Worcestershire Pension Fund

Application to FRC for signatory status to the UK Stewardship Code 2020

Contents

1. Foreword

1.1 Responsible investment (RI) is a core part of the Fund's fiduciary duty and has been a key part of our Investment Strategy Statement for many years.

1.2 The Fund has also complied with and been a signatory to the existing Stewardship Code since 2018.

1.3 The Fund believes that, effective management of financially material environmental, social and governance (ESG) risks supports the requirement to protect investment returns over the long term.

1.4 ESG is wider than simply climate change, however, the Fund recognises that financial markets will be impacted by climate change and by the response of climate change policy makers. Risks and opportunities related to climate change are likely to be experienced across the whole of the Fund's portfolio. The current understanding of the potential risks posed by climate change, together with the development of climate-related measurements and disclosures, are still at an early stage, and there is considerable variability in the quality and comparability of carbon emission estimates. It is recognised that it will take time for companies to adapt to the changing regulatory and market environment.

1.5 The Fund has continually looked to develop and improve its approach to RI and has recently conducted an ESG Audit which included mapping the Fund's portfolio to the United Nations' sustainable development goals (SDGs).

1.6 The Fund also commissioned a climate risk assessment to understand in more detail the Fund's exposure to climate change risk and what action could be taken to reduce that risk. The results of the assessments have been captured in a Climate Risk Report, and an adjacent public-facing TCFD report

1.7 As well as both the audit and the assessments having had positive outcomes from the outset, they have also been critical in establishing and understanding the Fund's baseline position and in helping formulate its future investment approach. For example, the climate risk report has enabled the Fund to develop a targeted stewardship plan for engagement with fund managers and those investee companies who have the most relevance to the Fund's portfolio that are highly exposed to climate change risk. Indeed, they have helped us take some recent significant steps:

- Producing **our Climate related Financial Disclosures** through a TCFD aligned report
- Agreeing a **Climate Change Risk Strategy**

2. Purpose and governance (Principles 1 to 5)

Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Purpose

2.1 Worcestershire County Council is the administering authority for the Fund under the LGPS regulations. Worcestershire County Council delegates responsibility for the administration and management of the Fund to the Pensions Committee. The Fund has about 200 Employers and 64,000 members of which 19,000 are pensioners, 22,000 are deferred and 23,000 contributing employees.

2.2 The primary purposes of the Fund are to:

a) Ensure that sufficient assets are available to meet liabilities as they fall due
b) Maximise the return at an acceptable level of risk

2.3 The level of employer contribution is assessed every three years through an actuarial valuation of the Fund. This valuation establishes the solvency position of the Fund, that is, the extent to which the assets of the Fund are sufficient to meet the Fund's pension liabilities accrued to date. The objective is that the Fund should be at least 100% funded on an ongoing basis, taking account of any additional contributions paid by employer bodies to cover any past service deficit. The full funding projection is targeted to be achieved over a 15-year time frame.

Strategy

2.4 The Fund takes its responsibilities as a shareholder seriously. Our stewardship responsibilities extend over all assets of the Fund.

2.5 The Fund has published policy documents which identify how we meet our Stewardship responsibilities and these include, but are not limited to, our Investment Strategy Statement (ISS) that includes our voting policy and our Governance Policy Statement. These documents cover the following areas:

- Monitoring of manager decisions including ESG integration
- The exercise of voting rights
- Risk measurement and management
- ESG considerations in the tender, selection, retention, and realisation of investments
- Statement of compliance with the Myners principles
- Stock lending

2.6 In practice the Fund's policy is to apply the UK Stewardship Code 2020 (the Code) through:

- Its contractual arrangements with asset managers
- Membership of the Local Authority Pension Fund Forum (LAPFF) whose mission is to proudly protect £300bn of local authority pensions by promoting the highest standards of corporate governance and corporate responsibility
- Being part of the LGPS Central Limited (LGPSC) pool.

2.7 At the inception of LGPSC in April 2018, a Framework for Responsible Investment and Engagement was established which builds directly on the investment beliefs of the company's eight partner funds. It is a shared belief across our pool partners that strong investment stewardship increases our ability to protect and grow shareholder value.

2.8 The Fund ensures that LGPSC is delivering the objectives of this RI policy alongside that of the other pool partners by having regular meetings and update reports.

2.9 LGPSC has identified four themes that are given particular attention in its ongoing stewardship. The four themes, which will be reviewed on a three-year basis (the current period is 2020-2023) are: climate change; plastics; fair tax payment and tax transparency; and technology and disruptive industries (see further detail below under Principle 4).

2.10 The partner funds and LGPSC believe that identifying core themes helps direct engagement and sends a clear signal to companies of the areas that the partner funds and LGPSC are likely to be concerned with during engagement meetings. The Fund monitors closely the effectiveness of LGPSC and their work in this area to support the Fund in its ongoing requirements in the following ways:

1	Regular meeting of the LGPSC RI & Engagement Working Group
2	Quarterly stewardship updates provided to the Fund's Pensions Committee
3	Quarterly voting disclosures provided to the Fund's Pensions Committee
4	Quarterly media monitoring of relevant RI news and LAPFF reports to Committee

2.11 LGPSC also supports the Fund through the annual preparation of a Climate Risk Report which assesses (a) what the climate-related risks and opportunities faces by the Fund are and (b) what options are available to manage these risks and opportunities.

2.12 During 2020, LGPSC has supported the Fund in the preparation of the Fund's Climate-related Financial Disclosure Report prepared in alignment with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). We consider this a critical stepping-stone in the Fund's ongoing management of climate risk and a direct way of translating our investment beliefs on climate change into action.

2.13 The Fund's ability to invest in a responsible manner is enhanced through LGPSC due to the inherent benefits of scale, collectivism and innovation that results from being part of the pool.

2.14 In order to broaden its stewardship activities, LGPSC appointed EOS at Federated Hermes as its stewardship provider, with the remit of engaging companies on ESG issues, and executing the LGPSC voting principles which are also the principles agreed by the Fund as set out in the ISS – 'shareholder voting' (see also Principle 12 **exercising rights and responsibilities** below).

2.15 The Fund seeks to use its position as a shareholder to actively encourage good corporate governance practice in those companies in which it invests.

2.16 All relevant fund managers are signatories to the United Nations Principles for Responsible Investment (UN PRI) as evidenced on the UN PRI website.

Investment beliefs

2.17 The Fund's investment beliefs are included in its ISS and encompass its:

- Financial market beliefs
- Investment strategy / process beliefs
- Organisational beliefs
- RI beliefs

2.18 As emphasised in 1.3 above, RI is a core part of the Fund's fiduciary duty and we believe that effective management of financially material ESG risks supports the requirement to protect investment returns over the long term. The Fund's investment team seeks to understand relevant ESG factors alongside conventional financial considerations within the investment process, and the Fund's external investment managers are expected to do the same. Non-financial factors may be considered to the extent that they are not detrimental to the investment return.

ESG factors include:

2.19 The Fund's RI Beliefs underpin our RI approach and we take a three pillar approach to the implementation of RI as set out below:

2.20 The Fund intends to realise these aims through actions taken on its three RI pillars, both before the investment decision (which we refer to as the **selection** of investments) and after the investment decision (the **stewardship** of investments). Actions will be taken with reference to an evidence base, using the best available objective data sets. We aim to be **transparent** to all stakeholders and accountable to our clients through regular **disclosure** of our RI activities, using best practice frameworks where appropriate. Some recent examples of how this has been applied are:

Selection

2.21 The application of these beliefs has been demonstrated by our latest investment of £50m in May 2020 with the British Strategic Investment Fund (BSIF) which is mix of infrastructure and housing assets with a requirement for each investment to deliver a positive environmental or social impact. Also, a key recommendation from the ESG audit which was approved by the Pensions Committee was for the Fund to look at investing in a mix of sustainable equities and low carbon factor funds.

Stewardship

2.22 An example would be the recent ESG audit and Climate Risk review of the Fund to help the Fund establish a baseline position

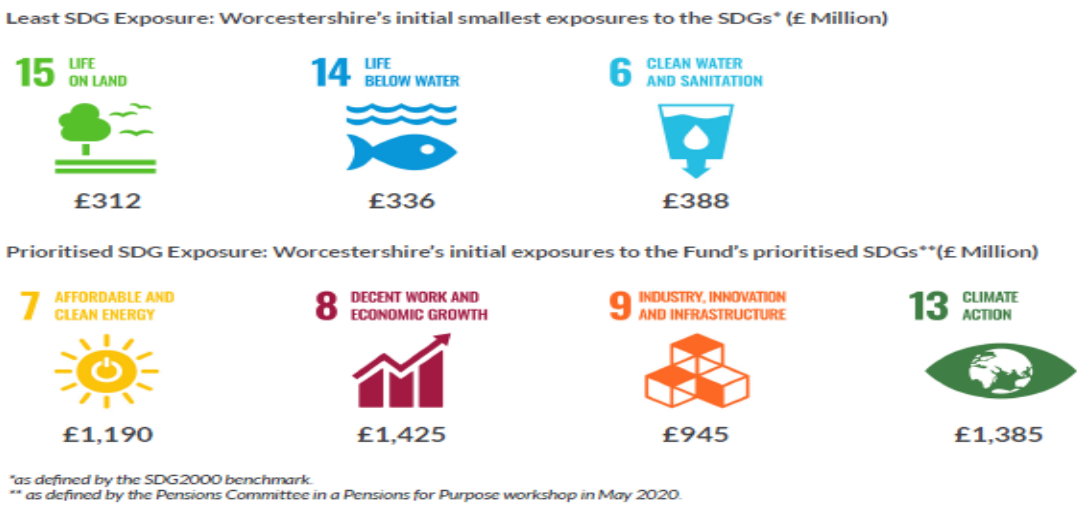
Transparency & disclosure

2.23 Over the past 18 months the Fund has completed a training programme delivered by 'Pensions for Purpose' on RI, sustainable, impact and ethical investment, and the spectrum of capital for all its Pension Board, Pension Investment Sub Committee (PISC) and Pensions Committee members to enable them to make informed decisions going forward. A workshop was also provided to discuss and debate the Fund's investment beliefs for a sustainable approach to investing. This included an introduction to the 17 United Nations SDG's and elected members agreed to prioritise the following SDGs that they considered as likely to have the biggest investment impact:

- SDG 3 Good Health and Well-being
- SDG 7 Affordable and Clean Energy
- SDG 8 Decent Work and Economic Growth
- SDG 9 Industry, Innovation, and Infrastructure
- SDG 13 Climate Action

LGPSC also provided a dedicated RI training event on February 2020 were all members were invited

2.24 This then led to the recently conducted ESG audit undertaken by Minerva (started October 2020) on behalf of the Fund and the LGPSC Climate Risk Report (detailed more fully below) which are considered critical stepping-stones in the Fund's ongoing management of its ESG and Climate related risks and a direct way of translating our investment beliefs on climate change into action. These were in direct response to discussions and decisions made by the Pensions Committee on behalf of members. An extract from the report is shown below.



2.25 The outcome of the reports were reported to the March 2021 Pensions Committee at which a number of key recommendations and next steps / future plans were agreed which are publicly available for all our members

3. Principle 2

Signatories' governance, resources, and incentives support stewardship

3.1 As detailed in our Governance Policy Statement accountability for all decisions is delegated to the Pensions Committee to take decisions in regard to the administering authority's responsibility for the management of Worcestershire Pension Fund. This includes the management of the administration of the benefits and strategic management of Fund assets. The Committee comprises of 8 voting members being 6 Councillors, 1 employers representative and an employee / union representative.

3.2 The Committee's activities are overseen by the Pension Board which was set up as a result of two reviews by the Scheme Advisory Board (SAB) and the Pension Regulator looking at how to strengthen governance. The Board's role is ensuring the effective and efficient governance and administration of the Fund. This includes securing compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS. The board is made up of 3 councillors, a senior officer from an employer, an active member (retiree) and two trade union representatives. Our current Chairman is also the Chair of SAB.

3.3 The Committee is assisted by strategic investment advice from the PISC who are also responsible for investment performance monitoring and for identifying and approving investment in climate related opportunities. PISC also provide the Pensions Committee with strategic advice concerning the management of the Fund's assets. PISC comprises of 4 voting members being 3 Councillors and an employee representative from a relevant trade union.

3.4 The Fund has an appointed investment advisor from MJ Hudson who attends all the Committee meetings, supports the investment performance monitoring of all the Fund's investment managers, advises on RI, supports due diligence requirements on the Fund's investments and provides a quarterly investment update to our PISC. The advisor is independent to the Fund and plays a crucial role in advising the Fund on its investment opportunities.

3.5 The Fund's day to day duties are delegated to the County Council's Chief Financial Officer who is supported by a Pensions Administration Team and a Pensions Investment Team who have many years of knowledge and experience in this area.

3.6 LGPSC's Responsible Investment & Engagement (RI&E) function supports the Fund's stewardship activities. Their contribution has included work on: ESG integration, engagement, voting, the RI&E framework, the TCFD report and (going in to 2021) guidance on the Fund's reporting against the Stewardship Code 2020

3.7 LGPSC's has a dedicated RI&E team that sits within LGPSC's investment team and reports to the CIO. There is close collaboration between the RI&E team and asset class teams on (a) the approach to RI when new funds are conceived and set up, (b) the selection and monitoring of fund managers, (c) engagement and voting, as relevant to the asset class, and (d) RI performance assessment and reporting.

3.8 The LGPSC RI&E Team currently consists of an Investment Director, Stewardship Manager and two ICM qualified analysts, both of whom are working toward the CFA certificate in ESG. Team members come from diverse academic backgrounds and specialisms across RI policy development, ESG integration in public and private markets, stewardship and engagement across the value chain, as well as climate expertise. This level of diversity and breadth of perspectives is a strength for the team. The RI&E Team leverages a strong network among peer investors both in the UK and globally, as well as investee companies, industry associations and relevant regulatory bodies.

