

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

2021 Submission

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1. Foreword

- 1.1 Responsible investment (RI) is a core part of the Fund's stewardship and has been a key part of our [Investment Strategy Statement](#) for many years.
- 1.2 The Fund has been a signatory to the Stewardship Code since 2018 and was granted signatory status to the revised 2020 Code in 2021.
- 1.3 The Fund believes that effective management of financially material environmental, social and governance (ESG) risks protects investment returns over the long term.
- 1.4 Specifically, 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. Our current understanding of the potential risks posed by climate change, together with the development of climate-related measurements and disclosures, is still at an early stage: for example, we are aware that there is considerable variability in the quality and comparability of carbon emission estimates and recognise 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 conducted an [ESG Audit](#) last year which included mapping the Fund's portfolio to the United Nations' sustainable development goals (SDGs). The Fund conducted an ESG workshop for its Pensions Committee on the 2nd February 2022 to review progress against last year's identified actions and [the findings were noted and further actions were formally agreed](#) at its Pensions Committee on the 23RD March 2022.
- 1.6 In January 2022 the Fund's second annual [Climate Risk Report](#) delivered a view of the climate risk of the Fund's entire asset portfolio, accompanied by proposed actions the Fund could take to manage and reduce that risk. The results were used in the Fund's public-facing [Climate related Financial Disclosures](#) for the second year. The Fund was particularly pleased to see that our initial focus on transitioning out of our passive mandates with the greatest carbon footprint has resulted in the Fund's overall listed market portfolio now being 28% (23% in 2020) more carbon efficient than the benchmark. To build on this the Fund is looking to transition a further £200m (6% of its portfolio) from its passive mandates into active sustainable equity funds by May 2022.
- 1.7 The Fund recognises that its investments in private markets also have a significant role to play in addressing climate related issues and the Fund has committed £175m towards a forest and sustainability fund and £200m to a number of sustainable infrastructure and housing investments which will have a long term environmental and social impact. This builds on the existing assets we have in this space.
- 1.8 In last year's report it was highlighted how both the audit and the assessments, which had positive outcomes from the outset, had 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 enabled the Fund to develop a targeted stewardship plan for engagement with fund managers and those investee companies who have the most relevance to holdings in the Fund's portfolio that are highly exposed to climate change risk. This has also enabled the Fund to take a measured and informed approach in affecting transition of underlying assets through engagement, alongside asset allocation to transition out of those assets with a high carbon footprint.

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 participating employers and 66,000 member records of which 21,000 are pensioners; 23,000 are deferred; and 22,000 actively contributing. As the Fund's two largest employers are County Councils, virtually all its participating employers are associated with local government activities, and 6 of the 8 members of its Pensions Committee are Councillors, the Fund's ethos is driven by a strong sense of social responsibility.
- 2.2 The primary purposes of the Fund are to:
- Ensure that sufficient assets are available to meet liabilities as they fall due
 - 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 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
 - Strategic asset allocation
- 2.6 The Fund's ISS and Funding Strategy Statement (FSS), the key document setting out how each Fund employer's pension liabilities are to be met going forward and which all employers are consulted on, are taken to our Pensions Committee for input, debate and ultimate agreement. Members are therefore able to have clear input and influence on the Fund's stewardship.

- 2.7 The FSS and ISS first go to the Pension Board for review and employer forums provide an additional opportunity for input. The Fund provides monthly updates to all its employers via a newsletter and updates all its members using a newsletter that in the case of deferred and contributing members accompanies their annual benefit statements. The Fund also has a comprehensive and user-friendly [website](#) that provides stakeholders with a first port of call for all of their pension information needs including details about the Fund's strategies, policies, investment beliefs, climate strategy, etc.
- 2.8 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.
- 2.9 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.
- 2.10 LGPSC has identified four themes that are given particular attention in its ongoing stewardship. The four themes are reviewed on a three-year basis (the current period is 2020-2023) are: climate change; plastic pollution; responsible tax behaviour; and technology and disruptive industries (see further detail below under Principle 4).
- 2.11 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 |
- 2.12 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.
- 2.13 During 2021, LGPSC supported the Fund in the preparation of the Fund's second Climate-related Financial Disclosures, ensuring 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.
- 2.14 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.

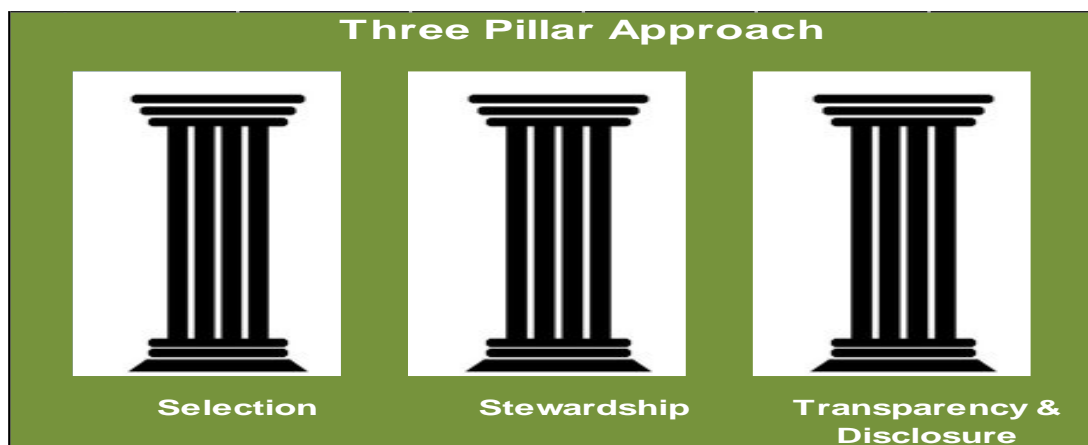
- 2.15 In order to broaden its stewardship activities, LGPSC appointed EOS at Federated Hermes as its stewardship provider, with the remit of engaging companies on ESG issues, and executing the LGPSC voting principles which are also the principles agreed by the Fund as set out in the ISS – ‘shareholder voting’ (see also Principle 12 **exercising rights and responsibilities** below).
- 2.16 The Fund seeks to use its position as a shareholder to actively encourage good corporate governance practice in those companies in which it invests.
- 2.17 All relevant fund managers are signatories to the UN-backed Principles for Responsible Investment (PRI) as evidenced on the PRI website.

Investment beliefs

- 2.18 The Fund’s investment beliefs are included in its ISS and encompass its:
- Financial market beliefs
 - Investment strategy / process beliefs
 - Organisational beliefs
 - RI beliefs
- 2.19 As emphasised in 1.4 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:



- 2.20 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:



- 2.21 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

- 2.22 A key recommendation from the ESG audit approved by the Pensions Committee in March 2021 was for the Fund to look at investing in a mix of sustainable equities and low carbon factor funds. The application of these beliefs has been demonstrated in 2021 by a number of investments and asset allocation actions as follows:

- Our asset allocation decision (actioned November 2021) to transition £220m out of both the Legal & General MSCI World Min Vol TR Fund and the Legal & General FTSE RAFI DEV Fund into the LGPSC Climate Multi Factor Fund. With a carbon footprint of only 58.3 tCO₂e/\$m revenue, the LGPSC Climate Multi Factor Fund is significantly more carbon efficient than these two portfolios, and this drives down the carbon footprint at the total equities level.
- Our investments of a further £75m in June 2021 in the British Strategic Investment Fund II (BSIF) which is mix of infrastructure and housing assets and a £50m investment in First Sentier's European Diversified Infrastructure Fund. Both funds have a requirement for each investment to deliver a positive environmental or social impact.
- A £150m investment agreed in November 2021 (£50m per annum for next 3 years) with Gresham House in their Forest Growth & Sustainability Fund.
- A £200m asset allocation decision in November 2021 to invest in LGPSC's Global Active Equity Sustainability Fund, which focusses on delivering a positive environmental and social impact.

Stewardship

- 2.23 The Fund has continually looked to develop and improve its approach to RI and conducted an [ESG Audit](#) last year which included mapping the Fund's portfolio to the United Nations' sustainable development goals (SDGs). The Fund conducted an ESG workshop for its Pensions Committee on the 2nd February 2022 to review progress against last year's identified actions and [the findings were noted and further actions were formally agreed](#) at its Pensions Committee on the 23RD March 2022.
- 2.24 In January 2022 the Fund's second annual [Climate Risk Report](#) delivered a view of the climate risk of the Fund's entire asset portfolio, accompanied by proposed actions the Fund could take to manage and reduce that risk. The results were used in the Fund's public-facing [Climate related Financial Disclosures](#) for the second year.

Transparency & disclosure

- 2.25 Starting in January 2020 the Fund has provided a training and workshop 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 as a result 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 and **SDG 13** Climate Action

After the February 2022 review of the SDG's the Fund added SDG 12 Responsible consumption and production

LGPSC also provides a dedicated annual RI training event to which all members were invited.

- 2.26 The [ESG audit](#) that was started in October 2020 and highlighted in last year's submission was undertaken by Minerva on behalf of the Fund and the LGPSC Climate Risk Report (detailed more fully below) have proved to be critical stepping-stones in the Fund's ongoing management of its ESG and climate-related risks by translating our investment beliefs into action through discussions and decisions made by the Pensions Committee:

Least SDG Exposure: Worcestershire's initial smallest exposures to the SDGs* (£ Million)



Prioritised SDG Exposure: Worcestershire's initial exposures to the Fund's prioritised SDGs** (£ Million)



*as defined by the SDG2000 benchmark.

** as defined by the Pensions Committee in a Pensions for Purpose workshop in May 2020.

- 2.27 These initiatives 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.
- 2.28 An ESG 2021 review workshop was provided for members on the 2nd of February 2022 delivered by 'Pensions for Purpose' to ensure consistency of approach. The review included:
- Reviewing progress against the ESG Recommendations approved by the Pensions Committee in March 2021
 - Focussed presentations from 3 of our listed managers on how effective their ESG strategies had been
 - A presentation from LGPSC on the outcomes of the Fund's second Climate Risk report
 - Discussions and debate on the way forward for the next 12 to 18 months

This has proved an effective way of demonstrating how the Fund is progressing and that the action the Fund has taken and is in the process of taking is in the best interests of clients and beneficiaries. The key outcomes of the workshop were as follows:

Emphasis for targeting SDGs should remain focussed on the financial risk / return, and if there is any desire to add any new goals to the existing beliefs. SDG 12 Responsible Consumption & Production stood out as an SDG that met these criteria, and it was agreed to extend the beliefs to include this, in the belief that this will lead to better returns for the fund over the long term

Climate targets: The general feeling was that in 2022 it would be good to explore and agree an internal climate target for the Fund, and speak to managers about how they would align to this target. This could then be rolled out publicly at a later date. Science-based targets on the whole fund with broad interim deadlines would be preferred, so as to avoid the Fund becoming a hostage to fortune on individual parts of the portfolio.
A first step will be to consider targets that other LGPS funds are setting, and to seek their views on how easy these have been to adhere to

Spectrum of Capital and the S in ESG: There was more caution about proceeding further along the spectrum of capital at this stage although this seemed because of a concern over the investment thesis: could social impact investments really deliver market-rate, risk-adjusted returns? The committee seemed willing in principle to consider this and further exploration of this will be taken forward

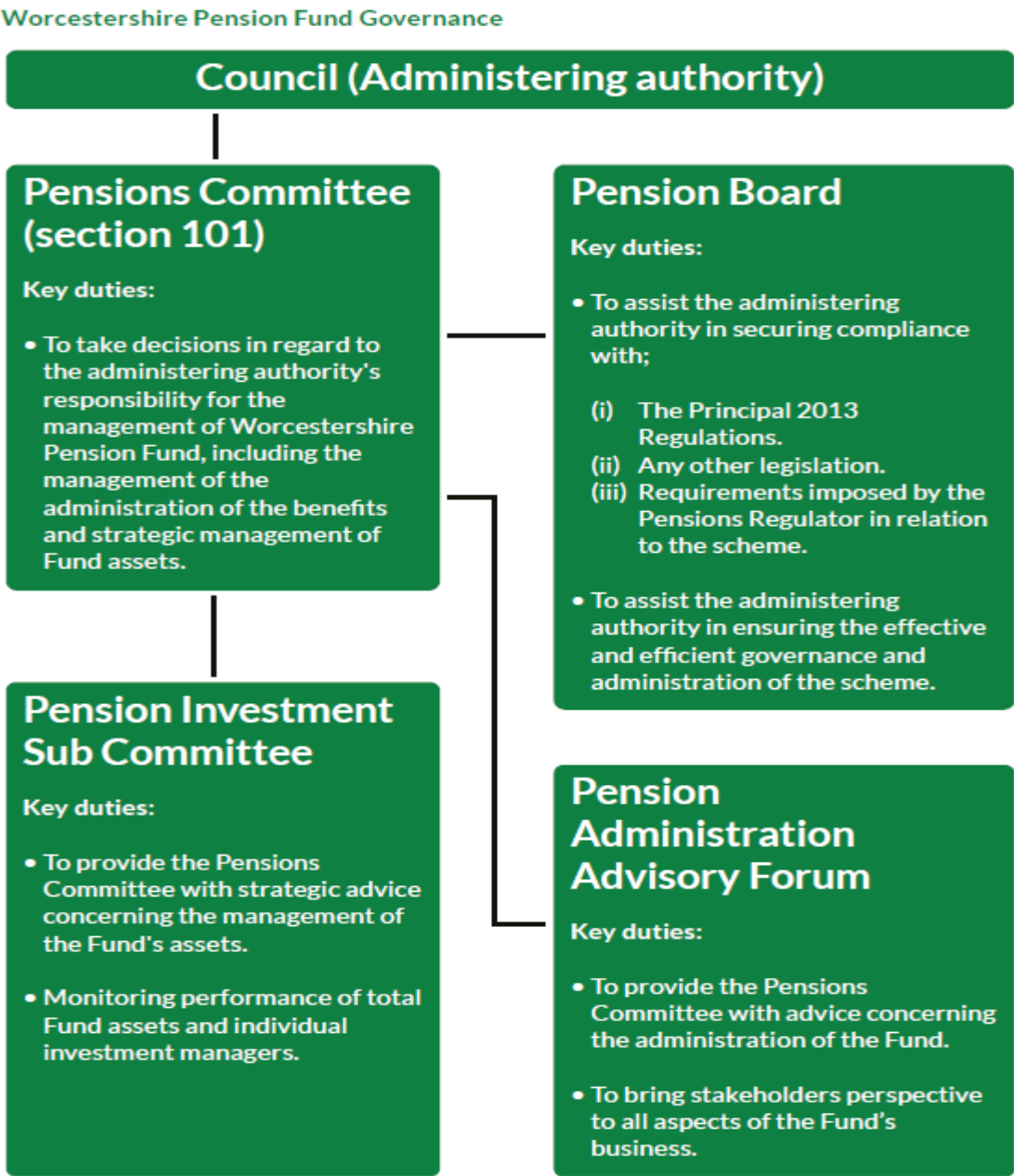
3. **Principle 2**

Signatories' governance, resources, and incentives support stewardship

Governance

- 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 employer's 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.
- 3.3 The Board is made up of 3 councillors, a senior officer from an employer, an active member (retiree) and two trade union representatives. Its current Chairman is also the Chair of SAB.



- 3.4 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.

