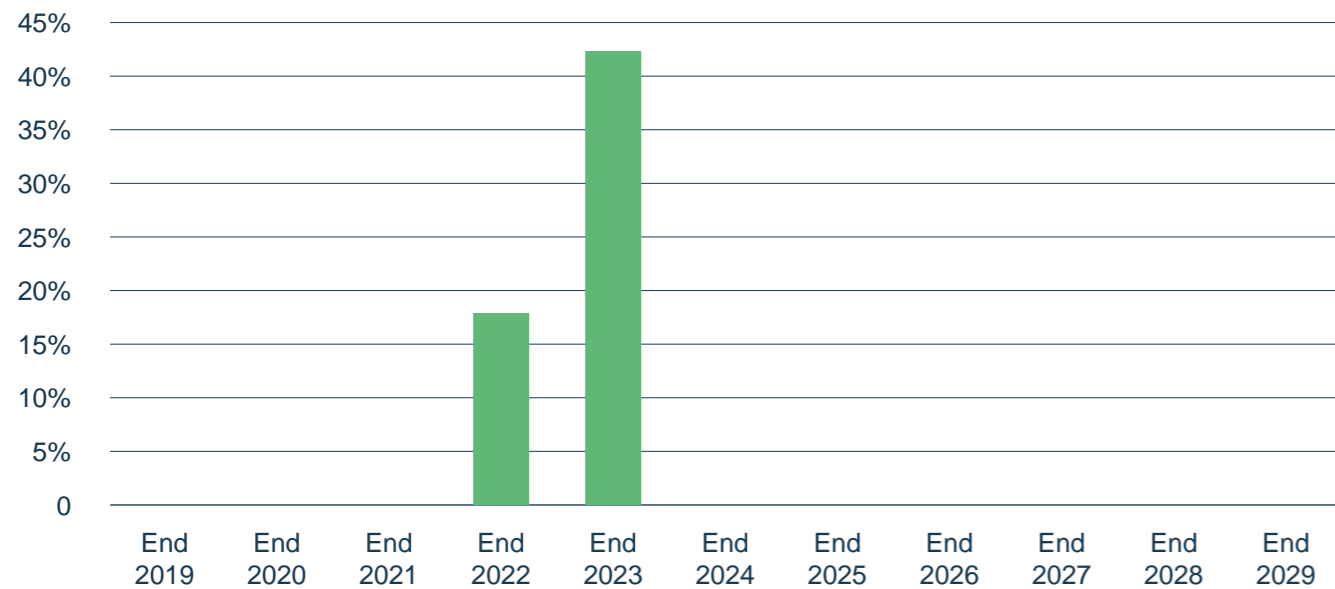
**Coverage target (baseline as at 2022)**

**Target:** The corporate bond element of the Fund will register an increased percentage of AUM in companies within material sectors which are net zero, aligned or aligning by 2025. Our overall ambition is for 100% of AUM within material sectors to be either net zero or aligned by 2040.

The alignment coverage metric, calculated as the aggregated % of the Fund’s AUM in material sectors that is Net Zero, Aligned or Aligning, is 42.4% in Dec-2023.

Please refer to the appendix for key definitions and formulas used for calculating emissions metrics and definition of material sectors.

**Fig. 5: Portfolio coverage**



Aggregate actual asset under management in material sectors net zero, aligned or aligning.