3.9 LGPSC has appointed EOS at Federated Hermes (EOS) as its stewardship provider, with the remit of engaging companies on ESG issues across all relevant asset classes, sectors, and markets, executing the LGPSC voting principles which are also the principles agreed by the Fund. . Following a comprehensive due diligence process by LGPSC, EOS were selected as their beliefs align well with LGPSC's and the Fund's beliefs, namely that dialogue with companies on ESG factors is essential to build a global financial system that delivers improved long-term returns for investors, as well as more sustainable outcomes for society. . The EOS team provides access to companies globally based on a diverse set of skills, experience, languages, connections, and cultural understanding. EOS also engages regulators, industry bodies and other standard setters to help shape capital markets and the environment in which companies and investors can operate more sustainably.

3.10 LGPSC provides quarterly reporting for all funds managed by LGPSC detailing how votes have been cast in different markets and a vote by vote disclosure for full transparency. Engagement and voting disclosures are also done specifically for listed securities held across Worcestershire Pension Fund portfolios. Our quarterly engagement, voting reports and policy / strategy statements are all available on the Fund's website in the Funding and investments area and are a standing item on the Pension Committee agendas.

3.11 The Pensions Committee delivers its oversight of stewardship by meeting four times a year, or otherwise as necessary. This is the same for the Pensions Board and Pensions Investment Sub Committee.

3.12 To support our initiatives and work on strengthening / improving our investment and RI approach, we commission appropriate, additional expertise as required. For example, over the last 18 months we have tasked:

	Hymans Robertson with conducting a review of the Fund's investment strategy. This was pivotal in assisting with the Fund's strategic asset allocation for the next 3 to 5 years
	Pensions for Purpose with delivering support to our members through RI and impact investment workshops / training. A bespoke workshop discussed and debated the Fund's investment beliefs for a sustainable approach to investing and included an introduction to the 17 United Nations SDGs. As a result, members agreed to prioritise the SDGs detailed in Principle 1, as they considered they are likely to have the biggest sustainable investment impact
	Minerva with conducting an ESG audit and SDG mapping of the portfolio. It identified the holdings of the Fund's relationship (positive/ negative) to the 17 SDGs, highlighted the SDGs the Fund wanted to target and identified the risks and opportunities associated with the analysis.
	LGPSC with completing a climate risk scenario report, climate risk strategy and TCFD report

3.13 In order to support good decision-making, the Fund applies the Myners principles. Disclosure against the Myners principles is made annually (see section 12 of the Fund's ISS). These principles cover the arrangements for effective investment management decision-making, setting and monitoring clear investment objectives, focussing on asset allocation, arrangements to receive appropriate expert advice, explicit manager mandates, shareholder activism, use of appropriate investment benchmarks, measurement of performance, transparency in investment management arrangements and regular reporting.

4. Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

4.1 The Fund encourages all its asset managers to have effective policies in place to address potential conflicts of interest.

4.2 The need to avoid conflicts of interest is also highlighted in our asset manager mandates and contracts with external parties.

4.3 All the Fund's managers have confirmed that they have conflict of interest policies in place and these are subject to regular review. All managers have confirmed that they have a conflict of interests board / separate Committee to monitor and investigate conflicts of interest and have a conflicts of interest register.

4.4 A public register of interests is maintained for all Councillors and could be subject to audit inspection at any time. Councillors are responsible for updating their register as and when their interests change. This is overseen by the Monitoring Officer**.**

4.5 Pensions Committee and PISC members are required to make declarations of interest at the start of all meetings. If a member declares that they have an interest at the start of a meeting, then the context would determine the action that would be taken i.e. if they declare that they have an interest that is either personal or financial to an item on the agenda, then they would more than likely be asked to leave the room for that item and would be excluded from any voting activities.

4.6 All Fund officers and Committee / PISC members are made aware of and reminded at least annually of Worcestershire County Council's codes of conduct. The Code of Conduct includes a section on conflicts of interest and the expectations placed upon Council employees (the requirement to handle public funds in a responsible and lawful manner for example). Any member of staff found to be in breach of the policy may be the subject of disciplinary action and could be subject to dismissal. This includes staff who administer the investment side of the Fund.

4.7 The Council also has a whistleblowing policy to enable staff to raise any concerns that they may have.

4.8 **LGPSC's** approach to managing and mitigating risks associated with conflicts of interest is outlined in the LGPSC conflicts of interest policy. This is made available to all staff and clients of LGPSC. While this policy is intended to ensure compliance with FCA rules (SYSC 4 & 10) and regulations around conflicts management and requirements under MIFID II, the policy is also designed to ensure fair outcomes for clients and to ensure that LGPSC fulfils its stewardship responsibilities to its clients in terms of how their assets are managed.

4.9 LGPS Central operates a one for eight RI service model. This ensures that LGPSC delivers a consistent level of service to all eight partner funds ensuring that no conflicts arise in terms of the level of support they get from the Responsible Investment Team. As an example, LGPSC provided Climate Risk Reports to all eight Partner Funds in the course of 2020. For the 2021 provision of the same service, LGPSC will follow the same delivery order as last year. This is to ensure consistency and fairness among Partner Funds and to avoid some receiving reports six months apart or others +14 months apart.

4.10 The policy was signed off by the LGPSC Investment Committee, Executive Committee and Board when implemented. The policy is reviewed annually and changes to the policy are approved through the same governance process.

4.11 LGPSC employees, including senior management and members of the executive committee, are required to complete conflicts management training on an annual basis and confirm their adherence to its standards. This training includes guidance on what constitutes a conflict of interest. The conflicts policy is also contained within the LGPSC Compliance Manual. It is readily available to all staff whether working from home or office based.

4.12 When LGPSC appoints external managers, a thorough due diligence process is undertaken. This includes consideration of the external managers process and procedures around the Management of Conflicts of Interest. LGPSC expects their managers to have robust controls and procedures in place around conflict management and to demonstrate commitment to managing conflicts fairly.

4.13 LGPSC only manages client assets and all of their active portfolios are managed externally. LGPSC staff are not remunerated through a bonus scheme. These two factors are key mitigants in terms of conflict risk.

Examples of Conflicts of Interest

Appointment of Transition Manager for the LGPSC Global Active Emerging Markets Equities fund

4.14 All colleagues involved in the appointment process were required to complete a conflicts of interest declaration. The declaration asked colleagues to provide details of any conflicts with any of the potential transition managers for assessment of the compliance team. The approach taken is that conflicts will inevitably arise particularly in the form of existing business relationships and previous periods of employment with the investment managers on the shortlist. As long as these conflicts are declared and recorded, they can be managed.

Voting

4.15 Conflicts can arise during the voting season. This can for instance be the case where a proxy voting provider also provides other services to corporates or where they have pension schemes as clients whose sponsor company they engage with and provide voting recommendations on.

4.16 LGPSC expects their proxy voting agents to be transparent about conflicts of interest and to implement appropriate measures to ensure conflicts are managed such as Chinese walls, conflicts management policies and conflicts registers. As from Q1 of 2021, EOS at Federated Hermes – LGPSC's external stewardship provider – applies an enhancement to its service to further improve transparency by informing voting clients of potential significant conflicts of interest when EOS provides voting recommendations. One such conflict would be when EOS recommends a vote in relation to clients' sponsor companies, and specific assurance of EOS' independence in assessing this stock is needed.

4.17 EOS has a publicly available Stewardship conflicts of interest policy. EOS conflicts are maintained in a group conflicts of interest policy and conflicts of interest register. As part of the policy, staff report any potential conflicts to the compliance team to be assessed and, when necessary, the register is updated. The conflicts of interest register is reviewed by senior management on a regular basis.

5. Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

5.1 We manage risk by setting investment beliefs, funding, and investment objectives that are incorporated into our strategic investment allocation benchmark (SIAB) bands and benchmarks.

5.2 To mitigate risk, we regularly review our ISS, monitor the investment performance of our appointed managers, have a diversified portfolio, and review our qualified advisors' objectives regularly. Strategic asset allocation is reviewed quarterly by the Pension Investment Sub Committee. We have equity protection arrangements in place up to July 2021 for all our passive market cap equity funds which provides protection against a fall of up to 20% in market valuations whilst capturing as much of the upside as possible.

5.3 Risk taken against benchmarks is monitored using a Risk Register (reported quarterly and reviewed monthly).

5.4 The fund is exposed to Investment, operational, governance and funding risks. These risks are identified, measured, monitored, and then managed. The risk register is reviewed monthly by officers with section responsibility and oversight from the Chief Financial Officer. The risk register is reported and reviewed at every Pensions Committee and by the Pension Board. The risk of a mismatch in asset returns and liability movements has consistently been the risk with the highest residual risk score.

5.5 We continue to liaise with all our investment managers in response to the ongoing market volatility caused by COVID-19, although equity markets have recovered a lot of the initial losses. The Fund's diversified portfolio and equity protection policy on some of its assets helped cushion the Fund initially but at its worst COVID still had a significant valuation impact: funding fell down to 80% from 91%. The fact that our funding level is now at 96% (as at the end of February 2021) is testament to the robust portfolio position and strategy that is in place.

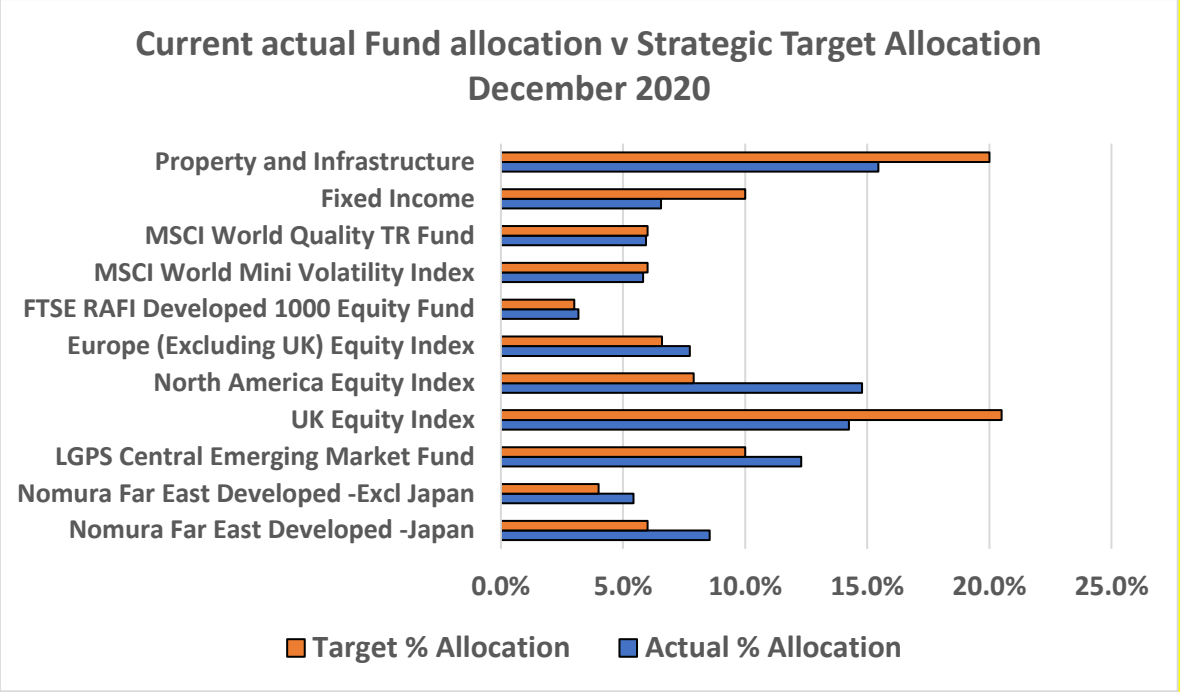
5.6 **The principal risks affecting the Fund are as follows:**

Funding Risks Liabilities versus the Strategic Investment Allocation Benchmark (SIAB)

5.7 These would cover, the following risks being deterioration in the funding level of the Fund, changing demographics, systemic risk, inflation risk, future investment returns (Discount rate) and currency risk. An example of how we are managing some of these risks is as follows:-

The risk of deterioration in the funding level of the Fund. This could be due to assets failing to grow in line with the developing cost of meeting liabilities or economic factors such as unexpected inflation increasing the pension and benefit payments.

The Fund manages this risk by setting a strategic asset allocation benchmark (SAAB) assisted by the Fund's investment advisor. The SAAB seeks to achieve the appropriate balance between generating the required long-term return, while taking account of market volatility and the nature of the Fund's liabilities. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns. The Funds monthly investment performance report is reviewed by the Fund's investment manager and advisor and reported quarterly to the PISC. An annual review of the strategic benchmark is also undertaken and fundamentally reviewed every three years as part of the triennial valuation. The liabilities are reviewed quarterly with the actuary and reported as part of the overall Funding level to Pension Committee. The Fund also reports its actual individual asset class performance against its strategic benchmark on a quarterly basis as detailed in the example below and action taken where necessary.



Systemic risk, i.e., the possibility of failure of asset classes and/or active investment managers results in an increase in the cost of meeting the liabilities.

The Fund mitigates systemic risk through a diversified portfolio with exposure to a wide range of asset classes, portfolio holdings and different management styles. All Fund managers provide a detailed quarterly investment performance report and quarterly meetings are held with the Fund's investment manager and advisor. Areas of concern will be discussed and if performance does not improve over time will be placed on watch and formally reported to Committee. Ultimate action would see the Fund disinvesting from the portfolio.