Stewardship Resourcing

- 3.5 The Fund has an appointed investment advisor from MJ Hudson (with the Fund since 2012) 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.
- 3.6 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 (24 FTE's) and a Pensions Investment Team (4 FTE's) who have many years of knowledge and experience in this area. Many have been with the Fund for over 15 years or more.
- 3.7 The Fund has long had a culture of inclusiveness with strong values and behaviours that can be demonstrated more clearly on our intranet [Workforce Strategy Pillar of Success – Culture](#). The Fund looks to keep its workforce well informed of how it integrates stewardship and investment decision-making via weekly staff meetings.
- 3.8 LGPSC's [Responsible Investment & Engagement \(RI&E\) function](#) supports the Fund's stewardship activities and reports regularly to the Partner funds RI&E working Group (The Fund is a representative). Their contribution has included work on: ESG integration, engagement, voting, the RI&E framework, the Climate Risk strategy, the Climate Risk 2021 report, the TCFD report and ongoing guidance on the Fund's reporting against the Stewardship Code.
- 3.9 LGPSC 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.
- 3.10 The LGPSC RI&E Team currently consists of an Investment Director, Head of Stewardship, one Stewardship Analyst and two ICM qualified RI 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.

- 3.11 LGPSC has 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.
- 3.12 This followed 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.
- 3.13 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 Pensions Committee agendas.
- 3.14 The Pensions Committee delivers its oversight of stewardship by meeting four times a year, or otherwise as necessary. This is the same for the Pension Board and Pensions Investment Sub Committee.
- 3.15 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:

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| 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 2 nd annual Climate Risk Report, Climate Change Risk Strategy and TCFD report |
| Pensions for Purpose with delivering support to our members through an ESG review workshop in February 2022 looking at progress since the initial baseline audit and recommendations agreed at Pensions Committee in March 2021 and exploring further progress requirements over the next 12 to 18 months |

- 3.16 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.
- 3.17 It is our view that the Fund's governance structure alongside internal and external resources/services facilitate effective assessments and integration of ESG factors in asset allocation and stewardship of assets

4. Principle 3

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

- 4.1 The Fund manages and mitigates conflicts of interest by:
- Having clear governance material to refer to, including a Funding Strategy Statement, Pension Administration Strategy, Investment Strategy Statement, Climate Change Risk Strategy, Governance Policy Statement and Training Policy & Programme
 - Keeping the Fund's budget separate to Worcestershire County Council's
 - Ensuring actual and potential conflicts of interest are considered during procurement processes
 - Asking the individual concerned to abstain from discussion, decision-making or providing advice relating to the relevant issue
 - Excluding the individual from the meeting(s) and any related correspondence or material in connection with the relevant issue (for example, a report for a Pensions Committee meeting)
 - Establishing a working group or sub-committee, excluding the individual concerned, to consider the matter outside of the formal meeting (where the terms of reference permit this to happen)
 - Advising an individual to resign due to a conflict of interest or requesting the appointing body to reconsider their appointment
- 4.2 The Fund encourages all its asset managers to have effective policies in place to address potential conflicts of interest
- 4.3 The need to avoid conflicts of interest is also highlighted in our asset manager mandates and contracts with external parties.
- 4.4 When the Fund 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. 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 Conflicts of Interests Board / separate Committee to monitor and investigate conflicts of interest and have a conflicts of interest register.
- 4.5 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.

- 4.6 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.
- 4.7 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.
- 4.8 The Council also has a whistleblowing policy to enable staff to raise any concerns that they may have.
- 4.9 **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.
- 4.10 LGPSC 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 2021. For the 2022 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.
- 4.11 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.
- 4.12 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.
- 4.13 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.

- 4.14 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 addressing possible conflicts of interest

Appointment of Transition Manager for the LGPSC Global Active Sustainable Equities Fund

- 4.15 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

- 4.16 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.
- 4.17 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.
- 4.18 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.

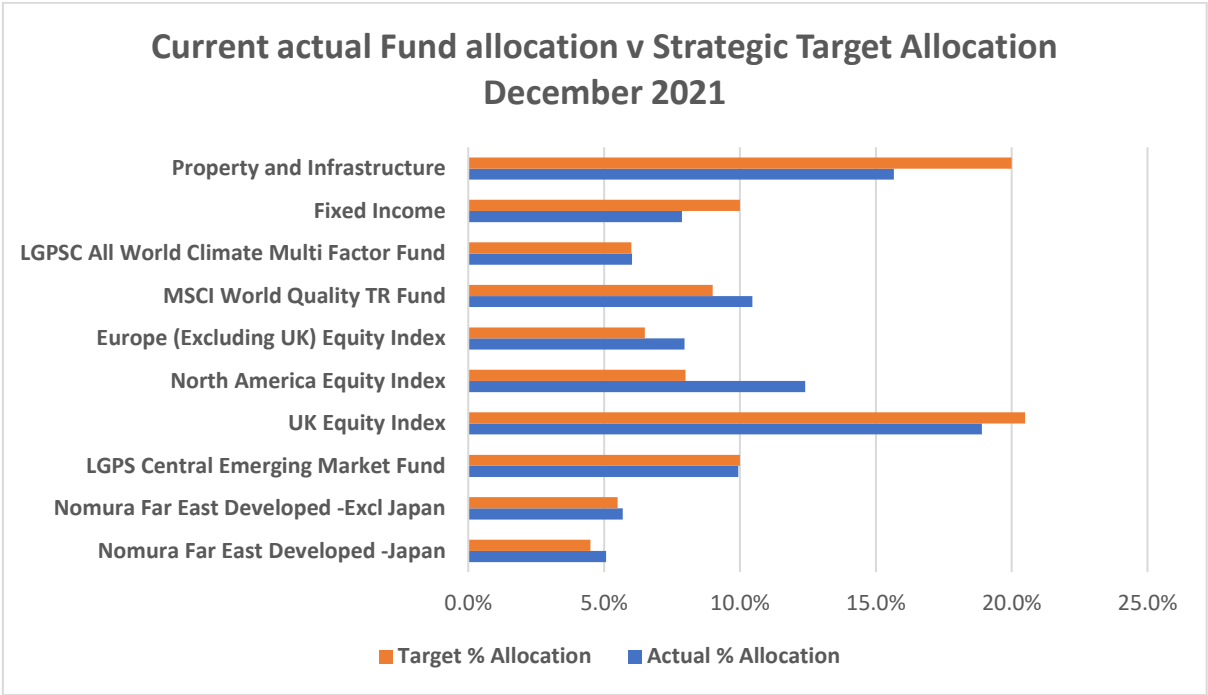
- 5.1 Due to the membership's age profile and that membership of the Fund continues to grow, the Fund is able to take a long-term view of investment and risk, including those in relation to environment, social and governance factors. However, we also recognise the importance of risk budgeting and monitoring, scanning widely for emerging financial, regulatory and operational changes on which short to medium term action will aid in supporting and enhancing the longer-term value of our assets.

- 5.2 It is now more important than ever to have the best possible understanding of the world around us and that we review, prioritise, scrutinise and adapt effectively. Our risk management processes supports us in doing this with ongoing review and challenge through an effective assurance program.
- 5.3 We manage risk by setting investment beliefs, funding, and investment objectives that are incorporated into our strategic asset allocation benchmark (SAAB) bands and benchmarks.
- 5.4 To mitigate and respond to 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 September 2022 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.
- 5.5 The Fund is exposed to investment, operational, governance and funding risks. These risks are identified, measured, monitored, and then managed using a [Risk Register](#) (reported quarterly and reviewed monthly with section responsibility and oversight from the Chief Financial Officer).
- 5.6 The Risk Register is reported and reviewed at every Pensions Committee and Pension Board. The risk of a mismatch in asset returns and liability movements has consistently been the risk with the highest residual risk score.
- 5.7 We continue to liaise with all our investment managers in response to the ongoing market volatility resulting from such as the Russia / Ukraine conflict and previously COVID-19. 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% in March 2020. The fact that our indicative funding level is now at 99% (as at the end of January 2022) is testament to the robust portfolio position and strategy that is in place.
- 5.8 **The principal risks affecting the Fund are as follows:**

Funding Risks These include deterioration in the funding level of the Fund as a result of changing demographics, systemic risk, inflation risk, insufficient actual / future investment returns (discount rate) and currency risk.

The Fund manages these risks by setting a strategic asset allocation benchmark (SAAB) after counselling 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 Fund’s monthly investment performance report is reviewed by the Fund’s investment 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 Pensions 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 is taken where necessary.



Systemic risk These include the possibility of failure of asset classes and/or active investment managers resulting 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 the Fund’s managers provide a detailed quarterly investment performance report and quarterly meetings are held with the Fund’s investment advisor to review these. Areas of concern will be discussed, and, if performance does not improve over time, managers will be placed on watch and formally reported to Committee. Ultimate action would see the Fund disinvesting from the portfolio.

Operational Risk
These include transition of assets 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 and 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 LGPSC.** These risks are managed by having robust governance arrangements with LGPSC and by quarterly monitoring of 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 the Risk Register are 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 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 staff.




Asset Risks (the portfolio versus the SAAB)

These include 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 SAAB by setting diversification guidelines and the SAAB 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 addressed 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, managers will be placed on watch and formally reported to Committee. Ultimate action would see the Fund disinvesting from the asset.

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

| Organisation | Remit |
|---|--|
|  | <p>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.</p> <p>During 2021, LGPSC has been actively involved in 47 engagements across these themes. A selection of engagement cases is provided under Principles 9-11 below</p> |
|  | <p>EOS at Federated Hermes is contracted by LGPSC to expand the scope of the engagement programme, especially to reach non-UK companies.</p> <p>In 2021, EOS engaged with 888 companies on 3,375 environmental, social, governance, strategy, risk and communication issues and objectives. EOS takes a holistic approach to engagement and typically engage with companies on more than one topic simultaneously. 1,951 of the issues and objectives engaged in 2021 were linked to one or more of the SDGs.</p> |
|  | <p>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 2021, LAPFF engaged 165 companies through more than 97 meetings across a spectrum of material ESG issues.</p> |

Stewardship themes

5.10 In close collaboration with Worcestershire Pension Fund and the other Partner Funds, LGPSC has identified four core stewardship themes that 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 Partner Funds' investment objectives and time horizon, that are likely to have broader market impact, and that are perceived to be of relevance to stakeholders, helps us prioritise and direct engagement. 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, at a minimum, while conducting annual reviews to allow for necessary adjustments or changes. This helps us build strong knowledge on each 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 the progress of engagements. Furthermore, we take the view that engagement on a theme needs to happen at multiple levels in parallel: company-level, industry-level, and policy-level. 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. In Section 6.8 below, we give a detailed overview of engagement activity and progress for each stewardship theme. In Section 6.9, we provide information on the annual review of stewardship themes that was carried out during Q4 of 2021.

Climate Risk Monitoring Service provided by LGPSC

- 5.12 Climate action failure is the stand-out, long-term risk the world faces in likelihood and impact according to recent reports from the Intergovernmental Panel on Climate Change. If 'business as usual' continues, the world could heat up by about 5 degrees by 2100 which would have catastrophic environmental impacts and cause profound societal damage and significant human harm. A Paris-aligned transition to a low-carbon economy would lead to lower economic damage and for long-term investors is preferable to alternative climate scenarios. We believe investors can best encourage this transition through a combination of a) understanding the risks to their portfolios at a granular level, b) stress-testing portfolios against various temperature scenarios, c) identifying tools and actions that can be taken to address and minimise risk. In January 2022, LGPSC announced a commitment to achieve Net Zero across assets under stewardship by 2050, with support from all its eight Partner Funds. Our climate risk monitoring is a key building block in ongoing work toward this goal.
- 5.13 LGPSC's Climate Risk Monitoring Service aims to address each of these aspects. Since 2020 LGPSC has conducted in-depth climate risk assessments for each individual Partner Fund and provided an annual Climate Risk Report (CRR) bespoke to each of them. 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. To facilitate TCFD disclosure, the CRR is deliberately structured to align with the four disclosure pillars.
- 5.14 In 2021, LGPSC provided our second year of Climate Risk Reporting and made several enhancements to the service to ensure it remained aligned to the latest industry developments and therefore the best assessment on climate-related risk LGPSC could provide to us and Partner funds. LGPSC particularly wanted to emphasise progress made against the findings of the first report to give funds a view on their direction of travel. The executive summary provides a summary of the methods

we use to assess financially material climate-related risks and opportunities, alongside outlining the improvements LGPSC made to the service in 2021.

5.15 Having recently completed the 2021 reporting cycle, LGPSC has conducted a review to identify further improvements to the service. Enhancements that we aim to make to the 2022 reports include:

- Inclusion of a 1.5°C scenario into the Climate Scenario Analysis
- Enhance the company progress updates to demonstrate a more robust link between engagement and outcomes
- New additions to the suite of carbon risk metrics, reflecting the shift towards measuring alignment with Net Zero, such as % of portfolio with Net Zero targets, % of portfolio revenue derived from fossil fuels, % of portfolio revenue derived from clean technology and absolute carbon emissions/ financed emissions

5.16 We have used the findings of their CRRs to develop our Climate Change Risk Strategy covering governance, beliefs, objectives, strategic actions and reviews in relation to their climate-related risk. Aside from strategy setting, the CRRs have also been used to facilitate our 2nd TCFD disclosure; formulate stewardship plans; conduct training sessions on climate change; initiate governance and policy reviews; and for exploring potential investments in sustainable asset classes.

5.17 In 2021, LGPSC continued to explore areas of convergence and commonality across each of the eight bespoke CRRs in order to facilitate collective action as a pool. They identified a number of recommendations that featured in all of the CRRs and worked in collaboration with all Partner Funds to crystallise these into specific pool-level workstreams. Examples of actions taken include holding a joint Partner Fund Responsible Investment Day, releasing an updated 2021 TCFD Report, and issuing a Net Zero Statement for LGPSC made with the full support of all eight Partner Funds.

Attendance and contributions to industry dialogue, partnerships and building of standards:

5.18 LGPSC is an active participant in the debate on good corporate and investor practice. Collaboration with peer investors and industry initiatives is a critical component to engagement, giving a stronger voice and more leverage. 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.

5.19 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 2021

Policy engagements and consultation responses:

5.20 Since inception of LGPSC in April 2018, it has taken active part in policy dialogue on behalf of Partner Funds across various themes and regulations including on ethnicity

pay reporting, tax transparency, modern slavery, climate change and sustainability reporting requirements.