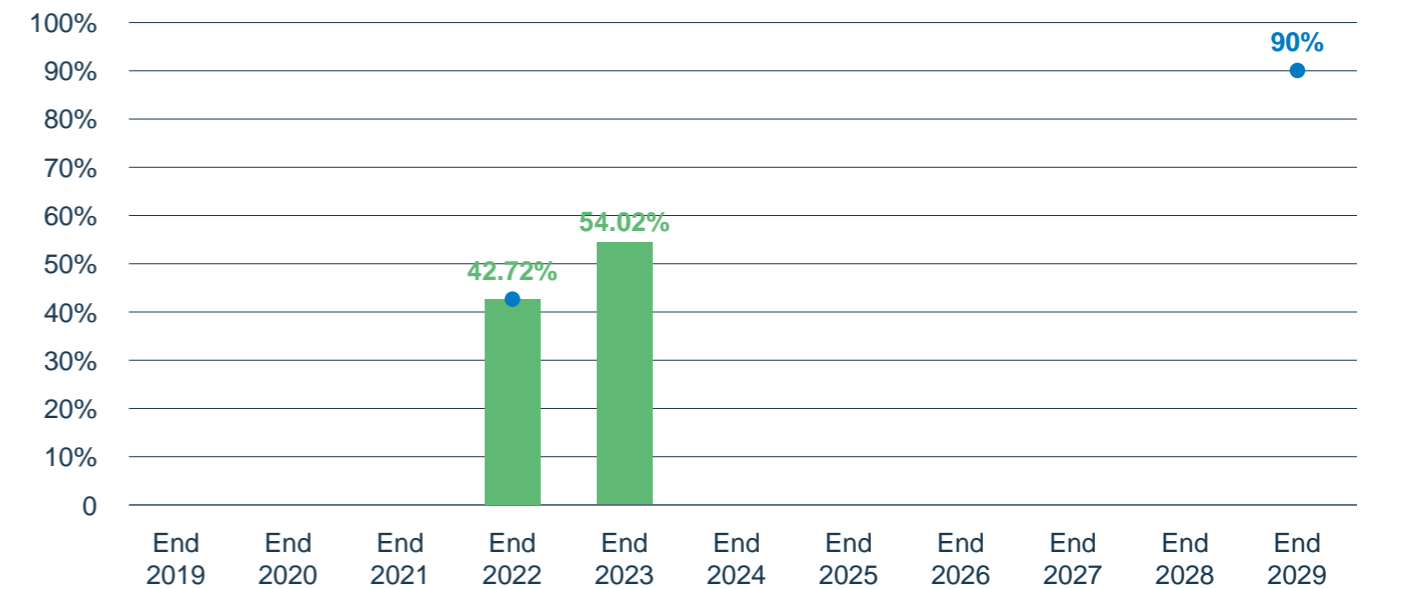
**Engagement Target (baseline as at 2022)**

**Target:** The corporate bond element of the Fund will achieve an engagement threshold where at least 70% of financed emissions in material sectors are net zero, aligned, or under direct or collective engagement and stewardship actions by 2025. Our overall ambition is to increase the threshold to 90% by 2030.

The following table illustrates progress against the engagement target. The % of financed emissions (the Total Carbon Emissions metric) in material sectors that are Net Zero/Aligned/under direct or collaborative engagement as of Q4 2023 are:

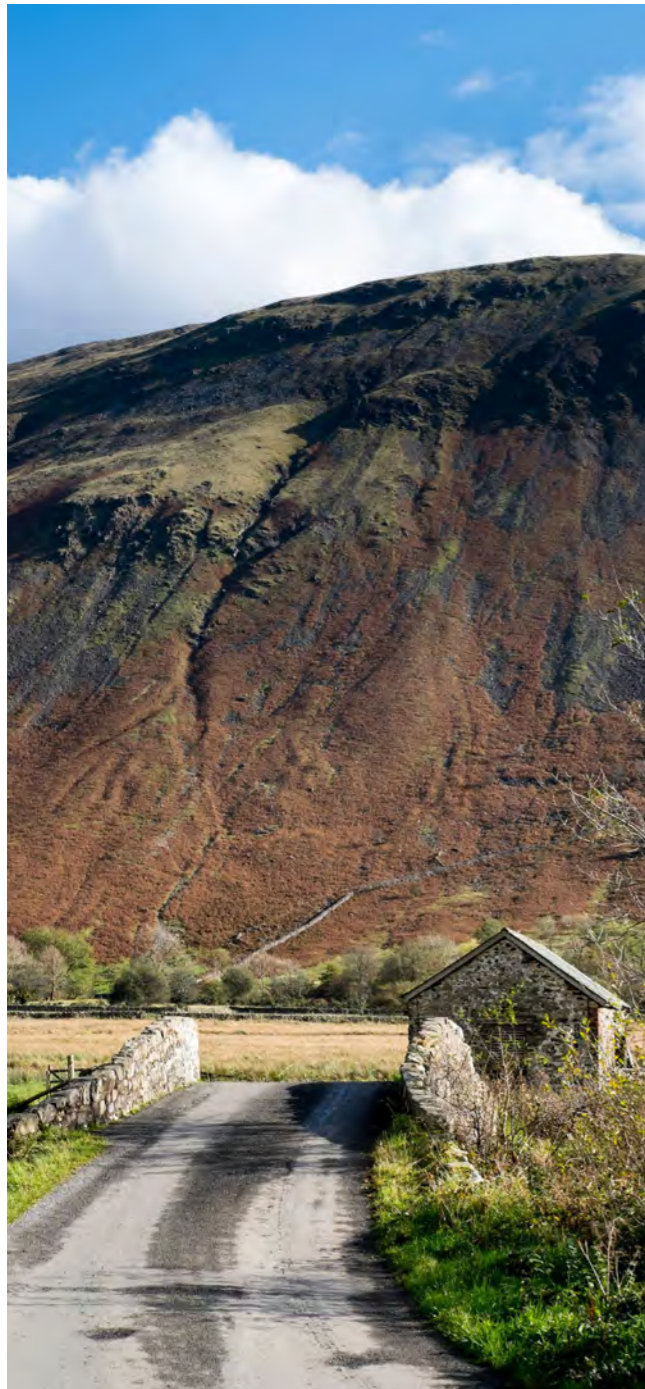
FIF engagement	Under engagement
Financed emissions (%) December 2019 (baseline)	42.7
Financed emissions (%) December 2023	54.0