Operational Risk

5.8 This would cover Transition risk, Risk of a serious operational failure, Custody risk of losing economic rights to Fund assets, Risk of unanticipated events such as a Pandemic, Credit default, cashflow management. Some examples of how we are managing some of these risks are as follows:-

- **Transition risk of incurring unexpected costs** in relation to the transition of assets amongst managers. When carrying out significant transitions, the Fund takes professional advice and appoints a specialist transition manager to mitigate this risk when it is cost effective to do so.

- **Risk of a serious operational failure by asset managers and/or LGPS Central**. These risks are managed by having robust governance arrangements with LGPS Central and by quarterly monitoring with asset managers. Monthly meetings are held with LGPSC to ensure that the company is functioning as it should. A number of Key performance indicators and risk register is reviewed at least quarterly

- **Risk of unanticipated events such as a Pandemic on normal operations**. The impact of Covid 19 was unprecedented and although the risk of a pandemic was highlighted on the risk register no one could have foreseen the impact it would have on investment performance and operations. In terms of operations the Fund was already effectively working from home or remotely 2 days a week and has managed to deliver business as usual throughout the Covid pandemic. This is testament to the robust operational procedures that were in place and the effectiveness of the staff in working in this changing environment. This has also helped explore and implement effective and more efficient ways of working whilst being mindful of the wellbeing and mental health of the staff

Asset Risks (the portfolio versus the SIAB)

5.9 These would cover, the following risks being concentration risk, illiquidity risk, currency risk, manager underperformance and RI risk. Some examples of how we are managing some of these risks are as follows:-

- **Concentration risk** that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives. This is managed by effective reporting and monitoring as specified in the 'systematic risk' above. It is also managed by constraining how far Fund investments deviate significantly from the SIAB by setting diversification guidelines and the SIAB strategic ranges. Also, the Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Fund's expected parameters. These are monitored through the quarterly Fund manager meetings and reports to Committee. The Fund invests in accordance with the investment restrictions stipulated by the Local Government Pension Scheme Regulations

- **Manager underperformance** when the fund managers fail to achieve the rate of investment return, performance targets, tracking errors, etc assumed in setting their mandates. This is managed by having robust financial planning and clear operating procedures for all significant activities including regular review and monitoring manager performance against their mandate and investment process. Also, in appointing several investment managers, the Fund has considered the risk of underperformance by any single investment manager.

- **Responsible Investment (RI) risks**, including climate-related risks, that are not given due consideration by the Fund or its investment managers. The Fund actively addresses ESG risks through implementation of its RI beliefs. It also reviews this as part of the quarterly performance meetings with its fund managers and regular dialogue and support through the LGPSC RI and Engagement team. The Fund has recently conducted an ESG audit and Climate Risk assessment which have identified where the existing Fund's portfolio may be detracting from its SDG targets and calculated carbon metrics to enable the Fund to have effective management of climate change risk. Areas of concern will be discussed and if performance does not improve over time will be placed on watch and formally reported to Committee. Ultimate action would see the Fund disinvesting from the portfolio.

Stewardship Themes agreed by partner funds as part of LGPSC's stewardship effort

5.10 In close collaboration with the other partner funds of LGPSC we have identified four core stewardship themes that will guide the pool's engagement and voting efforts. These are climate change, plastic pollution, responsible tax behaviour and tech sector risks. These themes have been chosen based on the following parameters:

- Economic relevance
- Ability to leverage collaboration
- Stakeholder attention

5.11 Identifying core themes that are material to the Fund's investment objectives and time horizon, that are likely to have broader market impact, and that are perceived to be of relevance to stakeholders, helps prioritise and direct engagement. The current themes were identified during summer 2019 and are intended to be kept as core themes until 2023.

5.12 We fully acknowledge that the spectrum of ESG risks is broad and constantly evolving. However, and in agreement with our LGPSC Pool Partners we consider it appropriate to pursue these themes over a three-year horizon, as a minimum. This allows us the ability to build strong knowledge on the theme, seek or build collaborations with like-minded investors, identify and express consistent expectations to companies on theme-relevant risks and opportunities, and to measure progress for engagements. Furthermore, we take the view that engagement on a theme needs to happen at several levels in parallel: company-level, industry-level, and policy level.

5.13 With our long-term investment horizon, we take a whole-of-market outlook and changing the "rules of the game" through industry and policy dialogue is as important, if not more important, than individual company behaviour. Under Principle 9 below, we give a more detailed overview of engagement objectives, strategy, and measures of success for each stewardship theme.

In identifying and managing ESG risks, the Fund's stewardship partners are

Organisation	Remit
LGPS Central Limited	The Fund is a 1/8th owner of LGPSC which has identified four Stewardship Themes that are the primary focus of engagement. These themes are viewed as likely to be material to the Fund's investment objectives and time horizon, likely to have broader market impact, and to be of relevance to stakeholders. See further detail immediately below. During 2020, LGPSC has been actively involved in 24 engagements across these themes. A selection of engagement cases is provided under Principles 9-11 below

Organisation	Remit
Federated Hermes	EOS at Federated Hermes is contracted by LGPS Central Ltd to expand the scope of the engagement programme, especially to reach non-UK companies. In 2020, EOS engaged with 845 companies on 3,043 environmental, social, governance, strategy, risk and communication issues and objectives on behalf of LGPSC. EOS takes a holistic approach to engagement and typically engage with companies on more than one topic simultaneously. 1,406 of the issues and objectives engaged in 2020 were linked to one or more of the SDGs.
Local Authority Pension Fund Forum	The Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF conducts engagements with companies on behalf of local authority pension funds. In 2020, LAPFF engaged 123 companies through more than 250 meetings across a spectrum of material ESG issues on behalf of its members.

5.14 In terms of attendance and contributions to industry dialogue, partnerships and building of standards, LGPSC is an active participant in the debate on good corporate and investor practice on behalf of the Fund and the other Pool Partners. Collaboration with peer investors and industry initiatives is a critical component to engagement, giving a stronger voice and more leverage. There is a plethora of initiatives that deal with RI and stewardship in some form and LGPSC prioritises those that most directly link into the pool's stewardship themes at any given time.

5.15 It is also a priority to take part in initiatives that are relevant to Local Authority Pension Funds and to discuss and influence developments of practices and legislation that would directly apply to LGPSC partner funds. Industry initiative participation can serve several purposes: access to data, research, and tools available to members; influence further development of these initiatives; encourage market uptake of new standards/benchmarks as appropriate.

5.16 **Appendix 1** provides an overview of initiatives that LGSPC is an active member of, which includes a brief assessment of the efficiency of the initiative and outcomes during 2020

Policy engagements and consultation responses:

5.17 The Pool has always taken an active part in policy dialogue across various themes and regulations including on ethnicity pay reporting, tax transparency, modern slavery, and sustainability reporting requirements.

5.18 During Q2 of 2020, LGPSC signed letters to EU and UK leaders calling for a sustainable recovery from the COVID 19 pandemic. From a long-term investment perspective, it is critical that both the EU and UK align their recovery efforts with existing climate goals (EU Green Deal, UK's net zero emissions target by 2050, respectively). It is encouraging that the European Council decided, in July 2020, to ensure that the COVID-19 recovery package and long-term EU budget expenditures must comply with the EU's objective of climate neutrality by 2050 and the 2030 climate targets. 30% of total expenditure is being allocated to climate-related activities.

5.19 While many countries are providing various forms of tax relief to businesses during the ongoing health pandemic, LGPS Central takes the view that investor interest and scrutiny on companies' responsible tax behaviour and their willingness to pay their fair share of tax will only increase. As a global community, we are poorly prepared to handle any crisis, including health pandemics and the ongoing climate crisis, without funding through tax. During 2020, LGPS Central contributed to a consultation on Fair Trade Mark's (FTM) report "The Essential Elements of Global Corporate Standards for Responsible Tax Conduct" which seeks to identify common, international norms for responsible tax conduct.

5.20 LGPSC's stewardship provider, EOS, regularly engages with a wide range of stakeholders, including government authorities, trade bodies, unions, investors, and NGOs, to identify and respond to market-wide and systemic risks. As an example, EOS co-hosted a thematic workshop on the changing landscape of human rights due diligence and workforce reporting in the context of Covid-19. The co-host was the Workforce Disclosure Initiative (WDI), of which EOS is a signatory. The event allowed companies and investors to learn more about the WDI and speak candidly about the challenges and opportunities faced when conducting human rights due diligence.

5.21 EOS engages on market-specific trends and policies and as an example, in 2020 made several recommendations as part of Japan's Corporate Governance Code revision. EOS pressed for improving board effectiveness through the separation of chair and CEO, increased diversity, more stringent criteria for independence, and director training. Although Japan's FSA said concerted government efforts were ongoing for the progression of women, EOS argued that it should consider adding a requirement in the Code for companies to appoint at least one female director, referring to the example of South Korea. EOS also said the Code should require the disclosure of key metrics relating to gender diversity in management and the workforce. Further to this, EOS stressed the importance of investor meetings with non-executive directors and suggested strengthening the wording of the Code to standardise these.

COVID 19 pandemic

5.22 The COVID 19 health pandemic has caused radical disruption to markets, companies, and investors alike. While the situation is highly disruptive, our view that engagement is a key tool which helps us enhance the long-term value of our assets has not faltered, rather it has been reinforced. In engaging companies on our behalf (directly, in collaboration and through EOS), LGPS Central is cognisant of the unprecedented challenges that the health pandemic poses to individual companies and to sectors. At the same time, core expectations that we express for management of risks and

opportunities on LGPS Central's four Stewardship Themes (see 5.10 above) are still reasonable and timely to uphold. Companies have largely been receptive and welcoming of engagement, which in some respects has been more efficient when carried out via virtual means. See engagement and voting examples under Principles 9 – 12 below

5.23 In April 2020, EOS sent an open letter on behalf of clients (including LGPS Central) to the chairs and CEOs of the companies in its engagement programme, explaining that dialogue during and after the pandemic would focus on business resilience and stakeholders. Most companies had a good narrative for how they were protecting their operations and key stakeholders, including employees, although we challenged one large US retailer over allegations of poor Covid practices in its stores. In contrast, UK supermarket Tesco did well to adapt its operating environment and customer proposition, and EOS completed a long-standing engagement on audit and risk management.

5.24 Despite the lockdown restrictions, EOS' engagement activity was higher than in 2019, with similar or higher levels of access to board directors and senior executives due to less travel. These efforts resulted in some positive outcomes, with oil and gas major **BP** announcing a new net-zero strategy with capex and accounting assumptions aligned with the Paris Agreement goals, and similar indications from **Repsol, Total** and **Royal Dutch Shell**. There was also significant progress at **Amazon** on net-zero targets, **Lafarge Holcim** on science-based targets, **Rolls-Royce** on net-zero emissions, even as it faced a collapse in air travel, and **Anglo American** on carbon neutral mining.

6. Principle 5

Signatories review their policies, assure their processes, and assess the effectiveness of their activities

6.1 The Fund reviews its ISS and Governance Policy Statement annually and reviewed by the Pensions Board before submission to the Pensions Committee for formal approval.

6.2 The Fund has undertaken a fundamental review over the past 15 months of its RI beliefs and policies to enable effective stewardship. Some of the key parts of this review have been detailed in Principle 2 above and included an ESG audit and an SDG mapping exercise. Pensions for Purpose (PfP), the Fund's independent investment advisor and LGPSC have provided external assurance on the review.

6.3 LGPSC, Minerva and PfP have provided external assurance on the Fund's Climate Change Risk Strategy and Climate Related Financial Disclosures. Minerva were asked to provide a 'user friendly' version of the report to aid members understanding. LGPSC provided an executive summary of the Climate Risk Report to assist readers identify the key points.

6.4 As detailed in Principle 1 these recent initiatives have provided a baseline for the Fund in understanding how the Fund sits compared to its benchmark in relation to carbon

metrics and SDG alignment mapping to reflect the underlying objective to align/support SDGs through investments.

6.5 The Fund reports quarterly to Committee with specific reference on RI and an update on the quarterly LAPFF and LGPSC Stewardship reports. Each of the Fund's managers is required to provide a quarterly update including how the Fund is doing in relation to ESG.

6.6 The Fund has a significant passive equity portfolio though LGIM and LGIM quarterly ESG Report and is available on the Fund's website. LGIM was assessed as part of the ESG audit and found to have relatively good SDG alignment overall, but there were areas where this would need to be improved in the future. The Fund's website also has specific areas dedicated to responsible investment and climate change.

6.7 LGPSC has carried out AAF controls of the investment operations during the reporting year. These controls include testing of the accuracy of RI data and implementation of RI processes in relation to LGPSC's voting policy, voting implementation, and accuracy of voting data. In addition to the AAF controls, LGPSC carries out quarterly internal quality controls of engagement and voting data before this is shared with partner funds through Quarterly Stewardship Reports. At the start of the financial year 2020-21, LGPSC informed Worcestershire Pension Fund and its other partner funds of its plan to make the quarterly stewardship reporting more compact. This was done in part to make the stewardship reporting more accessible and easier to digest, and in part due to the fact that annual stewardship reporting will lessen the need for detail on a regular basis.