- 5.21 In Q1 2021 LGPSC co-signed a letter to the COP26 President asking for support to investors by seeking publication of key underlying assumptions and commodity price projections tied to a 1.5C scenario. The International Energy Agency's special report Net Zero by 2050: a Roadmap for the Global Energy Sector published in May 2021 provides clarity in this regard. The roadmap highlights the gap between where we are and where the 1.5 scenario says we need to be. The IEA describes the energy transition as an all-hands-on-deck crisis that "hinges on a singular, unwavering focus from all governments—working together with one another, and with businesses, investors and citizens". The Net Zero report from IEA is actively used as a reference point when we engage companies across sectors, for instance through the Climate Action 100+ collaboration.
- 5.22 [LGPSC responded](#) to an All-Party Parliamentary Group for Local Authority Pensions Funds consultation on Just Transition on 4 May 2021. We are of the opinion that the just transition must be recognised as a global challenge, as communities that stand to be impacted the most by climate change are often situated in developing countries. We consider that COVID 19 illustrates that global challenges require global solutions. Government has an important role to play in encouraging supporting innovation by sending strong signals to investors in terms policies, subsidies, and taxes. For example, decisive carbon pricing and robust regulation around carbon off-setting. Investors also have an important role to play in bringing about a just transition through both engagement with the corporations and assets in which we invest and through financing the transition itself. The element of just transition is being raised with companies that are in scope Climate Action 100+ engagement and will be assessed on this in the 2022 benchmark exercise.
- 5.23 LGPSC expressed support for the Government to mandate **Net Zero Metrics as part of TCFD reporting** in a response to the Department for Work and Pensions' consultation on Climate and investment reporting. We consider that mandatory reporting will encourage more comprehensive reporting of emissions by corporations and commitments to achieve Net Zero, particularly if this regulation is supported by complimentary regulations across the economy. The financial cost associated with TCFD reporting in a manner consistent with the regulation proposed by DWP may be underestimated and we recognise that this might be challenging for some investors to achieve. Furthermore, we think the metrics will need to be carefully explained to stakeholders and Net Zero alignment does not tell us everything we need to know about the climate risk faced by a portfolio.
- 5.24 Ahead of COP26 in Glasgow, LGPSC signed a statement alongside 586 other investors, managing \$46 trillion in assets, **urging governments to undertake five priority actions to accelerate climate investment** before COP26. These priority actions include:

- Strengthening of NDCs¹ for 2030 before COP26
- Commitment to a domestic mid-century, net-zero emissions target, and implementation of domestic policies to deliver these targets
- Incentivising private investments in zero-emissions solutions and ensure ambitious pre-2030 action
- Ensuring COVID-19 economic recovery plans support the transition to net-zero emissions and enhance resilience
- Committing to implementing mandatory climate risk disclosure requirements aligned with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

5.25 LGPSC's stewardship provider, EOS, regularly engages on behalf of clients 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-authored a paper setting out **investor expectations on the alignment of the banking sector with the goals of the Paris Agreement**. The paper focused on three areas: the actions banks should take to align their financing activities with the Paris goals and the achievement of net-zero emissions; steps to strengthen the governance of their climate strategy; and disclosure to demonstrate implementation. The paper was officially launched by the Institutional Investors Group on Climate Change (IIGCC) in April 2021 and a courtesy letter was sent to 27 banks by a group of 35 investors, with a copy of the paper. Subsequently, the group initiated collaborative engagements with these banks. EOS leads or co-leads the dialogue with eight banks and takes an active participating role with five other banks.

5.26 EOS also engages on market-specific trends and policies and, as an example, responded to a consultation by the UK Department for Business, Energy & Industrial Strategy on **mandatory Task Force on Climate-related Financial Disclosures (TCFD) reporting** for listed companies, large private companies and limited liability partnerships. EOS promoted enhanced regulation around climate risk reporting in line with the TCFD recommendations. In the US, EOS welcomed the **decision by Nasdaq mandating that Nasdaq-listed companies should have at least two diverse directors** (including at least one woman and at least one member of an underrepresented community). If companies do not, they must explain why they have failed to do so under a phased transition that started from 6 August 2021.

6. Principle 5

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

6.1 Fund Officers reviews the Fund's ISS and Governance Policy Statement annually. They are reviewed by the Pension Board before submission to the Pensions Committee for formal approval.

¹ Nationally Determined Contributions (NDCs). Under the Paris Agreement each Party must prepare, communicate, and maintain successive nationally determined contributions it intends to achieve

- 6.2 The Fund has undertaken a fundamental review over the past 2 and a quarter years 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 include 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 The Fund has also conducted its first specific ESG review workshop on the 2nd of February 2022 aimed at reviewing the recommendations from the Pensions Committee in March 2021 as well as looking ahead at any further specific actions needed over the next 12 to 18 months. The actions were agreed at Pensions Committee on the 23rd March 2022.
- 6.4 LGPSC, and PfP have provided external assurance on the Fund's Climate Change Risk Strategy and Climate Related Financial Disclosures. Minerva was 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.
- 6.5 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 its investments.
- 6.6 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.
- 6.7 The Fund has a significant passive equity portfolio though LGIM and the [LGIM quarterly ESG Report](#) 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](#).

Ongoing information-sharing and review of stewardship themes through LGPSC Partner Funds

- 6.8 Through our quarterly PAF RIWG meetings, information-sharing and debate/checks on LGPSC's provision of RI services against the RI&E Framework are discussed. As one of the Partner Funds we take a keen interest in RI and engagement, which is a reflection of our ultimate beneficiaries' ongoing interest in climate change and broader sustainability issues.
- 6.9 LGPSC undertake an annual review of the effectiveness of the stewardship themes in close collaboration with Partner Funds. During 2021, LGPSC conducted a review through PAF RIWG discussions which resulted in the following adjustments:

- Climate change remains the number one theme
- Biodiversity and land use should be included alongside climate change
- The S in ESG should feature more prominently, with a preference for focus on Human Rights

Description of themes in light of discussions with Partner Funds:

| Theme | Discussions and review during 2021 |
|-----------------------|--|
| Climate Change | <p>Climate change is regularly among the World Economic Forum's top five global risks, both in terms of likelihood and impact. Through both physical risks (e.g., increases in extreme weather events) and market risks (e.g., impact of carbon pricing or technology substitution), climate change impacts institutional portfolios. In addition, greater incidence of flooding, wildfires, chronic precipitation, sea level rise are already having profound societal consequences.</p> <p>In the UK, campaign groups, governments and regulators are increasingly taking an interest in the extent to which investors are managing climate-related risks. This includes the Environmental Risk Audit Committee, Department of Work and Pensions, Financial Reporting Council, divestment campaign groups, and more. TCFD reporting will become mandatory for LGPS funds from 2023. Investor best practice on climate change is emerging through the Institutional Investor Group on Climate Change (IIGCC) Net-Zero Investment Framework.</p> <p>Biodiversity loss could reduce nature's ability to provide goods and services, including food, clean water and a stable climate. Tropical forests play an important role in tackling climate change, protecting biodiversity and ensuring ecosystem services. Forests alone absorb one-third of the CO₂ released from burning fossil fuels every year. During COP26 we have seen governments pledge to halt deforestation by 2030. Financial institutions, including LGPSC, have committed to engage with a view to eliminating commodity-driven deforestation by 2025 through engagement at policy and corporate levels.</p> |

| Theme | Discussions and review during 2021 |
|---|---|
| Plastics | <p>Plastic pollution is a global problem that is continually growing due to both an increase in consumerism and an increase in the number of plastics used to manufacture the things we use regularly. Some companies are starting to change the way they use these plastics and are actively taking steps to reduce waste.</p> <p>As well as the negative effects on the planet, companies that purchase, use, or produce significant amounts of plastic could face regulatory tightening, more plastic taxes, and reputational damage as consumers and policymakers become more aware and mindful of the problem. It will be necessary to look at both shorter-term targets companies should strive for, in line with emerging best practices, as well as a longer-term vision for “zero leakage/waste” by 2050. LGPSC joined a call (on behalf of businesses and financial institutions) on United Nations member states to commit to the development of a global treaty on plastic pollution to commence early 2022. Agreement has since been found to negotiate a treaty.</p> |
| Technology & disruptive industries risk replaced by Human Rights | <p>The current technology theme is a sector-specific theme that covers several risks factors. LGPSC’s engagements have primarily focused on human rights risks for tech sector companies, including social media content control. These areas have come under increased scrutiny from regulators and stakeholders more broadly including companies that advertise on social media platforms. We envisage continuing engagement with tech sector companies (Alphabet, Amazon, Apple, Facebook, Microsoft and Twitter) on relevant human rights risks including privacy and data protection; freedom of expression; disinformation in public and political discourse; and discrimination and hate speech. We also know that weak labour rights in supply chains (especially in emerging markets), both in the technology sector and across other industries, can cause reputational damage that in turn risk undermining shareholder value over the long term.</p> <p>We view it as feasible to adjust this theme to a broader Human Rights theme that would allow a greater focus on human and labour rights across companies and sectors. We would take as a starting point the UN Guiding Principles for Business and Human Rights, which also apply to investors. Ongoing engagements on Modern Slavery and related to the Israel/Palestine conflict would continue and would be captured under this theme.</p> |
| Tax - transparency and fair tax payment | <p>The trust an organisation builds with its stakeholders is of critical (though intangible) value. As a measure of an organisation’s contribution to the economies it operates in, tax is a key dimension in building that trust.</p> <p>Global corporate tax avoidance is estimated to cost governments \$240 billion globally in foregone revenues each year. Companies with overly aggressive tax strategies could be storing up liabilities and could damage their reputation with key stakeholders. While many countries are providing various forms of tax relief to</p> |

| Theme | Discussions and review during 2021 |
|-------|--|
| | businesses during the COVID pandemic, it seems reasonable for investors to expect companies to pay their fair share of tax. G20 leaders have recently agreed a corporate tax deal for minimum 15% corporate tax, which adds to the expectations for responsible tax behaviour. |

6.10 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 regular Stewardship Updates. LGPSC's external stewardship provider, EOS at Federated Hermes, has its voting process independently assured on an annual basis.

6.11 In essence we used the output from our ESG Audit and our second Climate Risk scenario report to be 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 helped form a stewardship plan for the Fund. Some of the actions agreed at Pensions Committee were to:

| Actions agreed March 2021 Committee | Action taken |
|---|--|
| <ul style="list-style-type: none"> 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 | <p>We had specific meetings (over and above the normal performance meetings) with all of our fund managers over May / June 2021 to go through the ESG Audit findings and ask a series of specific ESG, SDG and climate-related questions. These meetings were really informative and have helped improve the reporting to the Fund over the year. The plan is to do this annually to measure progress and improvement and the next meetings are planned for May 2022</p> |
| <ul style="list-style-type: none"> Ask managers to report on the portfolio's alignment to the Funds agreed targeted SDG's and carbon risk metrics: | |
| <ul style="list-style-type: none"> Ask managers to present their TCFD report See evidence of a strong investment thesis where the Fund may have concerns | |

6.12 We have updated our Climate Change Risk Strategy as follows:

| Actions agreed March 2021 Committee | • Action taken |
|---|----------------|
| <ul style="list-style-type: none"> Having an overarching climate statement to include in the ISS | Completed |

| | |
|--|---|
| <ul style="list-style-type: none"> 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. | Completed |
| <ul style="list-style-type: none"> 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 | Completed, see updated Climate Change Risk Strategy |
| <ul style="list-style-type: none"> Repeating carbon metrics analysis annually | Completed |
| <ul style="list-style-type: none"> Repeating climate scenario analysis every 2 to 3 years | Considering in 2022 |
| <ul style="list-style-type: none"> Reporting progress on climate risk using the TCFD Framework annually | Updated TCFD report |
| <ul style="list-style-type: none"> Mapping the Fund's portfolio to the UN SDGs every 2 to 3 years | Considering in 2023 |

- 6.13 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:

| Actions agreed March 2021 Committee | Action taken |
|---|---|
| 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 | See Paragraph 2.22 |
| 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 | Transitioning £200m of assets into LGPSC Sustainable equities in May 2022 |
| To take these suggested examples to the next Pension Investment Sub Committee for further consideration and debate | Completed and invested see above |

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 Fund has been established to pay LGPS defined benefit promises as they become due. The Fund has about 200 participating employers and 66,000 member records of which 21,000 are pensioners; 23,000 are deferred; and 22,000 actively contributing. 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, the age profile of its members and the fact that it has a steady stream of new

members mean that it can take a long-term investment horizon of at least 15 to 20 years taking on board the need of meeting the immediate and future member benefit liabilities

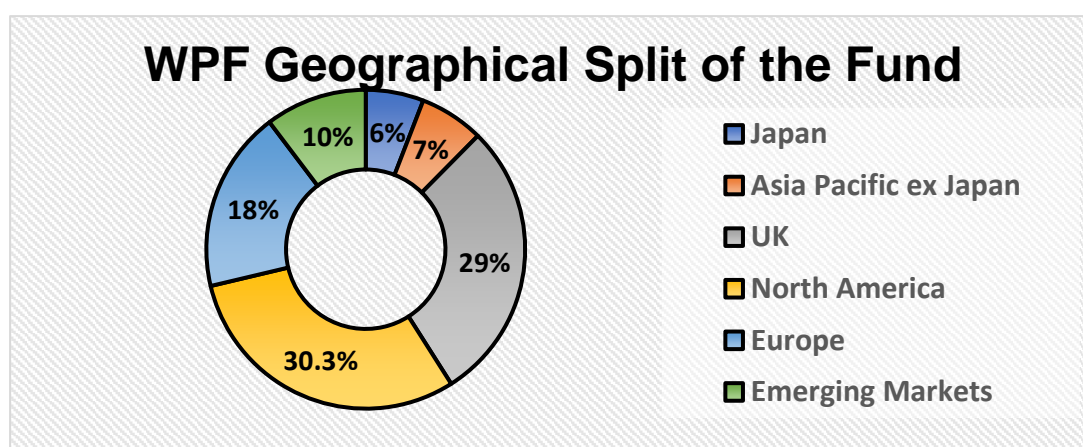
| Cashflow Management | 2022-23 £'M | 2021-22 £'M | 2020-21 £'M | 2019-20 £'M | 2018-19 £'M | 2017-18 £'M |
|--------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Contributions receivable | 86.4 | 83.8 | 191.2 | 87.7 | 81.8 | 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 Asset Allocation Benchmark (SAAB) 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% |
| LGPSC Global Sustainable | 6% | 3% | 0.0 | LGPSC active Global Sustainable equity mandates with Liontrust and Baillie Gifford - FTSE – All World +2.0% to 3% |
| Passively Managed Equities - Market Capitalisation Indices | | | | |
| United Kingdom | 17.0 | 13.0 | 0.0 | Legal and General Asset Management - FTSE All Share Index |
| North America | 6.5 | 5.0 | 0.0 | Legal and General Asset Management - FTSE All World North America - Developed Series Index |
| Europe ex - UK | 5.5 | 4.0 | 0.0 | Legal and General Asset Management - FTSE All World Europe ex UK Index - Developed Series Index |
| Passively Managed Equities – Alternative Indices | | | | |

| | Growth | Medium | Cautious | |
|--|--------------|--------------|--------------|---|
| Asset Allocation | % | % | % | Manager, Method & Performance Target |
| Global | 15.0 | 5.0 | 0.0 | Legal and General Asset Management: 60% STAJ - CSUF - STAJ MF36726/36727 (Quality Factor) - 40% LGPSC All World Equity Multi Factor Climate Fund |
| Fixed Income | | | | |
| 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 shown in the table below and has been developed over a number of years to ensure the long-term liabilities of the Fund can be met. As highlighted in principle 4, the Fund's diversified portfolio alongside its mitigating risk strategies such as equity protection has stood the Fund in good stead. The long-term SAA is fundamentally reviewed every 3 years as part of the actuarial valuation project that includes updating the Fund's FSS and ISS. These strategies are consulted on with our employers and ultimately the Pensions Committee make the decision.



7.5 The Fund does however recognise that it needs to widen its consultation with its members beyond the employee representatives on the Board, Committee and PISC

to take their views on the Fund's ESG approach on board, and steps are being taken to do this during 2022 by asking a series of questions and some examples are:-

- *Would you like your pension fund to invest even more into investments taking environmental and social purpose into account?*
- *Are you happy with the Fund's current stewardship of its £3bn+ of assets?*
- *The pension fund has prioritised the following SDGs. Which is the most important goal for you? .*

- 7.6 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 and we are providing a further progress update in May 2022.

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.