**Fig. 6: Engagement threshold – percentage of financed emissions**



● Actual % financed Emissions in material sectors net zero, aligned or under engagement  
 ● Target % financed Emissions in material sectors net zero, aligned or under engagement

# Appendix



## Carbon emissions metrics explained

We use the following metrics to measure the collective carbon impact of the Fund's holdings, calculated according to TCFD standards, which in turn are based on the internationally accepted GHG Protocol:

Metric	TCFD definition, based on GHG Protocol
Scope 1 Greenhouse Gas Emissions (Metric Tonnes)	Direct GHG emissions that occur from sources that are owned or controlled by the company.
Scope 2 Greenhouse Gas Emissions (Metric Tonnes)	GHG emissions from the generation of purchased electricity consumed by the company.
Scope 3 Greenhouse Gas Emissions (Metric Tonnes)	GHG emissions that are a consequence of the activities of the company but occur from sources not owned or controlled by the company.
Total Greenhouse Gas Emissions (Metric Tonnes)	Total of Scopes 1 and 2 until June 2024, and total of Scope 1, 2, and 3 from June 2024 onwards.
Total Carbon Footprint (Metric Tonnes per \$1m AUM invested)	Total carbon emissions for a portfolio normalised by the market value of the portfolio, expressed in tonnes tCO <sub>2</sub> e/\$m invested.
Weighted Average Carbon Intensity (Metric Tonnes per \$1m revenue)	Volume of carbon emissions per million dollars of revenue (carbon efficiency of a portfolio), expressed in tonnes CO <sub>2</sub> e/\$m revenue.



# Glossary

## AUM

Assets under management.

## Baselining

Establishing the starting point against which targets will be set and progress measured.

## Benchmark-relative approach

Uses the emissions of a comparator benchmark at a point in time to reference an emissions reduction target against and measure progress.

## CDP

CDP (previously the Carbon Disclosure Project). [Visit the website.](#)

## CRREM

Carbon Risk Real Estate Monitor.

## EVIC

Enterprise Value including Cash.

## FCA

Financial Conduct Authority. Regulates financial services firms and financial markets in the UK.

## Financed emissions

The emissions associated with our assets under management based on attributing a share of the total emissions produced by underlying companies in proportion to the size of the investment we hold.

## GHG

Greenhouse Gas emissions.

## IIGCC

Institutional Investors Group on Climate Change.

## Investment universe

A selection of assets which reflect an investable universe, generally grouped based on the preferences of an investment strategy in terms of, for example, sector, industry, or regional exposure.

## IPCC

Intergovernmental Panel on Climate Change IPCC Special Report on the impacts of global warming of 1.5°C. MSCI All Country World Index (ACWI) A stock index designed to track broad global equity market performance. The LPPI Global Equities Fund's comparator benchmark.

## ITR

Implied Temperature Rise.

## IPV

Investment Pooling Vehicle.

## Material Sectors

Material sectors have been defined by IIGCC for consistency in the IIGCC Net Zero Implementation Guide. They are the sectors whose activities make the largest contribution to total emissions globally and which will need to produce the materials, develop the critical technologies, and evolve the lower emitting, more energy efficient processes that achieving a sustainable global economy depends on.

## MSCI

Morgan Stanley Capital International (MSCI) Climate Value at Risk (CVaR) is MSCI's full quantitative scenario analysis solution, designed to provide a forward-looking and return-based valuation assessment of listed equity and debt securities in order to measure climate related risks and opportunities in an investment portfolio.

## MSCI ACWI

The MSCI All Country World Index is a global equity index of large- and mid-cap stocks.

## NACE

A statistical classification in use within the European Community. NZAM Net Zero Asset Manager Commitment. NZIF Net Zero Investment Framework.