6.8 In essence we are now in a position to have focussed engagement with those fund managers / holdings that are detracting away from the Fund's carbon metrics / SDG targets. This will help form a Stewardship plan for the Fund. Some of the actions agreed at Pensions Committee were to:

	Actions agreed
	• Challenge managers on holdings (particularly the top 10 to 20 in terms of value) that detract from the Fund's SDGs or carbon reduction aims, using a manager monitoring template as a method to do this • Prioritise the most material / strategic exposure for dialogue on climate risk
	• Ask managers to report on the portfolio's alignment to the following SDG goals in future and carbon risk metrics: • SDG 3 Good Health and Well-being • SDG 7 Affordable and Clean Energy • SDG 8 Decent Work and Economic Growth • SDG 9 Industry, Innovation, and Infrastructure • SDG 13 Climate Action
	• Ask managers to present their TCFD report
	• See evidence of a strong investment thesis where the Fund may have concerns

6.9 Going forward we plan to take our Climate Change Risk Strategy as follows:

	• Having an overarching climate statement to include in the ISS
	• Putting a statement or summary of the LGPSC Climate Risk Report in a manner consistent with the TCFD Recommendations into the Fund's annual report.
	• Having a "best endeavours" type statement, with a view to considering setting goals / targets at next year's ISS review, that includes reducing our carbon footprint and measuring against our key SDGs • Having a % of assets invested in low carbon and sustainable investments
	• Repeating carbon metrics analysis annually
	• Repeating climate scenario analysis every 2 to 3 years
	• Reporting progress on climate risk using the TCFD Framework annually
	• Mapping the Fund's portfolio to the UN SDGs every 2 to 3 years

6.10 The Fund is also looking to invest further in sustainable equities and low carbon factor funds. Agreed recommendations at the March 2021 Pensions Committee were:

	To explore further the examples of potential investments that were presented regarding the passive LGPSC All World equity Climate Multi Factor Fund and the five active sustainable equity funds on the West Midlands Framework
	To also take on board the existing offering of sustainable active equities that were being developed by LGPSC as an alternative to the West Midlands Framework
	To take these suggested examples to the next Pension Investment Sub Committee for further consideration and debate

6.11 Quarterly PAF RI working group meetings allow for information-sharing and debate/checks on LGPSC's provision of RI services.

INVESTMENT APPROACH (Principles 6 to 8

7. Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

7.1 The £3.2bn Fund has been established to pay LGPS defined benefit promises as they become due. There are 183 participating employers. Total membership records of 62,494 are split 23,054 employee / 17,273 pensioner / 22,167 deferred. The average age of members is 51 to 55.

7.2 The Fund is primarily an equity investor, and the covenants of its employers, its net cashflow and the fact that it has a steady stream of new members mean that it can take a long-term investment horizon.

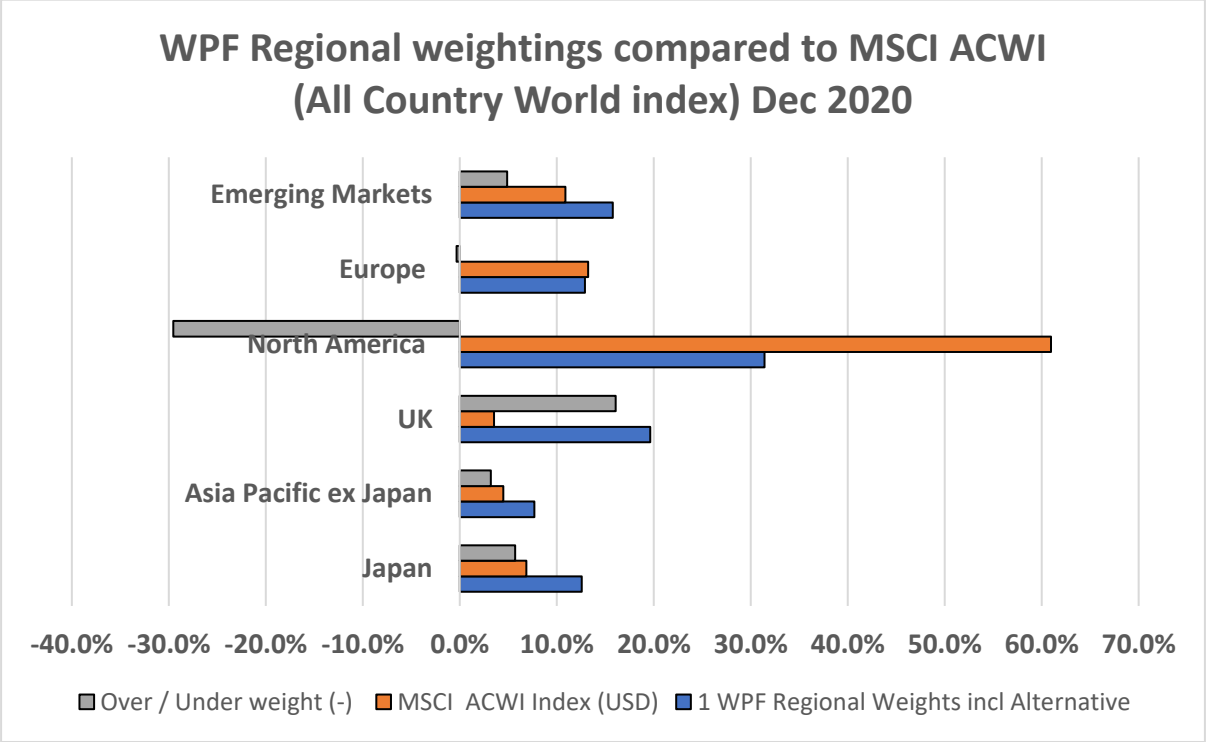
Cashflow Management	2022-23 £'M	2021-22 £'M	2020-21 £'M	2019-20 £'M	2018-19 £'M	2017-18 £'M
Contributions receivable	86.4	83.8	191.2	87.7	81.8	185.2
Benefits Payable	-118.6	-116.3	-114.0	-111.5	-106.3	-98.0
Surplus / Deficit (-)	**-32.2**	**-32.5**	**77.2**	**-23.8**	**-24.5**	**87.2**
Investment income	50.0	50.0	44.0	48.3	51.7	35.8
Net Cashflow	**17.8**	**17.5**	**121.2**	**24.5**	**27.2**	**123.0**

7.3 The Fund's Strategic Allocation Investment Benchmark and Ranges are:

	Growth	Medium	Cautious	
Asset Allocation	**%**	**%**	**%**	**Manager, Method & Performance Target**
Actively Managed Equities				
Far East Developed	10.0	5.0	0.0	Nomura Asset Management - FTSE All World Asia Pacific Index + 1.5%
Emerging Markets	10.0	5.0	0.0	LGPSC active global emerging markets equity mandates with BMO, UBS and Vontobel - FTSE - Emerging Market Index +2.0%
Passively Managed Equities - Market Capitalisation Indices				
United Kingdom	20.5	15.5	0.0	Legal and General Asset Management - FTSE All Share Index
North America	8.0	5.5	0.0	Legal and General Asset Management - FTSE All World North America - Developed Series Index
Europe ex - UK	6.5	4.0	0.0	Legal and General Asset Management - FTSE All World Europe ex UK Index - Developed Series Index
Passively Managed Equities – Alternative Indices				
Global	15.0	5.0	0.0	Legal and General Asset Management: - 20% GPAE - FTSE-RAFI Dev. 1000 Equity Fund - 40% GPBK - MSCI World Mini Volatility Index - 40% STAJ - CSUF - STAJ MF36726/36727
Fixed Income				

	Growth	Medium	Cautious	
Asset Allocation	**%**	**%**	**%**	**Manager, Method & Performance Target**
Fixed Income	10.0	40.0	80.0	- LGPSC Global Active Investment Grade Corporate Bond (Fidelity & Neuberger Berman) - Fund 50% GBP IG Corporate (Ex EM Issues) / 50 % Global IG Corporate ((ex IG Corporate & EM Issues) hedged to GBP +0.80% - EQT Corporate Private Debt
Actively Managed Alternative Assets				
Property & Infrastructure	20.0	20.0	20.0	Through a mix of Green Investment Bank, Invesco, Hermes, Walton Street and Venn Partners, Stonepeak, Firststate, AEW etc
TOTAL	**100.0**	**100.0**	**100.0**	

7.4 Geographical asset allocation is as follows:



7.5 The Fund provides a hard copy annual newsletter to all its members that includes information about the Fund and its investment / stewardship activities. For example, the 2021 newsletter for deferred members includes the following article:

About the Fund

We took some significant steps on our responsible investment journey in LGPS scheme year 2020 / 2021, including completing an environmental social governance (ESG) audit, undertaking a sustainable development goals (SDGs) mapping exercise, commissioning a climate risk report and producing our climate change strategy.

A headline finding was that our portfolio of equities has a carbon footprint that is 23.75% lower than the benchmark, with the footprint from each of our actively managed investment portfolios being significantly lower than their respective benchmarks.

Our member records reached an all-time high of 64,000 on 31 December 2020 when the Fund's value also reached an all-time high of £3,223 million, making the Fund 97% funded with an asset allocation of:

26% Actively managed equities

30% Passively managed equities

15% Alternatives

06% Equity protection

06% Fixed interest securities, credit and bonds

05% Property

12% Infrastructure

You can find out more about the Fund in the About us area of our website.

7.6 The Fund delivers a monthly newsletter to its employers to keep them abreast of what the Fund is doing, see Employer publications - Worcestershire Pension Fund

7.7 The Fund consults with its employers on its Funding Strategy Statement as part of each triennial actuarial valuation, taking on board employers' views before agreeing any changes to the strategy at a Pensions Committee. It will also consult on any proposed changes due to legislation or policy in between valuations, for example on new employer flexibilities like deferred debt arrangements.

7.8 The Fund's employer and member stakeholders are represented on the Fund's Pensions Committee and Pension Board as detailed in the Fund's Policy Statement on Communications. The membership of the Pensions Committee includes a Herefordshire Councillor who is also a member of the Green Party.

7.9 Our training programme for members of our Pensions Committee and Pension Board ensures that members can challenge and contribute meaningfully on stewardship issues and 2.23 above provides further detail. A member led specific ESG Audit working group has also been formed.

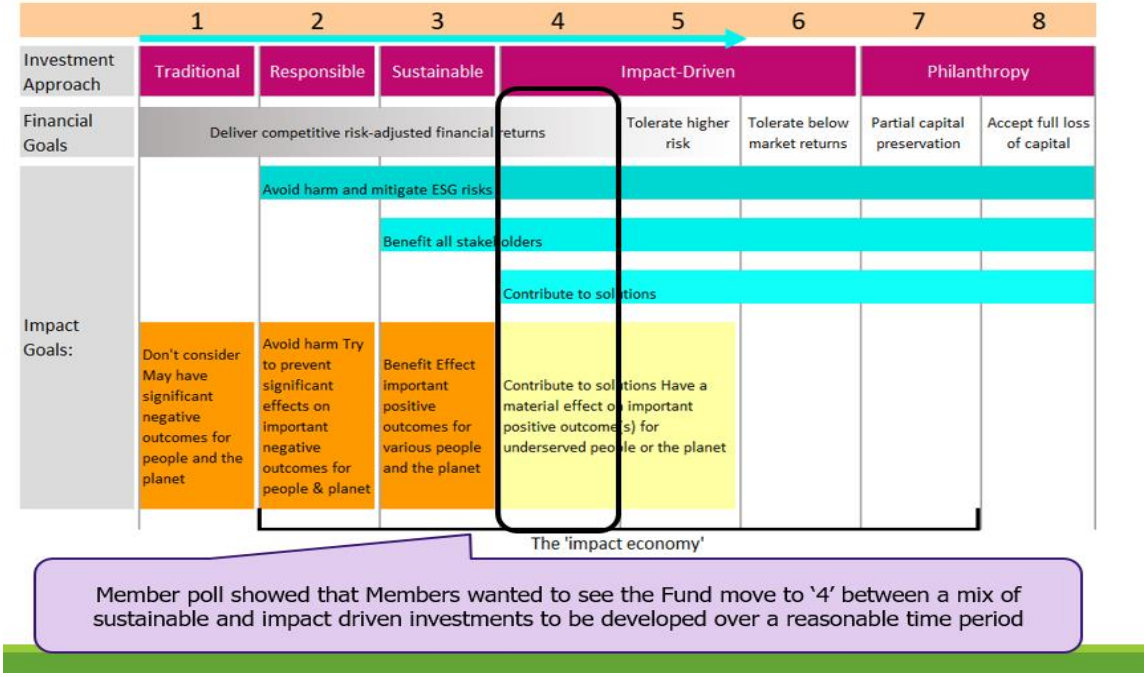
7.10 Our Annual Report and Financial Statements are available from our website and our website also provides up to date information about our governance, funding, investments, finances, and operations including a bespoke Funding and investments area.

7.11 The Fund also replies to all Freedom of Information requests as and when they arise in line with the statutory deadlines.

8. Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

8.1 The issues that the Fund prioritises for assessing investments are those matching our desired position on the spectrum of capital and are reflected in our investment manager monitoring / selection processes that include a requirement for managers to present their TCFD report as well as investments that support the SDGs that we have prioritised.



8.2 The Fund considers RI to be relevant to the performance of the entire Fund across asset classes and its investment beliefs are described in Principle 1.

8.3 The Fund commissioned an ESG audit and a Climate Risk Report to benchmark its position and to further incorporate RI into its investment process.

8.4 The Fund believes that *sustainable economic growth that is done responsibly should support the Fund's requirement to protect returns over the long term*.