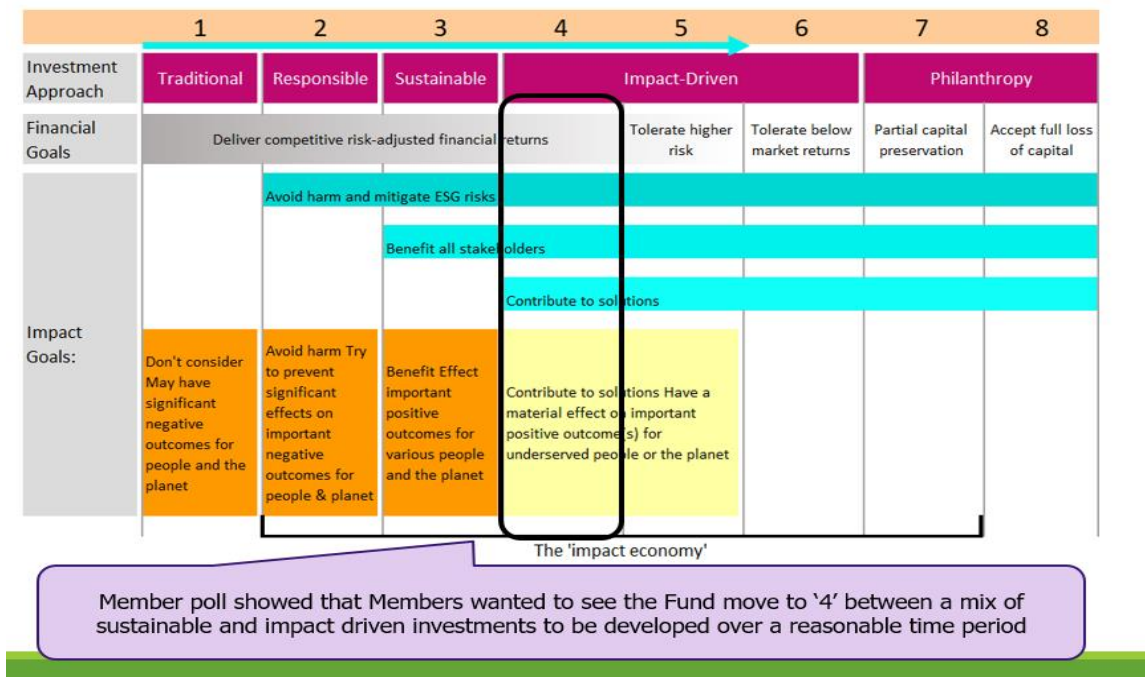
- 7.7 The Fund delivers a monthly newsletter to its employers to keep them abreast of what the Fund is doing, see [Employer publications - Worcestershire Pension Fund](#)

- 7.8 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 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.
- 7.9 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 Green Party Councillor.
- 7.10 Our training programme for members of our Pensions Committee and Pension Board ensures that members can challenge and contribute meaningfully on stewardship issues. A member-led specific ESG Audit working group was formed.
- 7.11 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.
- 7.12 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.



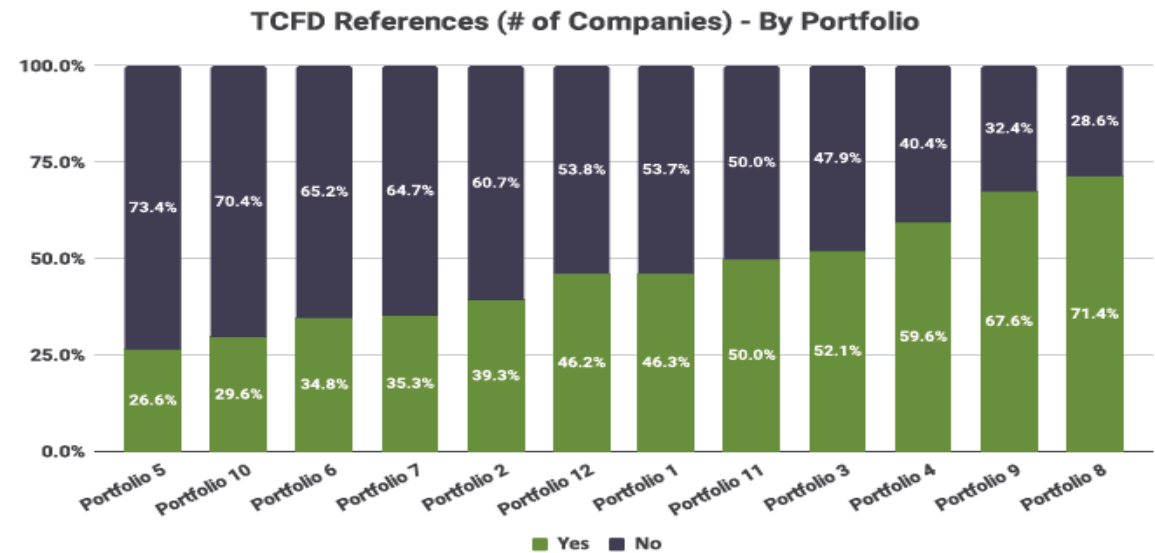
- 8.2 The Fund considers RI to be relevant to the performance of the entire Fund across asset classes and its investment beliefs are described in Principle 1.
- 8.3 The Fund commissioned an ESG audit and a Climate Risk Report to benchmark its position and to further incorporate RI into its investment 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 Our pooling company has established a system whereby any new fund that is launched and made available to Partner Funds will have Responsible Investment Integrated Status (RIIS) from concept and through 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 some particular 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, not a siloed affair. 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. These are: (1) primarily, to support investment objectives; (2) secondarily, to be an exemplar for RI within the financial services industry. Promote collaboration and raise standards across the marketplace. RIIS criteria to be met will typically include:
- RI beliefs relevant to the asset class or mandate in question
 - Relevant RI related documentation that supports the decision to invest, e.g., policies and procedures at external managers or co-investors
 - Fund managers factor RI and ESG into their selection of portfolio assets
 - RI reviews are carried out by the fund managers at regular intervals (usually quarterly)
 - Stewardship responsibilities are carried out thoroughly (engaging with companies, shareholder voting, manager monitoring, industry participation)
 - Fund managers are transparent in their reporting to clients and the wider public

Manager selection

- 8.16 An assessment of RI&E is a core part of LGPSC's manager selection process. Typically, manager selection processes are done in three broad stages: standard questionnaire, request for proposal, and manager meetings, of which RI&E assessments feature in all three. In stages one and two, the RI&E Team draft questions for insertion and then score the managers based on their responses.

In both stages, a 10-15% weighting is attached to the RI&E questions to reflect the importance that LGPSC places on full ESG integration. A representative from the RI&E Team then attends all the manager meetings. A key objective in the assessment of a manager is whether the ultimate decision maker is engaged in the integration of ESG factors into his or her decision-making process. Managers will not be appointed unless they can demonstrate sufficient awareness of and ability to manage the risks posed by ESG factors.

Case Study: Tendering for Global Sustainable Equities Mandates

- 8.17 In close dialogue with our Partner Funds and , LGPSC it was decided that the tendering for Global Sustainable Equities Mandates would take the form of a three-sleeve approach encompassing broad, thematic and targeted offerings. LGPSC's active investment team conducted a three-stage selection process, having advertised for potential managers in June 2021. The first stage, The Selection Questionnaire, attracted 77 applications across the three sleeves. Applications were all read and marked by members of the team in a fair, transparent and consistent manner with support from the RI&E Director and the Investment Risk Manager. 22 applications were selected to progress to the next stage,
- 8.18 The Request for Proposal submissions were read and marked by the team in the same manner. Nine applications, comprising three for each sleeve, were taken through to the final due diligence stage. This took place in September and consisted of 3-hour meetings for each manager. Due to Covid-19 restrictions, this took place online. Meetings included a 1.5-2-hour presentation followed by breakout sessions in separate virtual meeting rooms which provided the team with further insight on focused areas such as RI&E and Risk.
- 8.19 The presentations and interviews were scored by the team and resulted in three managers being selected, one for each sleeve. Following the selection of the successful managers, the team has received expressions of interest totalling around £1bn from Partner Funds. The funds are now expected to launch in Q2 2022. The team has investigated different tools which could be used for measuring impact of the funds and also looked at a number of different secondary benchmarks which could be used for internal measurement purposes.

Active Equities and Fixed Income

- 8.20 Once appointed, LGPSC require external public market fund managers to complete a quarterly ESG questionnaire. Some disclosure items are "by exception" (for example alerting us to changes in ESG process or personnel) and others are mandatory. LGPSC receives quarterly data from external fund managers on the number of engagements undertaken and the weight in portfolio. LGPSC set expectations regarding the volume and quality of engagement, and we assess climate risk including portfolio carbon footprint, and exposure to oil, gas and coal producers. To send a unique voting signal to investee companies LGPSC votes its shares - whether externally or internally managed - according to one set of voting principles. While the ultimate voting decision rests with LGPSC, we have a procedure through which we capture intelligence and recommendations from external fund managers.

- 8.21 The 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 our own internal portfolio analysis, inspection of the manager's responses to quarterly data requests, and via dialogue at the quarterly meetings.
- 8.22 LGPSC has developed a Red, Amber, Yellow, Green (RAYG) rating for 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 RAYG rating is split into four possible ratings: red (manager fails to convince, warrants formal review with potential manager exit), amber (manager warrants closer scrutiny with potential for going on "watch"), yellow (manager is fulfilling role but with minor areas of concern) and green (manager shows clear strengths tailored to requirement). We score managers on four components of their RI&E approach:
- 1) philosophy, people and process
 - 2) evidence of integration
 - 3) engagement with portfolio companies
 - 4) climate risk management.

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

Cross-team interaction in development of new LGPSC funds

- 8.23 Proposals for product development are discussed and challenged at the Investment Committee (IC) and the Private Markets Investment Committee (PMIC), which derives its authority from the IC and the Board. The Director of RI&E is a voting member of IC and PMIC.
- 8.24 These committees scrutinise investment proposals at a preliminary stage and authorise appropriate expenditure in connection with full due diligence and negotiation of investments. The RI and stewardship implications are first discussed and scrutinised during this initial preliminary review. A due diligence report, including due diligence by the RI&E Team, is presented to the IC or PMIC for scrutiny and final approval.

Case study: Launch of Infrastructure Fund

- 8.25 A recent example of cross-team interaction is provided by the Q1 2021 launch of the LGPSC Infrastructure Fund which invests in a variety of renewable energy solutions. The RI&E team had full access to all the deal documentation and met with the ESG teams of the shortlisted managers. Due diligence showed that overall ESG integration and stewardship were strong at both managers, however areas for improvement were identified around supply chain management and one of the company's human rights' policies. We will re-assess and discuss the situation related to human rights risk oversight and management at the first review in 2022.

Integration of climate change risk through Climate Risk Monitoring project

- 8.26 During the course of 2020, LGPSC 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.

- 8.27 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, LGPSC 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, LGPSC 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.
- 8.28 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, LGPSC 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 LGPSC 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 | LGPSC 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). |

- 8.29 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.
- 8.30 LGPSC have provided the Fund a bespoke CRRs on an annual basis for the past 2 years. Future iterations of the report will show progress against the baseline of data collected in the first 2 years. The 2021 report explored 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 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 [Pension Committee December 2021](#) 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 In May 2021 as part of our quarterly performance meetings with managers we placed a specific focus on ESG and all our fund managers irrespective of the type of asset class were asked the same questions as follows:-

a) *Please explain your approach to ESG factor integration into the investment process*

- b) Please demonstrate:**
- how your specific ESG factor integration approach informed the investments made; and
 - how they are monitored and managed in the portfolio
- c) Please share your current thinking (if any) on the relevance of the UN SDGs to the portfolio.**
- Do you use an ex-ante framework for assessing whether potential and existing investments are net contributors to certain SDGs, and if any are net detractors to others?
 - How do you establish some impartial basis for this determination?
 - If you do not use an SDG-informed approach, what challenges and opportunities would you see in adopting an SDG approach to this fund or a future version of it?

9.10 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: We are looking at how we use this tool to challenge our existing fund managers as part of our regular performance monitoring meetings in line with 9.9 above.

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).

- 9.11 The aim will be to conduct this as an annual process and be able to map progress over time and work with our respective fund managers to improve their ESG integration where required.
- 9.12 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.
- 9.13 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.

- 9.14 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.
- 9.15 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](#).
- 9.16 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.
- 9.17 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 an [LGIM quarterly ESG Impact Report](#).
- 9.18 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

- 9.19 External fund managers are monitored in order to ensure the ongoing application and efficacy of their approaches to RI and stewardship. Managers' report on a regular basis to LGPSC in respect of how engagement activities have been discharged during the period in review. In 2021, 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.
- 9.20 Engagement undertaken by LGPSC's external managers in 2021 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 our RAYG rating (red – amber – yellow – green) review and LGPSC discussed its concerns in the quarterly meetings.
- 9.21 An example of LGPSC changing the RAYG rating occurred in Q3 2021. Going into 2021, one of our managers achieved only a 'yellow' status due to concerns around the level of engagement being conducted. Compared to other managers, the number of engagements appeared low, and the accompanying description was poor. LGPSC initiated a dialogue with the manager around this issue and reiterated our expectations for managers' stewardship activities. Following this, the level of disclosure greatly improved. The manager now provides a full summary of their interactions with investee companies, and we are able to gain greater confidence that the manager is using their ownership position to maximum effect. We subsequently upgraded the managers engagement rating from a 'yellow' to a 'green'.

Engagement Cases below

Deere & Co, Union, LGPSC Global Equity Active Multi-Manager Fund

Objective: Disclosure improvements and implementation of a climate policy

Sector: Industrials

ESG topics addressed: Transparency & Disclosure; Management Remuneration

Issue/ Reason for Engagement: The company was a middling ESG candidate, lacking a net-zero policy and general transparency on a number of ESG measures.

Scope and Process / Action taken: Union conducted repeated engagements with the company since Biden's election (which served as an impetus to develop their sustainability competencies before regulation forced them to do so).

Outcomes and next steps: While the company does not use ESG KPIs as a criterion for manager remuneration, engagement efforts on this topic have been successful, and the company has committed to introducing these by 2023. Additionally, they are drafting a net-zero policy and have shown openness to integrating the UN SDGs into their practices. Union sees these actions as promising 'first steps' and hope to continue acting in an advisory role to help encourage Deere's continued ESG growth.

China Mengniu Dairy Company, UBS, LGPSC Emerging Market Equity Active Multi Manager Fund

Objectives: Disclosure improvements

Sector: Consumer Staples

Country: China

ESG topics addressed: Strategy and Business Model; Transparency & Disclosure; Nutrition

Issue / reason for engagement: China Mengniu scored poorly on the Access to Nutrition Index. This appeared to be due to the sole use of publicly disclosed information. In the past, other companies have had the opportunity to engage with the Access to Nutrition Foundation to share additional information and work towards enhanced practices and disclosures.

Scope and Process/ Action taken: UBS co-led a collaborative engagement as part of their membership of the Access to Nutrition Network. There were a total of 30 investors supporting the engagement and 10 participating in the engagement meeting itself.

Outcomes and next steps: The company has proved to be very receptive to the engagement and has requested a follow-up meeting with Union and the Access to Nutrition Foundation to better understand best practices as well as the methodology of the Index. They have committed to enhance disclosure on existing practices and to enhance practices.

Fixed Income

- 9.22 LGPSC views engagement with fixed income issuers as essential and value accretive, both via information gains and via the potential to influence company management. LGPSC observes this belief when selecting and onboarding managers. We look for evidence of robust issuer engagement and any manager unable to provide this is marked down. Once appointed, LGPSC monitors engagements undertaken by fixed income managers during quarterly meetings.

We seek to determine whether the manager is fulfilling the level of engagement that was pitched, and challenge accordingly if the response is unsatisfactory. These discussions subsequently feed into LGPSC's manager scoring system.

- 9.23 We consider our fixed income managers to have conducted meaningful and effective engagement in 2021. Throughout the year, LGPSC's external managers conducted 349 direct engagements with companies held in the Global Active Investment Grade Corporate Bond Multi Manager Fund, Global Active Emerging Market Bond Multi Manager Fund and Multi Asset Credit Fund. An example is as follows:-

National Grid, Neuberger Berman, LGPSC Global Active Investment Grade Corporate Bond Multi Manager Fund.

Objectives: (1) To gain a greater understanding of how the company is managing the physical climate risk facing parts of its asset base and (2) to encourage a repositioning towards electrical infrastructure assets and away from gas assets.