## Net zero

Achieving an overall balance between man-made emissions (GHG) produced and those taken out of the atmosphere, in order to neutralise the impact of any source of residual emissions that remains unfeasible to be eliminated by permanently removing an equivalent amount of atmospheric carbon dioxide.





**NZAM**

Net Zero Asset Managers initiative. An international group of 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 Degrees Celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner.

**NGFS**

Network for Greening the Financial System. A group of central banks and supervisors willing, on a voluntary basis, to share best practices and contribute to the development of environment and climate risk management in the financial sector and to mobilise mainstream finance to support the transition toward a sustainable economy.

**Paris Agreement**

United Nations agreement which includes commitments from all countries to reduce their emissions and work together to adapt to the impacts of climate change and calls on countries to strengthen their commitments over time. The Agreement provides a pathway for developed nations to assist developing nations in their climate mitigation and adaptation efforts while creating a framework for the transparent monitoring and reporting of countries' climate goals.

**PCAF**

The Partnerships for Carbon Accounting Financials.

**Portfolio self-decarbonisation**

Using portfolio emissions at a point in time to reference an emissions reduction target against and measure progress.

**SBTi**

The Science Based Targets initiative defines and promotes best practice in science-based target setting. Offering a range of target-setting resources and guidance, the SBTi independently assesses and approves companies' targets in line with its criteria.

**Scope 1, 2 and 3**

Scope 1, 2 and 3 emissions are a way of categorizing business emissions, accounting for both direct and indirect emitted GHGs. In more details:

- Scope 1 emissions are GHGs released directly from owned or controlled sources of the company.
- Scope 2 emissions are indirect GHGs released from the energy purchased by the company (generation of electricity, heat or steam purchased).
- Scope 3 emissions are indirect GHGs released by the value chain of the company, excluding the Scope 1 and 2 emissions, for both upstream and downstream emissions.

**Stewardship**

The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society (UK Stewardship Code 2020).

**Total carbon emissions**

The sum of all the emissions in the portfolio based on the investor's ownership share. Calculated as follows:

$$\sum_n^i \left( \frac{\text{Current value of investment}_i}{\text{Issuer's market capitalization}_i} \times \frac{\text{Issuer's Scope 1 and Scope 2 GHG emissions}_i}{\text{Scope 2 GHG emissions}_i} \right)$$

**TPI**

Transition Pathway Initiative. [Visit the website.](#)

**Universal global benchmark**

A benchmark stock index which is representative of the global economy, for example the MSCI All Country World Index.

**Weighted Average Carbon Intensity (WACI)**

Weighted Average Carbon Intensity is the measure of a portfolio's exposure to carbon-intensive companies, expressed as tCO<sub>2</sub>e/\$m company revenue. Calculated as follows:

$$\sum_n^i \left( \frac{\text{Current value of investment}_i}{\text{Current portfolio value}} \times \frac{\text{Issuer's Scope 1 and Scope 2 GHG emissions}_i}{\text{Issuer's \$M revenue}_i} \right)$$

Key climate-related risks identified by LPPI are based on the categories defined by the TCFD and adapted for our business model.

Climate risk	Type	Description
<b>Physical</b>	Acute	Increased severity of extreme weather events such as droughts, cyclones, wildfires, or floods. At the direct company level, this can potentially translate to lowered production and reduced revenues, increased insurance premiums and, increased capital costs due to need to replace damaged/unsuitable assets, amongst others.
	Chronic	Long-term, secular changing weather patterns, rising mean temperature and sea levels and biodiversity loss can result in. For corporates this can result in increased capital costs, higher energy costs and asset write-offs/impairments, amongst other impacts, for corporates.
<b>Transition</b>	Policy and Legal	This refers to the potential risk businesses face because of governments responding to climate change by implementing regulations such as carbon pricing, capping supply and use of resource, enhanced emissions reporting obligations, and the subsequent increased exposure to environmental litigation. At the company level this could result in lower returns on capital (via reduced customer demand and/or higher costs) and potential asset write-offs.
	Technology	Substitution of existing products/services with lower emissions alternatives, and/or costs associated with transitioning to these alternatives. This could result in lower customer demand, greater operating costs and higher investment requirements, all of which could drive lower returns on capital.
	Market	This refers to how consumer's behaviour could change (for instance substituting environmentally damaging products for more climate-friendly alternatives), which once again could lower corporate returns through reduced demand and higher production costs.
	Reputational	Shifts in customer preferences, sector stigma, negative stakeholder feedback, all of which could damage a company's reputation, thus negatively impacting demand and capital availability, and potentially lead to higher costs and lower profitability.

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

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