8.5 The Fund focusses on the following targeted SDGs:

- SDG 3 Good Health and Well-being
- SDG 7 Affordable and Clean Energy

- SDG 8 Decent Work and Economic Growth
- SDG 9 Industry, Innovation, and Infrastructure
- SDG 13 Climate Action

8.6 To ensure service providers have received clear and actionable criteria to support integration of stewardship and investment:

- The Fund sets longer-term performance objectives for its investment managers
- The Fund ensures that investment managers are aligned with our long-term interests on all issues including ESG considerations
- Policies relating to ESG are considered as part of the Fund's long-term investment planning process, following a thorough and robust investment appraisal

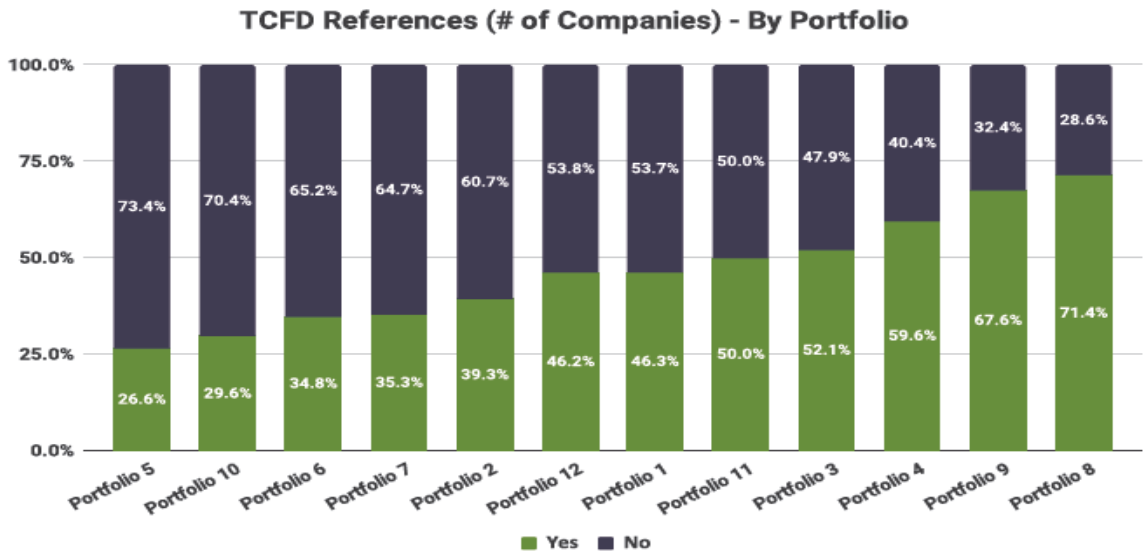
8.7 We use an **evidence-based** long-term investment appraisal to inform **decision-making** in the implementation of RI principles across our investment strategy to make better more informed investment decisions and encourage / influence better corporate practices that lead to value creation and good risk management. For example, the Fund considers:

- The potential financial impact of ESG related issues on an ongoing basis (e.g. climate change or executive remuneration)
- The potential financial impact of investment opportunities that arise from ESG related factors (e.g. investment in renewable energies or housing infrastructure)
- The investment opportunities that have positive impacts and recognises that the changing external environment presents new opportunities i.e. renewable energy and social impact investments
- The investment opportunities that have positive impacts against the targeted SDGs agreed by the Fund

8.8 The following guidelines were agreed at the March 2021 Pensions Committee in relation to future manager selection:

- To introduce impact criteria into the Fund's manager selection decisions e.g. Does the manager report against the SDGs, or CO2 emissions and do they have a clear investment thesis around climate change, decent work, and innovation
- To identify whether the manager is TCFD compliant
- To consider allocating some of the scoring weights in any procurement specifically to ESG e.g. 70% of the score based on investment, 20% on price and 10% on ESG

8.9 The Fund seeks managers that invest in companies compliant with TCFD recommendations because it is a good way of identifying the Fund's economic exposure to the companies that do – and do not – seem to have identified climate change as a specific risk to their business model. This will allow us a starting point in order to assess which companies are taking the risk of climate change seriously. The baseline assessment of the Fund in this area conducted by Minerva is detailed below for the Funds listed assets (70% of our portfolio).



8.10 The ESG audit was conducted across all the Fund's asset classes and it identified that the Fund has exposure to four main asset classes in its investment strategy: equities, corporate bonds, infrastructure, and real estate.

8.11 Minerva's approach to the ESG audit and SDG mapping aspects of the project were broadly the same for each asset class, although there was one important difference when it came to SDG mapping. For equities and corporate bonds, information is generally publicly available relating to the Fund's investee companies, and with the existence of the SDG2000 index providing a good proxy for the SDGs themselves, a quantitative approach was possible.

8.12 However, for infrastructure and real estate, publicly available information of sufficient detail and quality is scarcer, due mainly to the nature of the vehicles used by investors to gain access to these assets. As a result, the SDG2000 could not be used to map these assets to the SDGs; instead Minerva used their experience and judgment to look at each portfolio's underlying assets, to gauge whether they were likely to help or hinder in the delivery of the SDGs.

8.13 Accordingly, the Fund will need to constantly review its approach, particularly as there are likely to be significant developments in how performance and metrics are reported in the future before a consistent and robust system is in place.

LGPSC's RI Integrated Status tool

8.14 LGPSC has established a system whereby any new fund that is launched and made available to partner funds will have a Responsible Investment Integrated Status (RIIS) throughout the lifespan of the fund. The LGPSC Investment Committee needs to approve a particular product's (or set of products') RIIS status(es). The proposal for RIIS within given investment product is communicated via a RIIS Document, which is co-sponsored by the Director of Responsible Investment & Engagement and the relevant Investment Director for the product(s) put to approval.

8.15 By requiring co-sponsoring of the RIIS documents, LGPSC ensures that RI&E is an integrated process. The RIIS proposal will be approved by the Investment Committee if and only if the committee is satisfied that the combination of processes, techniques, activities, and reporting achieve, in a manner suitable to the asset class, product, or mandate in question, the Company's agreed responsible investment aims.

8.16 These are: (1) primarily, to support the Company's investment objectives; (2) secondarily, to be an exemplar for RI within the financial services industry and raise standards across the marketplace. The RIIS criteria to be met will typically include that:

- Any RI beliefs must be relevant to the asset class or mandate in question
- Relevant RI related documentation must support the decision to invest, e.g. policies and procedures at external managers or co-investors
- Fund managers must factor RI and ESG into their selection of portfolio assets
- RI reviews must be carried out by the fund managers at regular intervals (usually quarterly)
- Stewardship responsibilities must be carried out thoroughly (engaging with companies, shareholder voting, manager monitoring, industry participation)
- Fund managers must be transparent in their reporting to clients and the wider public

LGPSC's monitoring of managers' ESG integration and engagement approach:

8.17 The table below from the Minerva ESG audit report describes the process. LGPS Central require external equity and fixed income fund managers to complete a quarterly ESG questionnaire. Some disclosure items are "by exception" (for example changes in ESG process or personnel) and others are mandatory. LGPS Central receives quarterly data from external fund managers on the number of engagements undertaken and the weight in portfolio.

LGPS Central: Selection, Appointment and Monitoring (SAM) of External Managers

Selection	All managers are gated for their ESG practices and need to meet a defined Responsible Investment Integrated Status (RIIS) approval status from the pool's Investment Committee.
Appointment	Central discloses that 20% of marks available overall in the RFP process for each manager relate to ESG factors. Central shows a considered approach in the following: *"The RIIS status criteria are bespoke to the product and asset class in question, but will always reflect LGPS Central's RI & Engagement framework and beliefs set forth there (see p3 of RI&E Framework); reference relevant RI/ESG integration documentation that supports the decision to invest, e.g. policies and procedures at external managers or co-investment companies; monitoring structure for assessing external managers' ESG integration and engagement with investee companies/assets; stewardship responsibilities such as engagement and voting; reporting structures that allow appropriate reporting to Partner Funds and the public of processes and outcomes."*
Monitoring	*"Once managers are appointed, we monitor RI and ESG integration on an ongoing basis through quarterly disclosure questionnaires covering ESG integration, stewardship and climate risk. We are currently initiating a 12-month RI review of managers selected last year for the Global Active Equity Fund and the Emerging Market Active Equity Fund."*

Integration of climate change risk through Climate Risk Monitoring project

8.18 During the course of 2020, LGPS Central conducted in-depth climate risk assessments for Worcestershire Pension Fund and the other LGPSC Partner Funds and provided a Climate Risk Report (CRR) bespoke to each of them.

8.19 The CRR is designed to allow each Partner Fund a view of the climate risk held through their entire asset portfolio accompanied by proposed actions each could take to manage and reduce that risk. In the analysis, LGPS Central uses two approaches, bottom up & top down analysis. The top-down work is at the asset-allocation level and considers the financial consequences to the individual Partner Fund given plausible climate change scenarios. The bottom-up analysis is at the company/asset level and considers carbon risk metrics such as portfolio carbon foot printing, exposure to fossil fuel reserves, carbon risk management, and investments in clean technology. In each type of analysis, LGPS Central is not addressing the impact of the Partner Fund on the climate, but rather the impact of a changing climate, and changing climate policies, on the fund.

8.20 To facilitate TCFD disclosure, the CRR is deliberately structured to align with the four disclosure pillars. Below is a summary of the methods used to assess financially material climate-related risks and opportunities:

Section	Analysis
Governance	The purpose of this section is to identify areas in which the Fund's governance and policies can further embed and normalise the management of climate risk. We provide a review of the Fund's documentation from the perspective of climate strategy setting and issue recommendations on how the Fund could improve its governance of climate-related risk.
Strategy	Using the services of Mercer, LGPS Central assesses the extent to which the Fund's risk and return characteristics could come to be affected by a set of plausible climate scenarios. This includes an estimation of the annual climate-related impact on returns (at fund and asset-class level), and climate stress tests (to explore the potential impact of a sudden climate-related price movement).
Risk Management	Based on the report findings LGPS Central provides a Climate Stewardship Plan which identifies the areas in which stewardship techniques could be leveraged to further understand and manage climate-related risks within the portfolio. The plan includes plans to engage both individual companies and fund managers.
Metrics & Targets	LGPS Central conducts a bottom-up carbon risk metrics analysis at the company and portfolio level. For the most part, four types of carbon risk metric are utilised: portfolio carbon footprint, fossil fuel exposure, weight in clean technology and climate risk management (via the Transition Pathway Initiative).

8.21 As per our reporting against Principle 1, we consider this Climate Risk Monitoring project a critical stepping-stone in the Fund's ongoing management of climate risk and a direct way of translating our investment beliefs on climate change into action.

8.22 LGPS Central will provide bespoke CRRs to our Fund on an annual basis. Future iterations of the report will show progress against the baseline of data collected in the first year. The upcoming 2021 reports will explore 1) how the results have changed in the past year 2) what recommendations have been achieved and 3) how our Partner Funds can continue to develop in this space. In our reporting against Principle 5 (see p18 above), we detail climate reporting and metrics that are under consideration going forward and will be exploring ways in which climate risk can be analysed in alternative asset classes

9. Principle 8

Signatories monitor and hold to account managers and/or service providers.

9.1 The Fund expects its appointed investment managers to ensure that our needs have been met by taking account of financially material social, environmental, and ethical considerations in the selection, retention and realisation of investments and believes that this forms part of the manager's fiduciary duty to protect long term shareholder value.

9.2 This reflects the Fund's commitment to ensuring that companies that it invests in adopt a responsible attitude toward the environment, adopt high ethical standards and behave in a socially responsible manner by taking into account the interests of all stakeholders. The Fund seeks to achieve this objective by raising issues with companies in which it invests and to raise standards in a way that is consistent with long term shareholder value and our fiduciary duty.

9.3 The Fund understands that regardless of this delegation, we retain overall responsibility for the stewardship and responsible investment of the Fund's assets.

9.4 Specifically, managers are tasked with appropriately selecting the companies held in their portfolios, intervening where necessary and reporting back regularly on engagement activities.

9.5 The reports from our asset managers detailing engagement activities are a key monitoring tool used by our Pensions Committee on a quarterly basis.

9.6 These are reviewed by our independent investment advisor, Philip Hebson of MJ Hudson, who attends all Pension Investment Sub Committee meetings. Our advisor's objectives were reviewed at the Pensions Committee meeting of March 2020 and include assisting the Fund in the monitoring of its managers and producing a Quarterly Performance Update for Committee which provides an overview of manager performance and raises any corporate, social or governance issues for consideration by the Committee. The Fund also monitors the performance of its investment advisor in compliance with CMA regulations and reports this to Committee every 6 months.

9.7 Each of the managers meets with Committee once a year and also with officers of the Fund once a year. We have quarterly meetings with our active equity managers. Additional meetings with managers may also be arranged on an ad-hoc basis according to need. Manager performance is also reported annually in the Fund's annual report which is published on the Fund's website and made widely available to stakeholders.

9.8 The Fund also engages with its asset managers on a regular basis using a variety of means including phone, email, in person and formal written correspondence. The Fund uses its engagement with managers to monitor performance, evaluate risk, and to become aware of any ESG issues and opportunities.

9.9 One of the recommendations from the ESG audit conducted by Minerva in November 2020 was to challenge our fund managers using a specific tool to assess their ESG capabilities across all asset classes: The next steps will be to use this tool to challenge our existing Fund managers as part of our regular performance monitoring meetings.

Table 2: Qualitative Assessment

Manager	Asset Class	A	B	C	D	E	F	G
LGPS Central	Equities/Corp Bonds	76	-	33	-	-	-	89
Manager A	Equities	76	37	41	-	-	-	-
Manager B	Equities	65	57	61	-	-	-	-
Manager C	Infrastructure	85	74	-	75	70	61	-
Manager D	Infrastructure	79	80	-	70	21	72	-
Manager E	Infrastructure	86	78	-	86	90	67	-
Manager F	Infrastructure	13	8	-	18	0	10	-
Manager G	Private Debt	73	58	68	56	-	-	-
Manager H	Real Estate	46	43	-	48	44	36	-
Manager I	Real Estate	61	79	-	59	62	90	-
Manager J	Real Estate	56	65	-	71	70	44	-
Manager K	Real Estate	0	15	15	0	0	-	-
Manager L	Real Estate	0	21	15	5	-	-	-

Table Key:

A: Strength of house-level ESG governance and orientation.

B: Portfolio disposition or potential for high ESG achievement.