Sector: Utilities

ESG topics addressed: Energy transition

Issue/ Reason for Engagement: Neuberger Berman have concerns over the long-term stranded asset risk and limited growth potential exhibited in the firm's gas transportation assets.

Scope and Process/ Action Taken: Neuberger Berman have been conducting engagement with the National Grid over several years, a programme which has included regular discussions with the issuer's management team, investor relations team, segmental managers, industry competitors, and regulators.

Outcomes and Next Steps: As a result of the engagement, National Grid have agreed to an asset swap which significantly increases their exposure to fast growing infrastructure assets. The deal strengthens the company's role in building and operating the infrastructure required to meet the rising demand and changing energy mix that accompanies the low carbon transition. Neuberger Berman are encouraged by the capital allocation shift.

Future developments to the manager monitoring

- 9.24 LGPSC together with the partner Funds plan to undertake 12-month reviews in 2022 of our active equity and fixed income managers. Whilst we attend regular monitoring meetings, these reviews are designed to be a deep dive of the managers RI processes so LGPSC can ensure their ESG integration remains best practice.
- 9.25 For our primary private equity funds, LGPSC conducts a review, every two to three years of each funds' RI&E processes. As part of this, LGPSC has recently become a supporter of the ESG Data Convergence Project, an initiative which aims to standardise ESG data across the private equity industry by providing one set of metrics for companies to report against. We will work with our GPs over the next year to encourage participation.
- 9.26 This structure is further evidence of LCPSC's commitment to integrating RI across investment teams and our belief that RI is not just a prerogative of the RI&E team, it is something that all colleagues need to embrace if we are to realise the benefits in full.

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 with 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 2021. Below we give further detail and examples to some of these engagements.
- 10.2 During 2021 LGPSC has continued engagement on four, core stewardship themes: climate risk, plastic pollution, responsible tax behaviour and tech sector risks. See Principle 5 for further detail on how these themes have been identified. **Appendix 2** provides details of the Stewardship Strategy, measures of success, engagement highlights and case study for each of the 4 Themes.

Engagement on themes and issues outside of Stewardship Themes

Engagement case: Diversity

- 10.3 Japanese boards have one of the lowest proportions of female representation in major markets and as a member of the 30% Investor Club we very much welcome recent developments with the 30% Investor Club opening a 30% Investor Club Chapter in Japan in May 2019. Over the last 18 months, we have together with fellow 30% Investor Club members, and led by Royal London Asset Management, engaged with a **Japanese bank** to encourage better diversity and to seek more disclosure on diversity-related policies. A general hurdle to achieving greater diversity at board level in the Japanese market is the fact that historically, Japanese women in their 40ies and 50ies gave up their careers to raise families. It is therefore particularly welcome that the company recently appointed a woman to the Board who had been on the management team since 2019, and with the company since 1987. This brings female representation at the Board to 13%. This move does not seem to have entailed broader changes to the Board's nomination policies and the low number of female executives remains an obstacle to greater diversity. An objective for this engagement was to encourage the company to join the 30% Club, and we were pleased to see the company take this step during H1 of 2021. While we would like the company to set more ambitious targets for diversity at all levels of the organisation, we note that the company aims to achieve increase in diversity by looking at recruitment and supporting women in career positions from early on. This engagement will continue alongside new engagements with a selection of other Japanese companies based on our exposure and/or their less than 10% gender diversity at board level in 2020, to be commenced in Q2 2022.

Combatting modern slavery

- 10.4 Over the last two years, LGPS Central has been a member of a collaborative investor-initiative convened by Rathbones Group Plc (Rathbones) that has successfully encouraged laggard **FTSE 350 companies** to meet the reporting requirements of Section 54 of the Modern Slavery Act 2015. According to the Act, companies with a turnover of more than £36 million per year must publish a modern slavery statement and ensure that the statement is approved by the board; signed by a director; reviewed annually and published on the company's UK website. During 2021, we engaged with 62 FTSE350 companies asking for Modern Slavery Act compliance. As per end 2021, all companies are now compliant [check with Archie at Rathbones and update].

Initial positive responses have given an opening for meetings to discuss companies' approaches to modern slavery. This is an important step beyond the initial ask of compliance with the Modern Slavery Act, to focus on the content of the statement and to enable investors an understanding of the key risks facing individual companies. In June 2021, we joined Rathbones in engagement with a **UK retailer** who has chosen to broaden its net zero climate strategy to include social risks, aiming to capture the interlinkages that exist between environmental and social factors. Human rights as a theme gets specific attention through a working group with a direct line to the company Board. In 2017, the company established a Modern Slavery Risk tool which has since been extended to include all human rights risks.

The tool is both product and region specific and it is possible to select specific risks (for instance gender, forced labour, child labour) but also assess the broader risk picture. The company strives to continue embedding the tool further in its business functions. Areas of increasing concern in relation to modern slavery are transport and haulage, as well as sea freight. We commended the company for its detailed modern slavery statement and for the high level of transparency around high-risk areas.

Example of a recent engagement through LGIM

- 10.5 An example of a recent engagement through LGIM relating to social factors re Ethnicity is cited below which is part of their Q4 ESG Impact Report 2021.
- 10.6 *Ethnicity campaign In September 2020, we launched our ethnicity engagement campaign and voting strategy, where we committed to engaging with the largest US and UK companies with no ethnic diversity on the board, with a commitment to taking action on a lack of improvement by placing a negative vote at their 2022 AGM.*
- 10.7 *We wrote to 79 companies across the S&P500 and FTSE 100 indices to alert them of our expectations, and to the potential voting action we would take.*
- 10.8 *In October 2021, we re-visited the board's ethnic representation of the companies in these indices, with the intention of writing to those who were still in breach of our expectations of one person of diverse ethnicity on the board. This review resulted in us writing to 37 companies in total, meaning that our target list has almost halved compared to the previous year, demonstrating decent progress. On initial study of the data, we discovered that in 2021, we wrote to 10 US and 12 UK companies which have been persistent laggards – falling short of our expectations in both 2020 and 2021 – which means that they have not improved the ethnic diversity of their boards over the last 18 months.*
- 10.9 *In Q1 2022 we will be taking a more granular look at the data to understand in more detail any trends and improvements. Our voting commitment is steadfast, and from January 2022 we shall be voting against the board chair of UK companies and the Chair of the Nomination Committee of US companies with no ethnic diversity on the board.*

11. Principle 10

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

- 11.1 We have worked with organisation detailed in Appendix 1 in collaborative engagement to influence issuers in order to maximise the influence that the Fund can have on individual companies:

- 11.2 LGPSC has continued active involvement in several strong investor collaborations that pursue better corporate standards across ESG issues, including for several Stewardship Themes², during 2021. 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. For a list of initiatives that LGPSC actively supports and engages with, please refer to Appendix 1.
- 11.3 Examples of collaborative initiatives of particular importance to LGPSC's stewardship effort in 2021 are as follows:

Audit of climate risk

- 11.4 LGPSC has over the last two years been a member of an investor coalition, led by Sarasin and Partners LLP, engaging both auditors and companies asking for the provision of Paris-aligned accounting. Investors expect that directors of companies that face material climate risk consider these risks in their financial statements and make disclosures accordingly. If climate risk is not considered, the longevity and value of assets held by the company may be over-estimated, which could lead to capital being misdirected. The IIGCC's [Investor expectations for Paris-aligned Accounts](#) that were communicated to 36 European energy, material and transportation companies end of 2020, were again reiterated in letters to 17 of the same companies in November 2021 as we have not seen sufficient progress. An increasing number of investors are setting a net-zero by 2050 ambition at portfolio level, including LGPSC. It is critical that we have the component building blocks including full clarity on climate risk held at individual company level, how this risk is being managed and companies' transition trajectories. Companies themselves are also setting net-zero by 2050 targets and we expect them to make net zero accounting adjustments in line with such an ambition. Should a company not use a 2050 net-zero pathway as their base case for their financial statements – for instance, because they do not believe this is the most likely outcome – we are still asking them to disclose how the entity's financial position would likely be impacted by such a pathway in the notes to the accounts. Our strategy is to maximise engagement leverage with investee companies to ensure a transition that can achieve net-zero. In the letters sent out most recently, companies are made aware that an increasing number of investors may be voting against Audit Committee directors' reappointment, where high-risk companies fail to meet the expectations for Paris-aligned accounting.

Plastic pellet industry standard and UN treaty on plastic pollution

- 11.5 Billions of plastic pellets or "nurdles" make their way into the natural environment each year, which poses a serious threat to the ecosystem and potentially also a health threat to people. LGPSC has collaborated 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**. The new specification, a so-called Publicly Available Specification (PAS), was formally launched in July 2021 after nine months of preparation by an expert group. We consider the publication of this standard as positive progress which will start to direct corporate behaviour.

² Confer with response to Principle 4 above for further detail on LPGA Central Stewardship Themes

We intend to use the plastic pellet PAS as a direct reference in engagement with relevant industries, for example in ongoing engagements with packaging companies and plastics manufacturers.

Another interesting industry development is businesses and investors, including LGPS Central, calling for **UN treaty on plastic pollution** (www.plasticpollutiontreaty.org – a Treaty has since become a reality³). The aim of a treaty would be to establish a coordinated international response that aligns businesses and governments behind a shared understanding of the causes of plastic pollution, and a clear approach to addressing them.

Tax transparency

- 11.6 We have co-signed a letter to the European Parliament supporting **public country-by-country reporting (CBCR) in the EU** coordinated by the PRI⁴. We view it as vital that multinational companies provide disaggregated information on taxes paid in all countries and across operations. The EU legislation was adopted in November 2021 and will require public reporting of certain information such as revenues, number of employees, profit or loss before tax, tax accrued and paid, accumulated earnings, stated capital and tangible assets. Many multinationals already report revenue, profit and tax paid by territory to tax authorities as part of a requirement under the OECD Base Erosion and Profit Shifting guidelines. These large multinationals therefore already collect CBCR data and could readily report it to stakeholders more broadly. CBCR is crystallising as best practice in tax transparency. The most widely used sustainability reporting framework, the Global Reporting Initiative, has launched a Tax Standard which includes CBCR. This provides companies with a ready-made and consistent format. While only a minority of multinationals currently provide shareholders and other stakeholders with CBCR, those that do view it as an opportunity to “demystify” tax and have expressed to us that it has largely been well received by stakeholders.

Deforestation given heightened attention during COP26

- 11.7 During COP26 negotiations in Glasgow in November last year, LGPSC alongside 30 financial institutions, made a commitment to tackle agricultural commodity-driven deforestation and help drive the shift towards sustainable production and nature-based climate solutions. This commitment encourages a focus on active ownership and ongoing stewardship as the principle means to work towards portfolios that are free from forest-risk agricultural commodity-driven deforestation activities, as part of a global transition towards sustainable production, supply chains and associated investment and financing opportunities. The aim is to achieve “real world” impact in halting some of the most common causes of deforestation and, and will focus on high-risk sectors beef, soy, palm oil, pulp and paper.

³ On 2 March 2022, Heads of State, Ministers of environment and other representatives from 175 nations endorsed a historic resolution at the UN Environment Assembly (UNEA-5) today in Nairobi to End Plastic Pollution and forge an international legally binding agreement by 2024. The resolution addresses the full lifecycle of plastic, including its production, design and disposal.

⁴ 35 investors representing US\$5.6trn in AUM signed the PRI letter on public CBCR in the EU

We are cognisant that the timeframe is tight and will require joint effort among investors to strive for elimination of deforestation caused by sourcing for those agricultural commodities from investment and lending portfolios by 2025. We continue our policy engagement with the Brazilian government, and along with lead engagers of the Investor Policy Dialogue on Deforestation (IPDD), have met with federal representatives, state representatives, congress members, and civil society in Brazil. IPDD has also held educational and knowledge sharing sessions, both in and outside of Brazil, and conducted outreach with investor coalitions, foreign representatives, and other relevant stakeholders

Other Fund collaboration

- 11.8 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 their collaborative engagements, advocacy and research activities, details of which are given in their quarterly and annual reports which are reported to Committee.
- 11.9 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.
- 11.10 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

- 11.11 In addition to the support provided directly via LGPSC there are examples provided through LAPFF of the supported engagement activities undertaken. A few recent examples are detailed below with extracts from LAPFF 2021 fourth quarterly report.

National Grid

- 11.12 **Objective:** *Correspondence was sent on behalf of the CA100+ initiative with an updated assessment of progress against the second CA100+ benchmark. The letter identified short-term priority actions to improve the benchmark score and a commitment for fully aligned disclosure with the benchmark by the end of 2023.*

Achieved: *The company gave further detail of net zero alignment with International Energy Agency's (IEA) 2035 date for all relevant electricity emissions, noting the assumption of a zero-carbon power grid by 2035. **In Progress:** A meeting in December covered disclosure on lobbying activities and further discussion on Paris Aligned accounting and audit disclosure.*

The Asia Collaborative Engagement Platform for Energy Transition

- 11.13 *Collaborative engagement, working with Asia Research and Engagement (ARE) and the Asia Transition Platform, has continued with some of Asia's largest listed financial institutions and buyers and producers of fossil fuels. During the quarter, LAPFF executive members Cllr Caron and Sian Kunert engaged with Sumitomo Mitsui Financial Group (SMFG) and Mizuho respectively. At Mizuho, bank representatives were asked for more details on sustainability experience and expertise of board members, as well as an insight into a time-line for the phase out of coal power financing. At SMFG, discussions also covered mechanisms to ensure sustainability experience on the Board as well as target setting and referencing the International Energy Agency Net Zero scenario.*

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 Code 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.
- 12.5 Our advisor's objectives were reviewed at the Pensions Committee in December 2021 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.

12.6 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.

12.7 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

12.8 *LGIM's longstanding climate engagement programme, the [Climate Impact Pledge](#), is linked to tangible voting and engagement sanctions which we introduced in 2016. We launched our revised Climate Impact Pledge 2.0 in October 2020, where we made our targeted engagement programme even more ambitious. Details of LGIM's Climate Impact Pledge score can be accessed [here](#). Please also refer to the [LGIM's Climate Impact Pledge: the 2021 results](#) (pages 12-16) which outlines key areas of focus and a sanction list of companies that have persistently fallen short of our minimum standards or have been included due to a lack of response to our engagement requests.*

12.9 *We have strengthened our approach by expanding the coverage of our pledge from 80 to 1000 companies in climate critical sectors, which now accounts for circa 60% of all GHG emissions from listed companies. Furthermore, climate ratings for c.1000 companies are publicly available under a 'traffic light' system to allow companies to address gaps in strategy and disclosures. Our approach also includes a new engagement model – focused on large companies with poor scores relative to their scale – to help raise standards across the market*

LGPSC escalation example

12.10 The stewardship themes that we have identified as priority areas for engagement are all long-term and systemic in nature. Against that backdrop, we will often use escalation tactics to enhance the chances of achieving long-term engagement outcomes. However, a decision to escalate, and the form or sequence of subsequent escalation will be particular to the engagement in question. Examples of how we might escalate include, but are not limited to:

- Additional meetings with the management or the directors of an investee company
- Escalating the dialogue from the executive to the board of directors or from one board member to the Chair and/or a more amenable board member
- Collaboration with fellow investors and/or with partnership organisations
- Public statement
- Voting against management, e.g., against the annual report, the appointment of directors or the auditors
- Co-filing shareholder resolutions
- Attendance and raising questions at the company AGM

- 12.11 Through our involvement in collaborative engagement projects, like Climate Action 100+ (CA100+), we are continuously assessing the need for escalation depending on individual companies' response to expectations from investors. Due to the nature and complexity of the transition challenge, there is also an element of "moving target" which means that both investors and companies need to be ready to step up ambition. Going into 2021, CA100+ had established a Benchmark Framework which allows evaluation of company progress against Paris alignment on key parameters (short/medium/long-term targets, decarbonisation strategy, capex plans, remuneration, disclosures).
- 12.12 **Through our role of co-lead in CA100+ engagement with Glencore**, we held constructive discussions ahead of their 2021 AGM and encouraged the company to put forward a Climate Transition Plan to shareholders for an advisory vote. While the company still has some gaps relative to the CA100+ Benchmark Framework, we consider that they have taken some strong steps toward Paris alignment. This includes setting a net-zero by 2050 ambition across all scopes and a medium-term target of 50% absolute GHG emissions reduction by 2035, which will largely come from decline in coal exposure. LGPS Central would like Glencore to set more ambitious short-term targets, including a specific 2030 target, that marries up with the long-term ambition and ensures a steady decline in emissions in line with Paris over this next, critical decade. Furthermore, we will continue to push Glencore to pro-actively and transparently lobby for Paris-aligned climate policies in key markets, including Australia, both directly and through industry associations they are a member of. Their policy dialogue should align with the company's own net-zero target.