C: Portfolio disposition or potential for contribution to the Fund's chosen SDGs.

D: Quality of ESG management using best practice in real assets (private debt for Manager G)

E: Participation in and performance in benchmarking and standards.

F: A high-level qualitative assessment on individual assets held in infrastructure funds for their potential to contribute to the Fund's chosen SDGs.

G: Assess the pool's policy on investment manager Selection, Appointment and Monitoring (SAM).

9.10 The Fund receives Internal Control Reports from managers and our custodian every year and these are reviewed by officers of the Fund annually. Quarterly performance meetings are also held with our actuary.

9.11 The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which has enabled us to develop our approach to shareholder engagement and responsible investment. Collective engagement through LAPFF enables us to maximise our influence.

9.12 Officers of the Fund regularly attend LAPFF business meetings, which include presentations from expert speakers and detailed updates on engagement and policy work. Furthermore, our membership of LAPFF enables us to benefit from their voting alerts service which highlights companies with material corporate governance failings. Full details of the alerts can be viewed on the LAPFF website in the members' area.

9.13 We participate in **LGPS Central Limited** for our active mandates. It is our ESG adviser and its approach is detailed in its **Responsible Investment and Engagement Framework**.

9.14 Whilst **LGPS Central Limited** does quarterly ESG update reports which can be found on its website, we monitor our engagement with companies and how the proxy voting of these investments is cast, reporting this to Pensions Committee meetings using geographical, and company name analyses.

9.15 We have appointed Legal & General Investment Management to manage our passive equity mandates. It believes in using its scale and influence to bring about real, positive change to create sustainable investor and produces a **quarterly ESG impact report that includes a regional voting summary**.

9.16 From an asset allocation point of view, it appears to us preferable to think about **ESG impact strategies** within the already well-established asset classes rather than as a standalone bucket.

Further detail of LGPSC monitoring of managers' ESG integration & stewardship

9.17 LGPS Central has developed a traffic-lights based system of manager monitoring, of which RI&E is a core component. These ratings get updated each quarter based on the discussion at the manager meetings. The traffic light is split into four possible ratings: green (manager shows clear strengths tailored to requirement), amber (manager is fulfilling role but with minor areas of concern), orange (manager warrants closer scrutiny with potential for going on "watch") and red (manager fails to convince, warrants formal review with potential manager exist). LGPSC scores managers on four components of their RI&E approach:

- philosophy, people and process
- evidence of integration
- engagement with portfolio companies
- climate risk management.

Reflecting its importance, the RI&E component carries 13% of the weight in the overall score

9.18 Managers' report on a regular basis to LGPS Central in respect of how engagement activities have been discharged during the period in review. LGPSC sets expectations regarding the volume and quality of engagement, and assesses climate risk including portfolio carbon footprint, and exposure to oil, gas and coal producers. In order to send a unique voting signal to investee companies LGPS Central votes its shares - whether externally or internally managed - according to one set of Voting Principles. Whilst the ultimate voting decision rests with LGPS Central, we have a procedure through which we capture intelligence and recommendations from external fund managers.

9.19 The LGPSC RI&E team attend quarterly monitoring meetings with external managers. The purposes of RI&E monitoring are to analyse the level of ESG risk and climate risk in the portfolio, determine whether the manager is successfully applying the ESG process that was pitched, and assess whether that ESG process is proving successful. Monitoring is achieved through a combination of LGPSC's own internal portfolio analysis, inspection of the manager's responses to quarterly data requests, and via dialogue at the quarterly meetings

9.20 In 2020, LGPSC's external managers conducted 203 direct engagements with companies held in the Global Equity Active Multi-Manager Fund and Emerging Equity Market Active Multi-Manager Fund.

9.21 In Q4 2020, BMO (part of LGPSC Emerging Market Equity Active Multi-Manager Fund) conducted an engagement with a large multinational consumer goods company on potential forced labour risks in supply chains connected to the Xinjiang Uyghur Autonomous Region. BMO have asked the company to conduct enhanced due diligence for operations in high risk regions where standard auditing procedures may not suffice. The engagement forms the start of a targeted programme by BMO addressing human rights risks in the supply chains of fifteen multinational companies.

9.22 On the whole, engagement undertaken by LGPSC's external managers in 2020 has been comprehensive and robust. These managers are all long-term investors with sizeable positions in their highest conviction portfolio holdings, giving them excellent access to company management which they used effectively to drive company change. There were a few occasions where the level of engagement disclosure was unsatisfactory, or where the link between an engagement and subsequent investment decision-making was not clear. In these instances, fund managers were marked down

during LGPSC's traffic lights rating review and LGPSC discussed its concerns in the quarterly meetings.

9.23 An example of this occurred in Q2 2020 when LGPSC downgraded two parts of the traffic light score of one manager from level three (green) to level two (amber). LGPSC asked for assurances regarding the consistency of ESG integration across the portfolio, as the manager appeared confident in pre-prepared examples of ESG analysis, but less so in the companies that LGPSC had selected. It was also unclear how the outcomes of recent engagements had been incorporated back into investment decision-making. Six months later, LGPSC has now reinstated part of this score. After initiating a two-way dialogue LGPSC was able to attain a much better understanding of how the manager's engagement outcomes feed back into portfolio construction. LGPSC still is not fully comfortable with the explanation of ESG analysis and will continue to press the manager during quarterly discussions. Anything that is not adequately addressed during these quarterly meetings will be scrutinized as part of LGPSC's in-depth annual manager review.

ENGAGEMENT (Principles 9 to 11)

10. Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

10.1 Alongside LGPSC's direct engagements, we have several partners that engage companies on our behalf: EOS at Federated Hermes (Stewardship provider to LGPSC) and LAPFF. Through these partnerships, our Fund was able to engage more than 1,000 companies on material ESG related issues in the course of 2020. Below we give further detail and examples to some of these engagements.

Engagements through LGPS Central

10.2 During 2020 LGPS Central has continued engagement on four core Stewardship Themes: climate risk, plastic pollution, responsible tax behaviour and tech sector risks. Given that engagement requires perseverance and patience, we expect to pursue the same themes over a three-year horizon (current period 2020 – 23), and in some cases – like with climate change – a longer time period. LGPS Central also continues to employ a broader stewardship programme, beyond the core themes, covering issues like board diversity, deforestation risks and human rights, to name but a few.

Climate change engagement highlights 2020

- 10 live climate-related engagements (eight of which are Climate Action 100+ companies)
- Engagement across sectors, both supply and demand for fossil fuels, as well as auditors who audit accounts and banks that provide lending
- Done through key collaborative initiatives including Climate Action 100+, Institutional Investor Group on Climate Change (IIGCC) and the Transition Pathway Initiative (TPI)
- LGPSC's voting is, whenever possible, engagement-led and reflects the expectation of Paris alignment. Specifically, if a company is assessed by the TPI's Management Quality Framework to be at a level 2 or below (where 4 is maximum score), LGPSC will consider voting against the company Chair, and other relevant directors or resolutions. Ahead of the 2021 voting season, LGPSC expresses a heightened expectation in that companies should be above a level 3 in TPI's Management Quality Framework.

- We have seen progress during 2020 through the setting of net-zero by 2050 ambitions and initial steps to set short and medium-term targets aligned with long-term ambition. There is also progress among the majority of these companies in partially or fully including Scope 3 emissions in target-setting.
- Gaps: As evidenced through the CA100+ Benchmark Framework assessments (published in March 2021), most companies are still in the early stages of the shift to a net zero economy. In particular, there are gaps in aligning capital expenditure plans with net-zero ambitions and in linking delivery of climate targets with remuneration. Climate policy lobbying also remains an area of concern, where most companies need to improve processes and transparency around how they ensure alignment with their own climate positions and the advocacy done on their behalf through industry associations.

Climate engagement case

10.3 During 2020, LGPS Central continued engagement with audit committees of companies with high exposure to climate change risks. The initiative is a satellite to the CA100+ engagement project and supports the overall goals of CA100+. In November 2019, letters went to three oil and gas majors – BP, Shell and Total – asking for assurances that key financial disclosures to shareholders take due account of all risks, including climate change. If climate risk is not taken into account, the longevity and value of assets held by the company may be over-estimated, which could lead to capital being misdirected.

10.4 The investor group, led by Sarasin & Partners, published a statement in June 2020 welcoming a recent announcement by BP that the company will lower long-term oil and gas price assumptions used in financial statements to reflect a decarbonising world. The group commended BP for this move and the statement also positively acknowledges the fact that Shell and Total have similarly lowered their oil and gas price assumptions used in their 2019 audit accounts. The companies in question are willing to engage on the subject and this positive momentum has been harnessed during 2020 through a broader engagement based on a set of Investor Expectations for Paris-aligned Accounts. These expectations were communicated by letter to 36 energy, material, transportation companies in November of 2020.

Plastic pollution engagement highlights 2020

- Six live engagements
- Focus on packaging companies, which is one of the sectors more exposed to risks and opportunities stemming from plastic transition
- Collaborative engagement through a sub-group of the PRI Plastic Working Group, led by Dutch investors Achmea Investment Management and Actiam
- The objective is to engage and support progress for companies in a 'Plastics transition' - to reduce, re-use and replace fossil-fuel based plastics.
- With increasing attention from governments to the negative impacts of plastic use and consumers calling for less harmful alternatives, investee companies in the plastic value chain are exposed to increasing regulatory risks, environmental risks, reputational risks, and the risk of missing out to market developments
- 1-2 meetings have been held with each of the companies in the course of 2020 with an overall high level of receptiveness to investor concerns
- Direct engagement has been combined with "knowledge sharing" events hosted by PRI Plastic WG where some of the companies have taken part
- Sector-specific expectations have been developed by the broader PRI WG and engagement will continue with the six companies during 2021 based on these.

Case study

10.5 LGPSC engaged a US-based industrial packaging company which is seeing greater interest from its customer base for sustainability in the last 4-5 years and as a result, is expanding its post-consumer resin (PCR) products, capabilities, and technologies. PCR plastics are recycled materials from existing polyethylene terephthalate (considered safe and is represented on water bottles as a safe option) and other plastics. Demand for PCR is greater among customers in Europe than in North America and the Company is actively educating its customers both on the quality and safety of recycled products and on emissions impacts for specific products. In all these engagements, the investor group would like to see ambitious targets for reduction, re-use and replacement of plastic and clear Key Performance Indicators (KPIs) and timelines for how targets can be achieved.

10.6 The aforementioned Company is currently going through a KPI setting procedure and we encouraged them to integrate relevant KPIs on sustainability progress in executive remuneration. The Company seems to welcome further investor input to the KPI setting process, and the group will continue dialogue to discuss the development of targets and what progress is being made against those.

Responsible tax behaviour engagement highlights 2020

- Six live engagements
- LGPSC has formed a collaboration with four other European investors, which is a sub-group to a broader Tax Roundtable led by Norges Bank Investment Management and APG
- Group has sought engagement with companies across technology, telecommunications, finance, and mining sectors where a low effective tax rate was an initial concern with several of these
- Engagements have been initiated through letter outreach and subsequent meetings with five out six companies
- Key asks: Board oversight of tax policy and risk assessment; disclosure of tax strategy and policy; robust management of tax related risks, including preferably a country-by-country tax disclosure; link between company's purpose, sustainability goals and tax strategy; engagement with tax policy makers and other stakeholders
- Alongside direct engagement, the broader Tax Roundtable is developing a set of Tax Transparency expectations that amalgamate expectations set by individual investors
- Engagement will continue with all companies bar one, which is considered a best practitioner, and may be expanded in scope. The general level of tax transparency is low across companies and sectors

Case study

10.7 In conversation with a US-domiciled software and services company, LGPSC and fellow investors discussed the Company's approach to tax and how it defines and manages tax related risks. The Company established a Global Corporate Income Tax Matter Policy in 2019 and we were told that the Board stays closely involved and asks questions around tax risk through its Audit Committee. The investor group probed the Company on its tax strategy for digital products and the use of foreign jurisdictions with lower tax rates. It is generally concerning if companies appear to utilise aggressive tax planning strategies. While the company we engaged assured investors that it is not seeking tax havens, we would like to see that more clearly articulated in both policy and practice. The Company has a subsidiary incorporated in Ireland, but which is tax resident in another jurisdiction paying zero tax. This raises some 'red flags' from the outset and does not appear to be in line with OECD's Base Erosion and Profit Shifting Framework. The investor group will seek further clarification from the Company on the

underlying realities and whether we might expect a change in tax practices under the newly established tax policy.

Tech sector risks

- Five live engagements
- LGPSC is part of two collaborative initiatives: one focusing on social media content control, and one addressing human rights more broadly (see further detail on the latter under Principle 10 below)
- Big tech companies have initially been hard to engage due to the strong founder/owner governance structure of most of these companies and a seeming inclination to ignore minority shareholders' voices
- The social media content control engagement project led by the New Zealand Crown-owned investors, has garnered impressive investor support from 102 financial institutions since inception in March 2019 (see further detail in case study below)
- In the face of COVID19 and a highly polarised US presidential election November 2020, the social media content control engagements garnered momentum through pressure from advertisers and other stakeholders (including World Federation of Advertisers) on harmful content including hate speech and aggression

Case study

10.8 During the latter half of 2019 and all of 2020 LGPSC has taken part in collaborative investor engagement, led by the New Zealand Crown-owned investors, with **Facebook** and **Twitter** to discuss their governance and operations to ensure appropriate social media content control. This big tech engagement project was initiated following the horrific Christchurch attacks in March 2019 which were livestreamed on social media platforms. Both companies are taking encouraging steps to efficiently assess content and to remove objectionable content from their platforms. Technology is developing rapidly and with the help of AI the companies appear more effective at capturing contextual content such as hate speech. Facebook has established an Oversight Board to ensure fair decision-making in situations where free speech is at odds with authenticity, safety, privacy, and dignity, and that will assist in hearing difficult and important content removal decisions. The Board may overrule management and may comment on policies in order to ensure that these are aligned with the company's core values. Rebuilding trust with advertisers and users should be a focus for Facebook going forward.