Engagement with banks

- 12.13 Together with more than 100 investors and coordinated by ShareAction, LGPSC co-signed letters to 68 banks setting out expectations for Paris-alignment and protection and restoration of biodiversity. Banks play a critical role in provision of finance to support transition to a low-carbon economy. While we have previously asked banks to set targets in line with Paris, this letter specifically addresses biodiversity, alongside climate, as an area that banks are expected to assess in their risk management and in their dialogue with clients. The inclusion of biodiversity as an ask from investors of banks in the broader climate mitigation effort, is in and of itself a form of escalation. Encouragingly, 50 banks have responded to the letter and dialogue is ongoing with a selection of these banks. Our first ask is for banks to publish climate targets covering all relevant financial services that are aligned with global efforts to hold temperature rise below 1.5 degrees Celsius. 19 confirmed they will publish new climate targets ahead of COP26, the end of the year, and/or their 2022 AGM. This includes BBVA, BNP Paribas, Citigroup, and Standard Chartered. A critical next step for the investor group is to assess whether these targets put banks on a clear path to net zero.

Escalation of engagement with Motorola

- 12.14 We expect businesses that operate in areas of war and conflict to take particular care to respect human rights. The Israeli-Palestinian conflict poses clear human rights risks for companies, but the sensitive political situation makes engagement challenging. During 2020 we initiated engagement with Motorola Solutions Inc. on human rights risks in operations through the wholly owned subsidiary Motorola Solutions Israel Ltd. We sought this engagement to bolster ongoing engagement that the Local Authority Pension Fund Forum (LAPFF) is undertaking with a selection of companies on human rights risks that stem from operating in Occupied Palestinian Territories (OPT). In our initial letter, we asked that the company carry out human rights impact assessments in line with the UN Guiding Principles on Business and Human Rights. We also stated that we would take the company's response into account as we formulate voting decisions at the next AGM.

The initial response from Motorola did not provide us with enough detail to understand how the company manages and mitigates human rights risks that are specific to operations in the OPT. Hence, we voted against the Chair at the 2021 AGM to send a clear message that the initial response had been unsatisfactory. We also followed up with further letters, the latest signed by our CIO, to explain why this remains a concern and emphasising our willingness to engage. We were pleased when the company agreed to meet and discuss these issues, a meeting that took place in January 2022, and will continue this engagement with the company.

Expectations on external managers to escalate on our behalf

- 12.15 We expect managers to be ready to escalate any engagement where there is lack of progress relative to engagement objectives, on any material ESG topic. During 2021, we have asked managers to give particular attention to companies' climate transition, or lack thereof, in line with the Paris Accord. This is part of a broader discussion with external managers around the implementation of our Net Zero targets. An example is

US Utility Company, Schroders, LGPSC Global Equity Active Multi Manager Fund

Objectives: For Company to set a clear decarbonisation strategy

ESG topics addressed: Climate change

Issue/ Reason for Engagement: The company does not have an overarching net zero commitment or quantitative targets to reduce emissions

Scope and Process/ Action Taken: Schroders engaged with the Company in September 2021, with an expectations letter to the company's chair requesting a commitment to achieve net zero emissions by 2050 or sooner, alongside short-, medium-, and long-term targets aligned to a 1.5°C scenario.

Escalation: Following the initial letter, Schroders sent a tailored letter to the CEO of the Company and followed this up with a one-to-one call with Investor Relations.

Outcomes and Next Steps: The company has been receptive to Schroder's requests, making valid points about the importance of having shorter term targets that the current management team can be held to, rather than long-term targets which have to be achieved by future teams. Schroders agree with this, but don't believe this prevents the Company having a long-term target. In 2022 if the Company fails to announce 2030 and/or 2050 targets, Schroders will re-engage.

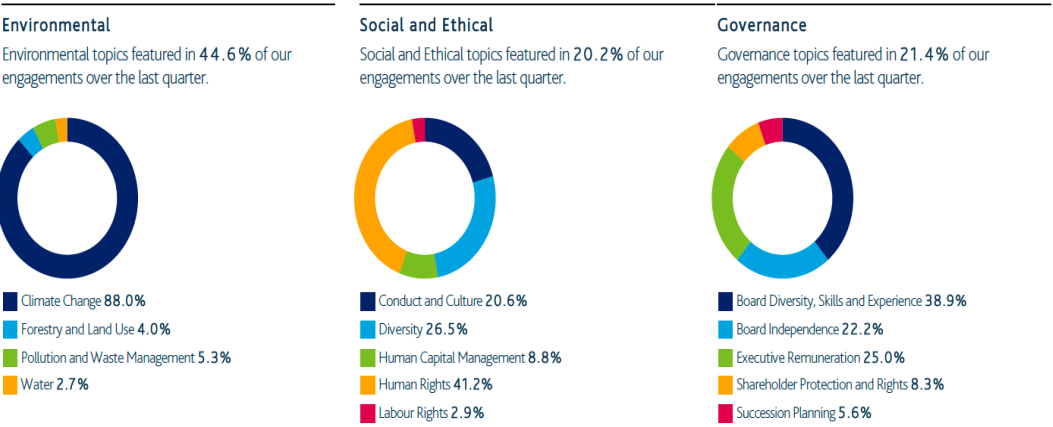
13. Principle 12

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 2,965 resolutions against management or abstaining on resolutions at 323 meetings and engaged with 259 companies on environmental, social and governance issues and objectives. An example of the voting and engagement statistics provided is detailed below for quarter 4 of 2021.

Engagement by theme

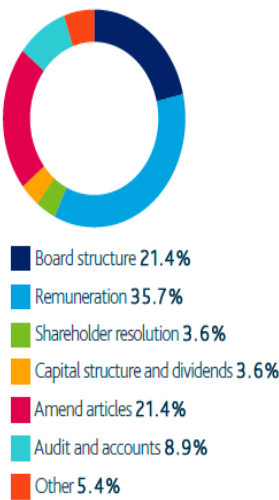
Over the last quarter we engaged with 52 companies held in the Worcestershire Pension Fund portfolios on a range of 168 environmental, social and governance issues and objectives.



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

Global

We recommended voting against or abstaining on 56 resolutions over the last quarter.



13.3 We ask LGPSC to utilise all levers to influence corporate behaviour across our equity and fixed income investments. Voting is a core part of our overall stewardship effort as a shareholder in investee. Equally, exercising rights and responsibilities as fixed income holders is of key importance. During 2021, we have increased our exposure to private markets. LGPSC in liaison with partner funds have worked with private market partners to identify key performance indicators that are relevant for the underlying asset, and which we would request reporting against.).

Voting approach and objectives

13.4 **High-level objectives:** LGPSC and ourselves view voting as a core component of stewardship and all voting activities we undertake aim to:

- 1) support the long-term economic interests of our stakeholders
- 2) ensure boards of directors are accountable to shareholders

3) encourage sustainable market behaviour across companies and sectors

13.5 **Principles-based approach:** We take a principles-based approach to voting and are guided by LGPSC's established Voting Principles. At high level, we expect companies to:

- Adhere to essential standards of good governance for board composition and oversight
- Be transparent in their communication with shareholders
- Remunerate executives fairly
- Protect shareholder rights and align interests with shareholders
- Promote sustainable business practices and consider the interests of other stakeholders

13.6 In situations where companies are faced with a market-wide crisis that cause unprecedented disruption, uncertainty and challenges to their business models, operations, workforce and finances – such as the Coronavirus pandemic – we will consider applying a more flexible voting approach. We would in these situations explain to our Partner Funds and other stakeholders, including external managers, how we may deviate from our voting principles, on what issues and relative to which sectors (if different sectors are affected differently).

13.7 **Scope of voting:** To send a unique voting signal to investee companies LGPSC votes all its shares - whether externally or internally managed - according to one set of voting principles. While the ultimate voting decision rests with LGPSC, we have a procedure through which we capture intelligence and recommendations from external fund managers.

13.8 **Stock-lending:** LGPSC has an active securities lending programme. During 2021, we considered options for restriction on securities lending to bolster our overall stewardship and voting impact. The securities lending policy that has been in place since the inception of LGPSC ensures that we hold some securities back, a portion not on loan, to ensure that we can vote at all AGMs of investee companies. We also have the option of recalling securities out on loan e.g., in the case of filing a shareholder proposal. Based on dialogue with our Partner Funds, alongside discussions in-house at Investment Committee and Operations, Risk, Compliance and Administration, we have now revised the securities lending policy with effect from 2022.

13.9 The revision means that we fully restrict certain securities from lending at the start of voting season. This is to ensure that we maximise our voting impact, e.g., in relation to critical, ongoing engagements that we expect to escalate through shareholder resolutions or other forms of voting (e.g., votes against Board members). Among critical engagements are companies identified as high risk relative to climate change through Partner Fund Climate Risk Reports and that sit within the scope of Climate Action 100+. We considered the cost implications of excluding all companies in our Voting Watch List from lending and concluded that a more targeted approach would be the most proportionate and efficient response. This targeted approach entails a restriction of lending on a sub-set of companies that we view as critical engagements ahead of each voting season. Ahead of voting season 2022, 12 companies on our Voting Watch List (of 50 companies) are restricted from lending. The restriction will be lifted once relevant AGMs are held.

- 13.10 **Voting reinforcing engagement:** As far as possible, we aim to use voting to reinforce and promote ongoing engagements, whether carried out directly through LGPSC, through collaborative initiatives or through our external stewardship provider EOS at Federated Hermes. This means that we regularly raise issues concerning environmental sustainability, including climate change, and broader social issue like human rights risk oversight and management through our voting. Many votes against management concern good governance (board composition, board oversight and skill sets, remuneration etc.) – these votes are often an expression of underlying concerns with lack of expertise and or/oversight at board level on issues like climate change or human rights. We also know that strong governance increases the likelihood of companies dealing well with environmental and social risks. During April – June 2020 (high voting season) many ESG-related shareholder proposals got very strong or even majority support.
- 13.11 **Transparency:** LGPSC's disclosure of its Voting Principles, and its voting outcomes, supports our ambition of full transparency. With regards to voting outcomes, disclosures are made in three formats. Firstly, a report summarising voting activities is provided in [Stewardship Updates](#) three times a year (covering the first three quarters of the calendar year). Secondly, LGPSC provides an annual summary of voting activities, as part of the Annual Stewardship Report, and thirdly, discloses voting decisions for every resolution at every eligible company meeting via an [online portal](#). Each of these disclosures is available to the public.

Voting strategy

- 13.12 **Ensuring that Voting Principles are applied:** We have set up a structure whereby EOS at Federated Hermes provides us with voting recommendations based on our voting principles which are input on the ISS voting platform prior to the vote deadline. The voting recommendations are then cast as voting instructions if there is no further intervention, except in the case of share-blocking votes. We currently hold approximately 2,900 companies through our ACS equities funds. With this voting structure, we have confidence that votes are cast according to our voting principles across a voting universe that under no circumstance could be checked manually at each individual company level. In minority cases where a company we are engaging and/or that the Local Authority Pension Fund Forum has issued a voting alert for falls outside EOS' main engagement, we often consult ISS research directly.
- 13.13 **Voting Watch List:** It is not feasible to do in-depth research into all proxies that will be voted at each of the companies we hold through our ACS equity funds. To prioritise, we establish a "Voting Watch List" annually that consists of approximately 50 companies which cover larger holdings and/or core engagements in and outside of our stewardship themes. Votes at these companies will be given particular scrutiny ahead of the AGM. While it is not feasible to attend all these companies' AGMs, we would aim to attend AGMs virtually (if permissible) for core Climate Action 100+ engagements and for any company with which we have filed a shareholder resolution. Watch List companies are a combination of larger holdings across our equity universe and/or core engagement companies and/or ongoing controversies. The Voting Watch List serves a further purpose, in allowing us to test whether our votes are generally cast in alignment with our voting principles.

Interaction with EOS at Federated Hermes:

- 13.14 Ahead of each voting season, we share our Voting Watch List with EOS to ensure that we receive a more detailed analysis to substantiate their voting recommendations for companies on this list ahead of relevant AGMs. We will seek ad-hoc interactions/meetings with EOS regarding core engagements, where either they or we would like further input from the other ahead of a vote.
- 13.15 As an example, we had in-depth discussions with EOS ahead of the vote at **Barclays AGM 2021** on a climate-related shareholder proposal. The resolution requested the company to set short-, medium and long-term emissions reduction targets and to phase out the provision of financial services to fossil fuel projects and companies, in timeframes consistent with the Paris Agreement. LGPSC has engaged Barclays actively through a ShareAction-led collaboration during 2020 centred around the asks in a shareholder proposal which we co-filed in January 2020. The January 2020 shareholder proposal makes explicit reference to phasing out of finance to *non-Paris aligned* energy and utility companies. Dialogue has been constructive, and the company seems receptive to and appreciative of investor input and dialogue. The company has made progress in developing its climate strategy, putting forward a new methodology for determining alignment with the goals of the Paris Agreement for the energy and power sectors, including relevant 2025 targets. It has also accepted the principle of the need to withdraw finance from misaligned activities over time (for example in its current coal policy). While we fully support the underlying sentiment of the 2021 shareholder proposal in terms of Paris alignment, we asked ourselves what would at this point be more conducive to engagement and to further progress? After careful consideration we found that the 2021 resolution was premature in light of very recent progress made by the company and the prospect of ongoing engagement. We were also concerned about the wording of the resolution which could be interpreted to mean that certain projects and companies from the outset are not considered to be in line with Paris. As such, it appeared to be missing nuance around the potential and ability for transition also within the fossil fuel sector, which is both complex and dynamic.
- 13.16 **Interaction with external managers:** It is our intention to capture intelligence and recommendations from active equity fund managers relative to key holdings and/or contentious voting issues. To achieve this:
- LGPSC meets with each external manager annually ahead of the voting season for a dedicated voting-related discussion
 - External Managers will be kept up to date on any changes to LGPSC Voting Principles, and vice-versa.
 - We will share with each external manager our Voting Watch List with an explicit incentive to communicate their views on companies on this list that are held in their portfolio.
 - We may reach out on an ad-hoc basis in cases where we would like to elicit views on contentious issues in core holdings or key engagements that can supplement views from EOS.
- 13.17 As an example, we had detailed discussions with one of our external managers ahead of the vote at **Berkshire Hathaway** on a shareholder proposal requesting that the company report on its management of physical and transitional climate-related risks and opportunities. We consider that reporting on climate related risks and opportunities is a critical first step for the company to manage these risks and allowing shareholders the ability to assess whether it does so effectively.

60% voted in favour of the proposal, adjusted for non-insiders. Berkshire Hathaway is the second largest power company in the US without a net-zero goal and we note that the company achieves the lowest score on TPI's climate risk management ladder. We considered arguments made by our external manager to vote against the resolution, although ultimately the decision rests with us. These included the fact that Berkshire's autonomous subsidiaries already report on operational risk, including climate risk, which makes a centralised report less appropriate. Furthermore, that the reporting from subsidiaries make it possible to assess climate risk exposure for Berkshire Hathaway. In our view, the current reporting at subsidiary level is not decision useful nor sufficiently complete for investors to fully appraise material climate-related risks. It is concerning that the company's board believe such disclosure to be unnecessary for investor interest. Shareholder interest lies with the parent company, not individual subsidiaries. We think it appropriate to ask this of a holding company like Berkshire Hathaway, which is a situation akin to asset owners and asset managers reporting on climate risks throughout their portfolios. While in this case, we did not see eye-to-eye with the manager in question, we will continue dialogue on amongst others climate-related votes which are only increasing in importance against LGPSC's newly announced net-zero ambition.

Voting highlights and outcomes 2021

Proportion of shares voted during 2021

- 13.18 Based on our voting set-up with EOS at Federated Hermes – whereby EOS' voting recommendations (aligned with LGPSC Voting Principles) are cast as voting instructions for all shares – we can ensure that all shares are indeed voted. There are occasions where a vote is not cast due to for instance share blocking or a non-standard voting procedure. However, these are very limited instances. Based on checks done by EOS on unvoted ballots due to an error (e.g., a missed deadline in an instance of share blocking) during voting seasons 2013 – 2021, the % of errors lie between 0.591% and 0.04% of votes not being cast. We consider this an acceptable level of error, and we also note the downward trend in terms of errors.
- 13.19 While the health pandemic understandably took centre stage in 2020 and to a degree overshadowed the climate crisis, the latter clearly came to the fore in 2021. The 2021 voting season saw a new development in climate transparency and dialogue with shareholders through 18 votes on climate transition across oil and gas, construction, aviation and consumer goods. Some plans met notable opposition, including Shell and BHP, and we expect investors to scrutinise these plans at a more detailed level against evolving climate risk management standards such as the Climate Action 100+ Benchmark assessment.

2021 Voting Statistics

- Voted at 3,344 meetings
- 40,288 resolutions
- LGPSC attended virtual AGM of Glencore
- EOS attended 66 AGMs on our behalf, including Deutsche Bank, BP, Google owner Alphabet, Novartis, Amazon and Facebook
- Voted against management for one or more resolutions at 58.6% of meetings

13.20 **Tipping point for investor engagement and voting on climate change**

18 votes on climate transition across oil and gas, construction, aviation and consumer goods – all passed with support ranging from 88% to 99%

- Shell's transition plan was opposed by a notable number of shareholders (ca. 12%), while a shareholder proposal asking the company to set and publish targets for GHG emissions reduction in line with Paris received a healthy 30% support
- Shareholder resolution at Chevron requiring Scope 3 targets gained 61% support
- Proxy battle at Exxon resulting in three climate-savvy directors appointed to Exxon's board against management advice

Shareholder proposal at Berkshire Hathaway on management of physical and transitional climate-related risks and opportunities. Company is the largest power company without a net-zero goal. 60% voted in favour of proposal (adjusted for non-insiders).

13.21 **Diversity and inclusion higher up the agenda**

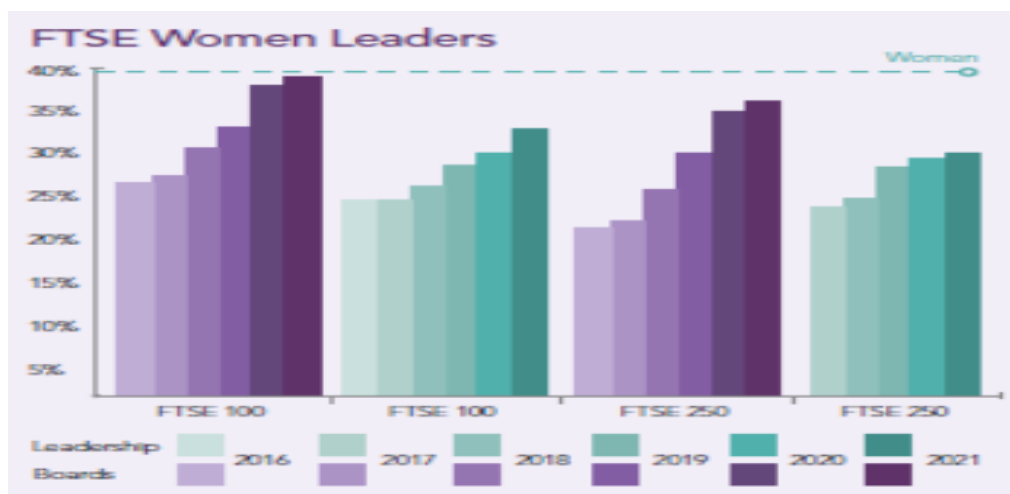
- We opposed FTSE 100 chairs in the UK at five meetings for failing to meet minimum expectations for racial diversity on boards
- We opposed the directors responsible (typically the board chair) at companies that fell below our expectation on UK FTSE 100 companies to have at least one woman on the executive committee. Examples include Ocado, Imperial Brands and Glencore
- In the US, we opposed 39% of nominating committee chairs, including at Kinder Morgan, Thermo Fisher Scientific and Discovery against an expectation that women and ethnic minorities make up at least 40% of the board at large companies
- Lack of progress on gender diversity in China, Hong Kong and Taiwan
- Japanese companies express support for the concept of board gender diversity, but this has not translated to more women on boards

13.22 **Remuneration during the pandemic**

- Executive pay should be justified in the context of the experience of other stakeholders, particularly companies that had made redundancies, benefited from government support, or otherwise in distress
- Some good practices among UK companies repaying money received from the government to furlough employees and/or business rates relief. Generally accepted that companies not able to do so would not pay bonuses to executives
- At publisher Informa, we opposed the rem report (alongside 62% of investors), considering pay-outs to executives from a long-term incentive scheme that would have lapsed, in the face of significant negative impact from Covid-19
- We opposed 80% of "say-on-pay" proposals in the US. Our concerns were exacerbated by decisions to insulate executives from the impacts of Covid-19, relative to other stakeholders
- Rio Tinto suffered 60% opposition to the rem report due to heavy focus on shareholder returns, with limited consideration of other strategic stakeholders, and pay-outs to departing executives, which did not reflect Juukan Gorge failures

Voting outcomes

- 13.23 In the UK, where the Hampton-Alexander Review established 2020 targets for 33% female representation on boards and in leadership roles, we have consistently opposed director proposals over concerns about insufficient diversity, including gender diversity, at board level and below. In 2021, we opposed 37 proposals due to lack of diversity, versus 35 and 45 proposals in 2020 and 2019, respectively. While the progress detailed in the latest FTSE Women Leaders Review released in February 2022 is encouraging, we agree with the report's notion that more work still needs to be done to achieve gender balance in leadership teams. As such we will monitor companies with a view to opposing director proposals at offending companies.



Source: FTSE Women Leaders Review, February 2022 ([FTSE Women Leaders - February 2022](#))

Case Study: AVEVA Group Plc

Theme: Board gender diversity

- 13.24 **Objective:** We believe the most effective boards include a diversity of skills, experiences and perspectives. Through our voting decisions (and otherwise) we support the Davies Review, the Hampton-Alexander Review and the Parker Review.
- 13.25 **Process:** EOS at Federated Hermes, on our behalf informed the company of our intention to vote against the re-election of the chair of the board who is also the nominations committee chair due to insufficient gender diversity on the board. As per our voting principles, we expect FTSE 100 and 250 companies to have at least 33% women on their Boards and will consider voting against the Chair of companies with materially less female representation unless there are clear and justifiable reasons why 33% is not achievable in an interim period.
- 13.26 **Escalation through voting:** During the 2021 annual general meeting, LGPSC voted against Chair Philip Aiken when the company failed to respond to our concerns.
- 13.27 **Outcome:** The company has since appointed two female directors to its board in 2021. The two appointments lift the company above the gender diversity guideline threshold.

Case Study: TotalEnergies SE

Theme: Climate change

- 13.28 **Objective:** We expect companies to consider relevant, material social and environmental risk factors in their long-term strategic business planning. We will consider voting against the Chair, and other relevant directors or resolutions, at companies where we consider a company's response to the risks and opportunities presented by climate change to be materially misaligned with the goals of the Paris Accord.
- 13.29 **Process:** EOS at Federated Hermes, on our behalf, has co-led engagement efforts with TotalEnergies SE as part of the Climate Action 100+ initiative since 2017. Throughout its tenure as co-lead, EOS has corresponded with TotalEnergies on issues including investor expectations on scope 1, 2 and 3 greenhouse gas emissions reduction, Paris-aligned accounting, and TotalEnergies's energy transition plan.
- 13.30 **Escalation through voting:** During the 2021 annual general meeting, LGPSC voted against TotalEnergies energy transition plan due to the lack of alignment with Paris Agreement goals, whilst being clear in a letter to the company that engagements should continue.
- 13.31 **Outcome:** In December 2021 TotalEnergies indicated that the company would enhance its disclosure in its next sustainability and climate report including publishing a short-term target for Scope 3 emissions which will entail a 10% reduction of the average carbon intensity of its energy products.
- 13.32 **Next steps:** Monitor implementation of energy transition plan and sustainability disclosures. Engage with Company to get commitment on three-year say on climate votes.

Case Study: Amazon.com

Theme: Executive remuneration

- 13.33 **Objective:** To encourage company to align executive remuneration with long-term performance through the cycle. Incentive schemes should be transparent, understandable, long-term and appropriate to the circumstances and strategy of the company. In order to achieve alignment with shareholders, executives should make a material, long-term investment in company shares and these shares should be subject to a suitable holding period following an executive's departure. Companies should disclose the time by which new executives should reach the target level share ownership.
- 13.34 **Process:** In 2018, EOS, on our behalf, informed the company on its recommendation to vote against the say-on-pay proposal due to the lack of or poor disclosure of explicit share ownership requirements. In 2020, the company acknowledged that it should disclose policies on share ownership requirements.
- 13.35 **Escalation through voting:** During the 2021 annual general meeting, LGPSC voted against Amazon's say-on-pay proposal due to the lack of pledging policy, clawback policy, and minimum share ownership requirement.

- 13.36 **Outcome:** The company has instituted a ban on executives being able to make hedging transactions against share-based-equity awards and implemented a clawback policy. We continue to monitor the company for updates relating to share ownership requirement.

Case Study: DuPont de Nemours, Inc. (DuPont)

Theme: Plastic

- 13.37 **Objective:** Plastics pollution is one of LGPSC's stewardship themes, and we leverage collaboration opportunities to deliver progress in the subject. Voting is engagement led, and we will consider co-filing or supporting shareholder resolutions that relate to better risk management (reduce plastic use, reduce plastic waste, increase recycling, invest in relevant R&D).
- 13.38 **Process:** EOS Hermes on our behalf engaged DuPont on sustainability issues including plastics. We thanked DuPont for producing a 10-year sustainability roadmap with scope 1 and 2 targets in 2020. We reiterated the need for transparency and alignment with Paris Accord. Prior to the 2021 annual general meeting, EOS communicated our intention to support a shareholder proposal asking the company to issue a report on plastic pollution. We believe the company is lagging its peers who have committed to disclosing this information and currently the company produces no metrics on plastic pellet spills and the report will improve disclosure on how the company is mitigating plastic pollution related risks.
- 13.39 **Escalation through voting:** During the 2021 annual general meeting, LGPSC voted for the shareholder proposal requesting the company to publish an annual report on plastic pollution.
- 13.40 **Outcome:** In September 2021, DuPont announced that it has become a member of Operation Clean Sweep® Blue, a campaign dedicated to helping every plastic resin handling operation achieve zero plastic resin loss. OCS blue enhances the commitment to management, measurement, and reporting of unrecovered plastic releases into the environment from resin handling facilities. The company reported that there have been no releases in the third quarter 2021.

Fixed income – exercise of rights and responsibilities

- 13.41 We expect all our fixed income managers to fully exercise their rights and responsibilities. We provide below an example of how our external managers approach this.
- 13.42 Neuberger Berman, a manager in our Corporate Bond Fund, engages with capital markets participants in respect to new issue documentation and pushes back on weaknesses identified in the documentation, when possible. Neuberger Berman believes engagement with management teams is also critical in identifying material ESG factors as credit documentation generally provides a range of flexibility to an issuer in respect to capital allocation and business strategy.
- 13.43 For example, Neuberger Berman recently identified an issuer in which credit documentation flexibility, coupled with governance concerns at the issuer's parent, led to weakness in the issuer's trading levels due to market concern the equity owners would extract value from the issuer. Based upon Neuberger Berman's ongoing engagement with the management team and the company's commitment to conservative capital allocation policies and a strong ratings profile, they encouraged the issuer to proactively strengthen the credit documentation in its indentures to

alleviate market concerns. The issuer ultimately enhanced structural bondholder protections and its governance framework, which was a positive development for the issuer's credit profile

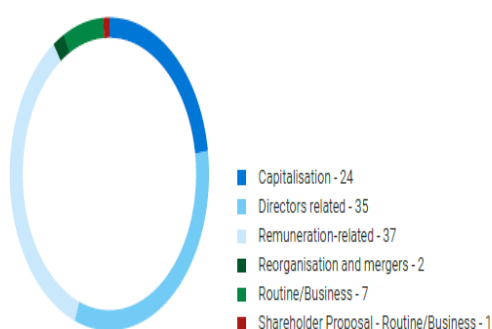
- 13.44 Our passive pooled products managed by LGIM are voted according to the voting policies of LGIM. LGIM believes in using its scale and influence to bring about real, positive change to create sustainable investor and produces (see the penultimate paragraph) a [quarterly ESG impact report that includes 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 2021 annual report 'Active ownership – global engagement to deliver positive change is detailed below

Regional updates

UK - Q4 2021 voting summary

| Proposal category | Total for | Total against | Total abstentions |
|--|-----------|---------------|-------------------|
| Anti-takeover related | 51 | 0 | 0 |
| Capitalisation | 270 | 24 | 0 |
| Directors related | 480 | 35 | 0 |
| Remuneration related | 95 | 37 | 0 |
| Reorganisation and Mergers | 23 | 2 | 0 |
| Routine/Business | 364 | 7 | 0 |
| Shareholder Proposal - Compensation | 0 | 0 | 0 |
| Shareholder Proposal - Corporate Governance | 0 | 0 | 0 |
| Shareholder Proposal - Directors Related | 0 | 0 | 0 |
| Shareholder Proposal - General Economic Issues | 0 | 0 | 0 |
| Shareholder Proposal - Health/Environment | 2 | 0 | 0 |
| Shareholder Proposal - Other/Miscellaneous | 0 | 0 | 0 |
| Shareholder Proposal - Routine/Business | 0 | 1 | 0 |
| Shareholder Proposal - Social/Human Rights | 0 | 0 | 0 |
| Shareholder Proposal - Social | 0 | 0 | 0 |
| Total | 1285 | 106 | 0 |
| Total resolutions | 1391 | | |
| No. AGMs | 83 | | |
| No. EGMs | 41 | | |
| No. of companies voted | 114 | | |
| No. of companies where voted against management /abstained at least one resolution | 46 | | |
| % no. of companies where at least one vote against management (includes abstentions) | 40% | | |

Votes against management



Number of companies voted for/against management





LGIM voted against at least one resolution at 40% of UK companies over the quarter.










- 13.45 During 2021, LAPFF provided its members with 18 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. LGPSC provided Partner Funds with its view of resolutions up for vote that were covered by LAPFF's recommendations. In the majority of cases (80%), LGPSC 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.