10.9 We expect them to move the discussion from a focus on risk management and mitigation to prevention. Twitter provides a public biannual transparency report which describes how content is managed in relation to issues like elections integrity, cyber security, data protection and harmful content amongst others. Twitter actively seeks collaboration with peers and other stakeholders in order to discuss the challenges and how they can best be tackled. The investor coalition has signalled to both companies the importance of board oversight and has requested to meet board directors at both companies as engagement continues.

Example of a recent engagement through LAPFF

10.10 An example of a recent engagement through LAPFF has begun correspondence with companies cited for their involvement in Israel's illegal Israeli settlements, based on stolen Palestinian land. An extract from the LAPFF quarterly engagement report is detailed below:-

10.11 **Israeli-Palestinian engagements underway Objective:** A number of LAPFF funds were approached by both pro-Israeli and pro-Palestinian groups about investments in the Israeli-Palestinian territories. Consequently, the Forum cross-referenced the companies of concern with a UN list of companies raising concerns based on their operations in this area to determine a preliminary list of companies with which to engage on this issue.

10.12 **Achieved:** The first engagements have taken place with three of the seventeen companies approached on this issue. So far, there has been pushback on two fronts from all three companies. Motorola, which the Forum has approached in the past, merely provided its standard annual report text in response to a meeting request and has not yet granted a meeting of any sort. Altice, a French telecommunications company, and Israeli Discount Bank have both pushed back on LAPFF's request for human rights impact assessments in respect of their operations in the territories on the grounds that the UN list is political, and it would do no good to undertake these assessments because existing legal requirements ensure human rights compliance in any case. Altice did engage through a meeting, though, while Israeli Discount Bank submitted only a written response.

10.13 **In progress:** Forum members continue to be approached on this seemingly challenging issue, and LAPFF will continue to engage with the companies approached. Although the Forum is not likely to solve this political problem, it is hoped that the companies engaged will come to understand the importance of conducting human rights impact assessments both for their own operations and in order to provide more helpful investment information to shareholders.

11. Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers

11.1 We have worked with the following in collaborative engagement to influence issuers in order to maximise the influence that the Fund can have on individual companies:

11.2 Working collaboratively with LGPS Central aids the Fund in using our influence as a shareholder to set a high standard for the wider investment community. LGPS Central has taken part in and helped build strong investor collaborations in pursuit of better corporate standards for each of the Stewardship Themes[1] during 2020. The pool has also supported theme-relevant industry standards and benchmarks, which clarify investor expectations of companies and provide a mechanism for measurement of progress. See examples below

11.3 Examples of collaborative corporate and industry standard engagement that LGPSC is an active participant in:

Climate Action 100+

11.4 LGPS Central has since inception been an active member of Climate Action 100+ (CA100+). CA100+ engages 161 companies across the globe that are responsible for 80% of industrial carbon emissions globally. The project is currently being ramped up through a Benchmarking project asking companies to set an explicit target of net-zero

[1] Confer with response to Principle 4 (p14) above for further detail on LPGS Central Stewardship Themes

emissions by 2050, and to provide verifiable evidence that this will be achieved in the short, medium, and long term.

11.5 LGPS Central is actively involved in leading and/or supporting eight CA100+ engagements across mining, oil & gas, industrial technology, and integrated energy sectors. All companies have set a high-level ambition of being net-zero by 2050, with varying remits in scope. LGPSC is pleased to note that two of the eight companies we engage directly (**Glencore** and **Royal Dutch Shell**) have made a decision to allow shareholders an advisory vote on their respective Climate Transition Plans. While neither company has fully disclosed strategies to achieve Paris goals across all scopes and over relevant time horizons (2025, 2036 and 2050), they have taken key steps that can set each company, respectively, on a Paris trajectory.

11.6 In the case of Glencore, we will particularly encourage clear and ambitious short-term targets that align with their 40% GHG emissions reduction target across all scopes by 2035, and net-zero by 2050. We will also push the company to provide more information on their climate policy lobbying activities, both directly and indirectly through industry associations, giving shareholders assurances that misalignment will be addressed in a robust manner.

Plastic pellet industry standard

11.7 Plastic pollution is a very serious global issue, with billions of plastic pellets or “nurdles” making their way into the natural environment each year. This poses a serious threat to the ecosystem and is potentially also a health threat to people. LGPSC is collaborating with the Investor Forum, peer investors and other stakeholders including Marine Scotland, the British Plastics Federation, and the British Standards Institute to sponsor and create the first industry specification to prevent plastic pellet pollution.

11.8 The new specification, a so-called Publicly Available Specification (PAS), will set out measures to prevent plastic pellet leakage and help companies demonstrate good practice in pellet loss prevention across their supply chains. The overarching goal of this PAS is to help companies achieve and maintain zero pellet loss across their pellet handling operations. After 9 months of preparation, an expert group proposed a plastic pellet PAS which went out for consultation during Q1 of 2021. Influencing corporate practices on a theme across industries is a powerful engagement tool and we will use the plastic pellet PAS as a direct reference in engagement with relevant industries including plastics manufacturers, transportation, retailing and recycling organisations once it is made public.

Tech sector and human rights standards

11.9 LGPS Central has taken part in collaborative investor engagement, led by the Council on Ethics to the Swedish National Pension Funds discussing human rights risks with a group of American technology companies. This engagement is part of a broader project to engage technology companies on a wide range of human rights risks including privacy and data protection; freedom of expression; disinformation in public and political discourse; and discrimination and hate speech.

11.10 These are complex issues that require solutions both within the companies' own sphere of influence, as well as industry standard and public policy intervention. Through this engagement project, investors are opening a line of dialogue and collaboration to encourage greater transparency, better governance and board oversight and overall alignment with existing human rights standards by technology giants. In partnership with the Danish Institute for Human Rights, the Council on Ethics has identified what are reasonable human rights expectations of companies such as Facebook, Google (Alphabet) and Twitter. These expectations were shared and discussed with technology companies during Q4 of 2020 and officially published in December 2020. With clearly articulated expectations, investors have a good baseline for ongoing engagement with technology companies and a means for a more constructive and effective dialogue regarding the companies' responsibility for and impacts on human rights.

11.11 We view it as critical that big tech firms work strategically on human rights risks and that they are willing to collaborate across their value chain in order to find adequate solutions. Encouragingly, we note that several companies welcome the articulation of comprehensive investor expectations and seem willing to engage on these, and to contribute to the setting of common standards for the industry.

Deforestation

11.12 LGPSC engagement on the long-term investments risks inherent in deforestation continues, both at policy and company levels. The pool company recognises the crucial role that tropical forests play in tackling climate change, protecting biodiversity and ensuring ecosystem services, which again has an impact on economic development and the stability and well-functioning of capital markets. During Q1 of 2021, the Chair of the LGPS Central Board, Joanne Segars, took part in a meeting with the Vice President of Brazil, representing LGPS Central as a member of the investor coalition "Investor Policy Dialogue on Deforestation" (IPDD). This was one of several meetings initiated by IPDD with the highest political levels in Brazil across government, central bank, and the congress[2].

11.13 LGPSC and fellow investors expect Brazilian authorities to halt and reverse deforestation while allowing investors access to data to monitor progress. The Brazilian government acknowledges the urgency in reducing illegal deforestation, however actions taken so far have been inadequate and the rate of deforestation in the Amazon is sadly continuing to increase. We will continue this important engagement, harnessing what appears to be a joint view from both sides that the forest is more valuable standing than destroyed

Other Fund collaboration

11.14 The Fund also works closely with its asset managers, engaging with them on a regular basis and with other organisations, such as the Pensions & Lifetime Savings Association (PLSA). All our managers work closely with other organisations as part of

[2] IPDD is led by Storebrand (Norway) and BlueBay Asset Management (UK) and LGPS Central is on the IPDD Advisory Committee. IPDD will be a two-year project that also aims to span other regions of the world that face deforestation risk.

their collaborative engagements, advocacy and research activities, details of which are given in their quarterly and annual reports which are reported to Committee.

11.15 Each year, various officers and members of the Pension Committee attend LAPFF business meetings which include presentations from expert speakers and detailed updates on engagement and policy work.

11.16 Representatives from the Fund regularly attend various other pension forums and conferences in order to stay abreast with the latest developments affecting LGPS pensions and investment markets and to use opportunities to network and collaborate with other.

LAPFF collaborative engagement example

11.17 In addition to the support provided directly via LGPSC there are examples provided through LAPFF of the supported engagement activities undertaken. A recent example would be the pressure from investors on Rio Tinto over Juukan Gorge. An extract from the LAPFF 2020 fourth quarterly report is provided below:

11.18 *As LAPFF has been learning more about **Rio Tinto**'s involvement in the destruction of the historically significant caves at Juukan Gorge in Western Australia, there have been increasing concerns about the company's corporate governance practices. Consequently, the Forum – along with other investor groups, most prominently the Australasian Centre for Corporate Responsibility (ACCR) – has been pushing the company to review its corporate governance arrangements. One of the main strategies in this engagement has been to issue press releases citing LAPFF's concerns as various details of Rio Tinto's practices were revealed through a range of investigations. There has been an internal investigation led by a non-executive director on Rio Tinto's board, which resulted in the elimination of short-term bonuses for three senior executive members, including the CEO. Subsequently, the CEO and two other senior executives resigned. The Forum received significant press coverage for its support of this measure. LAPFF also issued press releases responding to information issued by Australian Parliamentary inquiries into this matter. There appears to be increasing evidence of corporate governance failures, particularly in relation to engaging properly with indigenous communities, emanating from these inquiries. LAPFF is continuing to ask questions of the Rio Tinto board about its response to the mounting information on corporate governance failures. The Forum currently has requested LAPFF Chair, Cllr Doug McMurdo, meet with the Chair of Rio Tinto, Simon Thompson, about the Juukan Gorge incident. In the meantime, LAPFF is participating in a collaborative investor group led by Adam Matthews at Church of England to discuss a way forward not only for Rio Tinto, but the mining industry more broadly. LAPFF has also engaged with Rio Tinto in relation to the company's progress on scopes 1 and 2 carbon emission targets; progress on partnerships; and review of trade association memberships*.

12. Principle 11

Signatories, where necessary, escalate stewardship activities to influence Issuers.

12.1 The responsibility for day to day interaction with companies is delegated to fund managers and LGPSC, including the escalation of engagement. Their guidelines for such activities are anticipated to be disclosed in their own statement of adherence to the Stewardship and may include the following activities:

- Additional meetings with management
- Intervening jointly with other institutions – e.g. fund managers have shown support for LAPFF alerts by publishing their voting intention online prior to AGMs
- LGPSC escalation
- Writing a letter to the board or meeting the board
- Submitting resolutions at general meetings and actively attending to vote
- Divestment of shares

12.2 Occasionally, the Fund may choose to escalate activity directly, principally through engagement activity by the LAPFF (see escalation example above in Principle 10) or via LGPSC. When this happens the Chairman of the Pensions Committee, in communication with the Vice Chairman and Chief Financial Officer to the Fund will decide whether to participate in the proposed activity.

12.3 Any concerns with the managers are added for discussion in the Pension Investment Sub Committee agenda and where there are specific concerns, the relevant managers will be invited to discuss concerns.

12.4 The Fund employs the services of an independent investment advisor, who, along with officers of the Fund, closely monitors the performance of the Fund's managers. The Investment advisor will attend Committee meetings and assist the Committee in the questioning of the managers and in the discussions that follow, helping the Committee by providing any guidance they need to help them to make the right decisions for the Funds interests. Further details are contained within the ISS which is available on the Fund's website. Our advisor's objectives were reviewed at the Pensions Committee meeting of March 2020 and include assisting the Fund in the monitoring of its managers and producing a Quarterly Performance Update for Committee which provides an overview of manager performance and raises any corporate, social or governance issues for consideration by the Committee. The Fund also monitors the performance of its investment advisor in compliance of CMA regulations and reports this to Committee every 6 months.

12.5 The Fund has only divested from shares in the past on the grounds of investment performance and has principally used engagement to influence companies through fund managers to escalate activity. However, as part of the ESG audit the Fund included the potential to disinvest where appropriate within its agreed ISS. It highlighted that, whilst this was not currently the Fund's policy, it could be considered in the future if a particular manager or company was not making any attempt to comply with our Fund's stated policies.

12.6 A large proportion of the Fund's assets are invested in passive pooled products managed by Legal & General Investment Management (LGIM) and are voted according to the voting policies of LGIM. An escalation example is detailed below:-

LGIM escalation example

12.7 As part of a group of 100 investors representing over $4.2 trillion in AUM and driven by the Investor Alliance for Human Rights, LGIM wrote to policymakers around the world calling for the introduction of new requirements to mandate companies to disclose their due diligence on human rights.15 We believe this type of regulation is: materially good for business, investors, and the economy; (ii) essential in creating uniformity and efficiency as an increasing number of governments are already taking this step; and (iii) a necessary component for investors to fulfil our own responsibility to respect human rights.

12.8 On 29 April 2020, EU Commissioner for Justice, Didier Reynders, announced a commitment to introduce EU-wide, mandatory due diligence legislation on human rights in 2021. The consultation process to inform the drafting of the legislation is being developed.

12.9 Elsewhere, LGIM worked with Rathbones,16 alongside other investors managing a total of £3.2 trillion in assets, to challenge FTSE 350 companies that had failed to meet the reporting requirements of Section 54 of the Modern Slavery Act, 2015

LGPSC escalation example

12.10 LGPSC alongside 10 other investor institutions and led by Share Action, filed a shareholder proposal at **Barclays Bank** in January 2020. The proposal stipulated that Barclays should disclose targets to phase out the provision of finance to companies in the energy and utility sectors that are not aligned with the Paris climate change goals. In other words, investors asked Barclays **to establish and disclose plans/strategies to align their loan books with the Paris accord.**

12.11 Following many meetings and interaction, including directly with the Chair of the company, the outcome was clearly very positive: Barclays – close to the AGM in May 2020 – announced an ambition to become a “net-zero bank” covering emissions across Barclays’ own operations and those of its clients. Barclays have since been working on establishing methodologies to assess specific companies and sectors against Paris. Although we at the time of filing held only a minority share of 0.05% of the company, that shareholding allowed us to take shareholder action.

13. Principle 12

Signatories actively exercise their rights and responsibilities

13.1 The Pensions Committee has agreed that LGPSC will, via Hermes EOS, vote shares in certain discretionary and all pooled funds on the Fund’s behalf. These votes are executed in line with LGPSC’s published **Voting Principles**. The Fund believes that the advantage of a consistent signal and working collectively through the pool will have a positive influence on company behaviour. LGPSC also provides regular updates on our targeted stewardship themes: climate change, single-use plastic, technology & disruptive industries, and tax transparency.

13.2 As described in Principle 10 we monitor our engagement with companies and how the proxy voting of these investments is cast, reporting this to Pensions Committee meetings using geographical, and company name analyses. Over the year EOS recommended voting against 469 resolutions against management or abstaining on resolutions at 283 meetings and engaged on 820 environmental, social and governance issues and objectives with 265 companies. An example of the voting and engagement statistics provided are detailed below for quarter 2 of 2020.

Engagement by theme

Over the last quarter we engaged with **80** companies held in the Worcestershire Pension Fund portfolios on a range of **265** environmental, social and governance issues and objectives.

Environmental

Environmental topics featured in **21.9%** of our engagements over the last quarter.

- Climate Change **81.0%**
- Forestry and Land Use **3.4%**
- Pollution and Waste Management **6.9%**
- Supply Chain Management **1.7%**
- Water **6.9%**

Social and Ethical

Social and Ethical topics featured in **17.7%** of our engagements over the last quarter.

- Conduct and Culture **21.3%**
- Diversity **17.0%**
- Human Capital Management **21.3%**
- Human Rights **27.7%**
- Labour Rights **10.6%**
- Tax **2.1%**

Governance

Governance topics featured in **41.5%** of our engagements over the last quarter.

- Board Diversity, Skills and Experience **29.1%**
- Board Independence **13.6%**
- Executive Remuneration **28.2%**
- Shareholder Protection and Rights **23.6%**
- Succession Planning **5.5%**

The issues on which we recommended voting against management or abstaining on resolutions are shown below.

Global

We recommended voting against or abstaining on **312** resolutions over the last quarter.

- Board structure **64.7%**
- Remuneration **7.4%**
- Shareholder resolution **2.6%**
- Capital structure and dividends **16.7%**
- Amend articles **1.9%**
- Audit and accounts **4.5%**
- Poison pill/Anti-takeover device **0.3%**
- Other **1.9%**

13.3 The 2020 voting season saw many companies in the US and Europe opt for virtual shareholder meetings against the backdrop of COVID 19. While the virtual format posed fresh challenges for companies and investors alike, it is clear that the attention to material ESG issues remains high on investors' agenda and many ESG-related shareholder proposals got very strong or even majority support. The majority of shareholder proposals that we voted for (against managements' recommendation) were on environmental and social & ethical issues. At the start of voting season 2020, LGPS Central provided its Partner Funds with a briefing on its application of LGPS Central's Voting Principles in light of the health pandemic disruptions. Below is an overview of elements where flexibility was applied with examples:

COVID 19 voting approach	Examples
• An intention to be supportive of **hybrid AGMs** and of companies that facilitate additional shareholder events with the board of directors	On our behalf, LGPS attended and asked questions at three virtual shareholder meetings; **Honeywell Inc, Citigroup Inc** and **Glencore**. EOS attended and asked questions at 24 virtual shareholder meetings, including **Deutsche Bank, BP, Google owner Alphabet, Novartis, Amazon, and Facebook**, up from nine in 2019. EOS made statements for nine companies and asked live questions at six meetings, submitting questions in advance for others
• **Director elections** – we will consider voting "For, by exception" directors that we might otherwise have opposed for reasons of poor corporate governance (tenure, diversity, over-boarding, etc)	In some circumstances LGPSC was more supportive of the re-election of those directors who we believed were critical to short-term crisis management, while continuing to communicate our longer-term governance concerns. For example, at **Morrison's** and **UniQure**, we supported re-election of Board directors by exception, while communicating concerns about persistent poor board gender diversity. At **Ocado Group** we also voted for by exception while emphasising our concern around board independence and potential conflicts of interest arising from the company secretary also being an executive director, an unusual arrangement for a FTSE 100 company.
• **Remuneration** – we welcome announcements already made by companies making downward adjustments to executive pay and will keep a close eye on pay awards especially at companies expecting the brunt of the crisis to be borne by shareholder capital or by the company's own human capital	LGPSC opposed pay proposals where we did not believe appropriate adjustments had already been made in terms of "sharing the pain" felt by stakeholders, including employees, customers, suppliers, and the public – such as at **JPMorgan Chase & Co, Disney** and **Delta Airlines**. Overall, LGPS Central voted, on our behalf, against 35% of pay proposals, compared with 37% in 2019 across investee companies
• **Engagement priorities** including climate-relating voting – where there are no indications of imminent financial distress, we will continue to vote against companies performing poorly on climate risk, notably those companies in our engagement set; we will consider voting "For, by exception" at companies currently performing poorly but where there is a	LGPS Central Voting Principles reference the Transition Pathway Initiative (TPI) management scoring pathway as a benchmark against which management of climate change risks and opportunities for larger and more exposed companies are assessed. We voted against management during 2020 voting season where we remained concerned about the low level of climate ambition following engagement, such as at **Yanzhou Coal Mining**, **Apache,** and **China Shenhua Energy** For companies with indications of imminent and severe financial distress (such as in the airline and shipping

COVID 19 voting approach	Examples
reasonable prospect of positive engagement over the longer term	sectors), or where we believed there was a reasonable prospect of positive engagement on climate change over the longer term, we voted For, by exception. We took this approach at **Ovintiv, Diamondback Energy, Berkshire Hathaway, Ameren Corp, and Lufthansa**, amongst others.

13.4 As detailed in 12.6 above our passive pooled products managed by LGIM are voted according to the voting policies of LGIM. LGIM believes in using its scale and influence to bring about real, positive change to create sustainable investor and produces a **quarterly ESG impact report that includes a regional voting summary**. The Pensions Committee is satisfied that LGIM's approach to shareholder voting is sufficiently robust and aids in the delivery of the Fund's RI objectives. LGIM's voting policy is based on a set of corporate governance principles. Previous engagement with an investee company also determines the manner in which voting decisions are made and cast. Voting activity is combined with direct engagement with the investee company to ensure that the investee company fully understands any issues and concerns that LGIM may have and to encourage improvement. LGIM utilises the voting information services of ISS and Institutional Voting Information Services (IVIS) to conduct thorough analysis and research on investee companies. An example of the voting undertaken by LGIM from their 2020 annual report 'Active ownership – global engagement to deliver positive change is detailed below

13.5 During 2020, LAPFF provided its members 27 Voting Recommendations for a selection of companies on themes such as remuneration, board composition, climate change, human rights and other issues that were perceived as contentious/critical to a company's good ESG management. LGPS Central provided Partner Funds with its view of resolutions up for vote that were covered by LAPFF's recommendations. In the majority of cases (80%), LPGSC took a similar view to LAPFF. Any difference in view was explained to the Fund and other Partner Funds, with the opportunity for Partner Funds to seek further clarifications on LGPSC's voting intention. An example of a difference in opinion was LGPSC's decision to vote against a shareholder resolution at Shell's AGM put forward by Follow This[3]. Extract from LGPSC's briefing:

13.6 *We note that both LAPFF and our Stewardship Provider has recommended a vote for the resolution. Both argue that Shell should articulate its net-zero by 2050 ambition more clearly as a target and are concerned, as they are with energy companies in general, that Shell's operating plans and budgets do not reflect the company's net-zero ambitions. We fully agree that Shell's operating plans and budgets should reflect the net-zero ambition, and we expect to engage the company on this when they update investors further on the detail of their climate ambition during autumn. We are particularly encouraged by Shell's plan to work with their customers, coalitions of businesses, governments, and other parties to identify and enable decarbonisation pathways. This could potentially lead to breakthroughs in energy transition across sectors, something we want to support.*

13.7 *Shell has carved out a viable route to get to net-zero and though further detail is needed, we consider on balance, that support of the company's climate-related efforts is the best way of leveraging ongoing CA100+ engagement with the company. Shell is showing leadership and we view it as important to show support of best practices even as they evolve.*

[3] Follow This is a Netherlands-based group of over 4,000 small shareholders who together own small percentages in different companies' share capital

Appendix 1

Principle 4: Overview of initiatives that LGSPC is an active member of, which includes a brief assessment of the efficiency of the initiative and outcomes during 2020

Organisation/Initiative Name	*About the organisation / initiative*	*Efficiency and outcomes*
PRI	Largest RI-related organisation globally. Helps with research, policy influence and collaborative engagement. During 2020, LGPSC Director of RI&E was on the Listed Equity Committee and the Stewardship Manager was a member of the PRI Plastics Working Group	PRI continues as a bearer of good practice for responsible investment. LGPSC has been a member of PRI since inception of the pool. We view LGPSC's active participation in PRI through submission of an annual report and through membership of PRI WGs as clearly value-adding to ongoing RI development and pursuit of Stewardship Theme engagements.
IIGCC (Institutional Investor Group on Climate Change)	Influential asset owner and asset manager group. Useful for climate change research and policy influence. During 2020, LGPSC Director of RI&E was on the Shareholder Resolutions Committee and the LGPSC Stewardship Manager was appointed to the Corporate Programme Advisory Group.	IIGCC's corporate engagement and policy engagement programmes are both highly value-adding to LGPSC's work on climate change on behalf of all Partner Funds. It has a clear purpose and seems attentive to member needs and input. IIGCC engages broadly with stakeholders, for example the IEA in regard to the Net Zero Scenario and the need for that to include price projections to at least 2040
Cross-Pool RI Group within LGPS	Collaboration group across the LGPS pools (and Scotland recently). Includes funds and pool operators. Stewardship Manager is Vice Chair of the group.	This is a good forum to allow discussion between like-minded investors, who operate in the same regulatory environment and with similar expectations from Clients and beneficiaries, on RI topics of interest and/or urgency (e.g. MHCLG's work to introduce TFCF aligned reporting across LGPS Pools and Funds).
FRC Investor Advisory Group (Financial Reporting Council)	Influence new policies and standards, on governance, stewardship, reporting and audit matters. Director of RI&E was a member of the Investor Advisory Group.	This has been a useful opportunity for LGPSC to discuss and provide input to the FRC, in particular in the development and lead up to implementation of the Stewardship Code 2020

Organisation/Initiative Name	***About the organisation / initiative***	***Efficiency and outcomes***
Transition Pathway Initiative (TPI)	Analysis of listed equities in terms of carbon risk vs a benchmark. Industry influence and access to high profile company engagements. Stewardship Manager has been on the TPI Steering Committee during 2020.	TPI is a highly useful tool that LGPSC uses directly to inform engagement and voting on behalf of Partner Funds. We view very positively TPI's close collaboration with CA100+ during 2020 in the roll-out of the Benchmark Framework which will allow evaluation of company progress against Paris alignment on key parameters (targets, actions, disclosures).
30% Club Investor Group	Investor group engaging both UK listed equities and increasingly companies abroad, on gender diversity.	This forum has a clear target and allows for discussion, learning and direct engagement with like-minded peers on an ongoing critical governance issue. During 2020, a sub-set of 30% Club Investor Group members, including LGPSC, has engaged in the Japanese market.
BVCA British Private Equity and Venture Capital Association	UK trade body for private equity. Director of RI&E was on the RI Advisory Group during 2020.	This forum is very useful for deal flow information. It also runs discounted training courses which helps build knowledge.
LAPFF Local Authority Pension Fund Forum	Engagement with companies in the UK and abroad, assisting LGPS funds with ethical investment challenges.	LAPFF has conducted engagements that is complimentary to LGPSC's stewardship theme engagement effort, for instance in reaching out to companies during 2020 on human rights risks that stem from operating in conflict zones such as Palestinian/Israeli territories.
Climate Action 100+	Mega collaboration of investors, Chaired by Calpers, with aggregate AUM equal to 33% of total global assets. Engaging 161 companies on climate risk. Stewardship Manager is on the Mining and Metals Sector Group and on the Shareholder resolutions group	This is a robust, targeted, and strong investor collaboration which LGPSC views as highly value adding relative to climate change risk management. The 2020 CA100+ Benchmark Framework embeds structure and rigour to assessments of companies against a Paris trajectory

Organisation/Initiative Name	***About the organisation / initiative***	***Efficiency and outcomes***
New Standard for Plastic Pellet Pollution (Investor Forum coordinated)	Objective: Creation of the first industry specification to prevent plastic pellet pollution (which poses serious threat to the ecosystem and potentially also a health threat to people)	Project formally launched in June 2020 with LGPSC as co-sponsor At the start of 2021, an expert group had drafted an industry standard specification which has been out for consultation. The overarching goal of this project is to help companies achieve and maintain zero pellet loss across their pellet handling operations.