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 2021

| Organisation/Initiative Name | About the organisation/initiative | Efficiency and outcomes |
|---|--|---|
| <p>PRI</p>  | <p>Largest RI-related organisation globally. Helps with research, policy influence and collaborative engagement. During 2021, LGPSC Head of Stewardship was a member of the PRI Plastics Working Group and the PRI Tax Working Group</p> | <p>PRI is a standard 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 Working Groups as clearly value-adding to ongoing RI development and pursuit of stewardship theme engagements</p> |
| <p>IIGCC (Institutional Investor Group on Climate Change)</p>  | <p>Influential asset owner and asset manager group. Useful for climate change research and policy influence. During 2021, LGPSC Head of Stewardship has been a member of the Corporate Programme Advisory Group.</p> | <p>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 with policy makers in the lead-up to COP26</p> |
| <p>Cross-Pool RI Group within LGPS</p> | <p>Collaboration group across the LGPS pools (and Scotland recently). Includes funds and pool operators. LGPSC Head of Stewardship was Vice Chair of the group during 2021.</p> | <p>This is a good forum to allow discussion between like-minded investors, who operate in the same regulatory environment and with similar expectations from Partner Funds and beneficiaries, on RI topics of interest and/or urgency, including Net Zero commitments for investors,</p> |

| Organisation/Initiative Name | About the organisation/initiative | Efficiency and outcomes |
|--|---|--|
| | | human rights risks, biodiversity etc. |
| <p>The Local Government Pension Scheme Advisory Board</p>  | <p>LGPSC Head of Stewardship is a member of an RI Advisory Group to SAB that was formed at the start of 2021. Discussions are held on RI relevant policies and standards that will have direct or indirect implications for LGPS funds and pools</p> | <p>Discussions during 2021 have centred around themes such as just transition, impact investing and MHCLG's work to introduce TFCF aligned reporting across LGPS pools and funds.</p> |
| <p>Transition Pathway Initiative (TPI)</p>  | <p>Analysis of companies based on their climate risk management quality and their carbon performance. TPI analysis (by research team at LSE Grantham Research Institute on Climate and the Environment) is highly regarded and carries industry influence. LGPSC Head of Stewardship was a member of the TPI Steering Committee during H2 2021, and since October 2021 a member of the Board to the newly formed TPI Limited.</p> | <p>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 and 2021 in the roll-out of the Benchmark Framework which allows evaluation of company progress against Paris alignment on key parameters (targets, actions, disclosures). We support the planned expansion of TPI research through the establishment of a Climate Transition Centre</p> |
| <p>30% Club Investor Group</p>  | <p>Investor group engaging both UK listed equities and increasingly companies abroad, on gender diversity. LGPSC has been a member since inception of our Company</p> | <p>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 2021, a sub-set of 30% Club Investor Group members, including LGPSC, has engaged in the Japanese market.</p> |
| <p>BVCA British Private Equity and Venture Capital Association</p>  | <p>UK trade body for private equity.</p> | <p>This forum is very useful for deal flow information. It also runs discounted training courses which helps build knowledge.</p> |
| <p>LAPFF Local Authority Pension Fund Forum</p> | <p>Engagement with companies in the UK and abroad, assisting LGPS funds with sustainable and ethical investment challenges.</p> | <p>LAPFF has conducted engagements that is complimentary to LGPSC's stewardship theme engagement effort, for instance in reaching out to companies during 2021 on</p> |

| Organisation/Initiative Name | About the organisation/initiative | Efficiency and outcomes |
|--|---|--|
|  | | human rights risks that stem from operating in conflict zones such as Palestinian/Israeli territories. |
|  | Engagement collaboration of more than 700 investors with a combined \$68 trillion assets under management. Engaging 166 companies on climate risk that are responsible for 80% of global industrial GHG emissions. LGPSC Head of Stewardship is a member of the Mining and Metals Sector 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, with scores published in March 2021, embeds structure and rigour to assessments of companies against a Paris trajectory |
|  | High quality collaborative engagement platform set up by institutional investors in UK equities. LGPSC has been a member since inception of our Company | LGPSC co-sponsored an Investor Forum coordinated plastic pellet prevention project during 2020-2021. The overarching goal of this project is to help companies achieve and maintain zero pellet loss across their pellet handling operations. The first industry standard specification for plastic pellet handling was published in July 2021 |

Appendix 2

Principle 9: Details of the four core stewardship themes: climate risk, plastic pollution, responsible tax behaviour and tech sector risks showing the Stewardship Strategy, measures of success, engagement highlights and case study for each⁵.

Climate risk stewardship theme

Stewardship strategy: Engagement is done through key collaborative initiatives including CA100+, Institutional Investor Group on Climate Change (IIGCC) and the Transition Pathway Initiative (TPI).

⁵ The number of engagements encompass engagements undertaken by LGPS Central, EOS at Federated Hermes and LAPFF

Measures of success: We assess progress against the underlying objectives of the CA100+ engagement project, and against improvements on TPI score for management quality and carbon performance. Our aims are:

- To lead or be in the focus group of at least five CA100+ company engagements over the next year, prioritising engagements that overlap with companies that are identified as high risk within Partner Fund Climate Risk Reports
- To see progress in the CA100+ Benchmark Framework (launched March 2021)
- To see improvements on TPI score for management quality in key engagements
- To see improvements on TPI score for carbon performance in key engagements

Engagement highlights during 2021

During 2021 the following engagement highlights were achieved

- 627 companies engaged on 978 climate-related issues and objectives with progress on 426 specific objectives out of 741 total objectives set.
- Ongoing engagement with 68 banks on Paris-alignment and protection of biodiversity. 45 banks have responded and 19 confirmed they will publish new climate targets in connection with COP26, the end of the year, and/or their 2022 AGM. This includes **BBVA, BNP Paribas, Citigroup, and Standard Chartered**.
- Investor expectations on **Paris-aligned accounting** were communicated to 36 European energy, material and transportation companies in 2020, and again reiterated in letters to 29 of the same companies in November 2021 as we have not seen sufficient progress.
- During 2021 we opposed the election of the responsible director for climate change (usually the Chair) at over 100 companies, including **Canadian Natural Resources** and **China Resources Cement Holdings**.
- **Progress against CA100+ benchmark:** Data of March 2021 from CA100+ shows that 52% of the world's largest emitters have net-zero goals, but only 20% have short and medium-term emissions reduction targets, and only 7% have targets aligned with the Paris Agreement. Gaps also remain 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.
- In 2021, we voted against directors at companies that were failing to address deforestation risks, including at **Yakult Honsha, Li Ning Company, and WH Group**. Going into 2022, we will specifically include biodiversity in our engagement efforts related to climate change. We will amongst others initiate engagements to fulfil a commitment to tackle agricultural commodity-driven deforestation and help drive the shift towards sustainable production and nature-based climate solutions

Climate engagement case

In the role of co-lead for CA100+ engagement with a **utility company**, we have been in frequent dialogue with the company to discuss their climate strategy and to provide views on its climate transition plan. We were pleased to see the company set a clear net-zero by 2050 commitment accompanied by short- and medium-term targets in the transition plan. We also welcome the company's clear ambition to help customers decarbonise, e.g., through decarbonisation of heat. We explained our expectations relating to the indicators of the CA100+ benchmark and pointed to areas where the company would need to make further commitments to align with the benchmark. This includes short-term target setting (up to 2025) that substantiates a clear Net-Zero pathway this decade.

We would also like to see a commitment from the company to decarbonise its electric utility power generation by 2035. The company is enhancing transparency on climate policy lobbying in the climate transition plan, which we welcome.

We encourage further transparency around policy barriers so that investors can support specific policy action that will help achieve net-zero for the company and its sector.

Plastic pollution stewardship theme

Stewardship strategy: We will leverage investor collaboration opportunities for instance through the PRI Plastics WG and Investor Forum's Marine Plastic Pollution project. Voting will be engagement led, and we will e.g., consider co-filing or supporting shareholder resolutions that relate to better risk management (reduce plastic use, reduce plastic waste, increase recycling, invest in relevant R&D).

Measures of success were:

- We aim for positive interactions at senior levels of target companies and acknowledgement of plastic as a business risk, along with commitments to strategies or targets to manage those risks
- We aim to lead or be part of at least five plastics-related company engagements over the next financial year
- We aim to support investor expectations – e.g., as expressed by the PRI Working Group – in dialogue with companies

Engagement highlights during 2021 were:

- 57 companies engaged on 71 plastics and circular economy related issues and objectives, with progress on 28 specific objectives out of 61 total objectives set
- LGPSC has taken part in collaborative engagement led by Dutch investors Achmea Investment Management focusing on seven **packaging companies**, to engage and support progress for companies in a 'Plastics transition' - to reduce, re-use and replace fossil-fuel based plastics.
- 2-3 meetings have been held with each of the companies in 2020-2021 with an overall high level of receptiveness to investor concerns.
- Collaborative engagement led by First Sentier Investors engaging 13 companies to help **combat microplastics pollution** to the environment (see case study below)
- Launch of first **industry specification to prevent plastic pellet pollution** (co-sponsored by LGPSC alongside nine other institutional investors through an Investor Forum led multi-stakeholder project.
- Businesses and investors, including LGPS Central, have called for **UN treaty on plastic pollution** (www.plasticpollutiontreaty.org – a Treaty has since become a reality).

Case study

Through a **micro-plastics engagement project** led by First Sentier Investors, we seek to encourage domestic and commercial washing machine manufacturers to add filter technology as standard to all new washing machines produced by the end of 2023. This is to help combat microplastics pollution to the environment, a problem caused in large proportion by synthetic textiles which release microfibrils (a type of microplastic) when washed. A first round of engagements with 13 target companies⁶ have been concluded by the investor group this year. At the AGM of **Sainsbury's** and through subsequent dialogue with the investor group, the company is taking positive steps to engage its washing machine manufacturers and aims to introduce products with microplastic filters within the next 18 months.

⁶ Arcellic, Dixons Carphone, Electrolux, Haier Group, Hitachi, Koc Holdings, LG Electronics, Midea, Panasonic, Sainsbury's, Samsung, Sharp and Whirlpool

We also welcome recommendations from the “All Party Parliamentary Group on Microplastics” issued in H2021, which could be influential in determining the direction of government policy in this area. The key recommendation in relation to microfiber filtration is to: *“Introduce legislation and standards which require microfibre filters to be fitted into all new domestic and commercial washing machines from 2025.”*

Responsible tax behaviour stewardship theme

Stewardship strategy: We will leverage investor collaboration opportunities for instance through PRI Tax Investor Working Group and a Tax Roundtable (led by NBIM (Norway) and APG (Netherlands)). Voting will be engagement led, and we will e.g., consider co-filing or supporting shareholder resolutions that relate to better risk management (through tax policy, board oversight, country-by-country reporting).

Measures of success were:

- We aim for positive interactions at senior levels of target companies and acknowledgement of lack of tax transparency as a business risk, along with commitments to strategies or targets to manage those risks
- We aim to lead or be part of at least five tax-related company engagements over the next financial year
- We aim to support investor expectations – e.g., as expressed by the GRI tax standard and the UK Fair Tax Mark – in dialogue with companies

Engagement highlights during 2021 were:

- 14 companies engaged on 16 tax related issues and objectives, with progress on four specific objectives out of 12 total objectives set.
- LGPSC has continued collaboration with four other, European investors which is a subgroup to a broader Tax Roundtable led by Norges Bank Investment Management and APG Group has sought engagement with six companies across technology, telecommunications, finance and mining sectors where a low effective tax rate was an initial concern with several of these
- 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
- Two out of the six companies have during this engagement signalled an intention to publish a stand-alone tax report which will provide country-by-country tax-relevant information, and thus increase transparency in line with our expectations
- Co-signed a letter to the European Parliament supporting a draft directive on **public country-by-country reporting (CBCR)** in the EU.

Case study

Together with three fellow European institutional investors we have had dialogue with a **global business services company** to discuss tax transparency and responsible tax behaviour. A core expectation from investors is that the company share tax-relevant Country-by-Country Reporting (CBCR) with shareholders so that we can make a meaningful assessment of their tax behaviour. We were pleased to hear that the company is considering publishing a stand-alone tax report that would enhance the disclosure of the company’s approach to tax and its tax policies and may also give greater granularity on where tax is paid. In addition to its corporation tax contributions, the company makes significant tax contributions via its employee taxes (reflecting the company’s highly skilled employee base).

The company is considering ways of enhancing transparency for instance by providing information on where employees are based alongside where taxes are paid. We also encouraged the company to explain its use of low-tax jurisdictions and to provide assurance that this correlates well to the company's business and strategy. The company explained that the Board takes a keen interest and receives regular reports on long term strategic tax issues. It seems clear that the company wishes to understand best practice for tax transparency and is embarking on a benchmarking exercise for that purpose. The investor group welcome these developments, alongside the company's ongoing revision of its Tax Policy. We will continue dialogue with the company to understand how its tax transparency work is progressing and to what degree industry standards like the Global Reporting Initiative tax standard⁷ can be used in this regard.

Tech sector risks stewardship theme

Stewardship strategy: We will leverage investor collaboration opportunities for instance the New Zealand Crown-owned investors' coalition aimed at eliminating terrorist and violent extremist content online. Voting will be engagement led, and we will e.g., consider co-filing or supporting shareholder resolutions that relate to better risk management on social media content control and human rights risks.

Measures of success were:

- We aim for positive interactions at senior levels of target companies and acknowledgement of the above-mentioned risks faced by many tech companies.
- We aim to lead or be part of at least five engagements with tech companies over the next financial year
- We aim to support benchmarks such as Ranking Digital Rights, the Workforce Disclosure Initiative and SASB's Content Moderation taxonomy.

Engagement highlights during 2021 were

- 37 technology companies engaged on a range of 79 ESG risks including governance, cyber security, supply chain risks, social media content control and broader human rights risks. Progress was seen in 14 cases against a total of 48 specific objectives
- LGPSC has been part of two collaborative initiatives: one focusing on social media content control, and one addressing human rights more broadly
- 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
- While initially hard to engage, the three companies in scope of social media content control engagement (Facebook, Twitter and Alphabet) have taken steps during 2020 – 2021 to strengthen controls and to prevent the live streaming and distribution of objectionable content

⁷ The Global Reporting Initiative (GRI) Tax Standard is the first global standard for comprehensive tax disclosure at the country-by-country level. It supports public reporting of a company's business activities and payments within tax jurisdictions, as well as their approach to tax strategy and governance.

- The human rights risks engagement initiative has built momentum after Investor Expectations were published, including engagement with Facebook on their newly launched Human Rights Policy, and Amazon on their recent Human Rights Impact assessment

Case study

We have over the last two and a half years engaged the world's three largest social media companies, **Facebook, Twitter and Alphabet**, specifically on the issue of social media content moderation. This engagement has been led by the Guardians of New Zealand Superannuation (Guardians) alongside the New Zealand government-owned investors and supported by more than 100 investors globally. This project, which as of H2 2021 is drawn to a close having seen some significant progress, adds to growing investor scrutiny on the critically important role of social and traditional media in our societies. The platforms have all moved to strengthen controls to prevent the live streaming and distribution of objectional content. However, it is a difficult job for investors to assess if these changes are appropriate for the scale of the problem and a continued focus on the evolution of preventative safeguards will be needed. The issue of content moderation is becoming one of the defining legal and socio-political issues of our time.

It deserves its own body of specialist expertise stretching across a range of academia, law and policy. Our expectation is that these companies carry out their duty of care with absolute resolve, and while we've seen some good progress throughout our engagement – the goal posts keep moving and the companies need to remain focused on managing this. The engagement project received Stewardship Initiative of the Year award at the UN PRI 2021 Awards for its success in engaging these multinational giants. Key elements of its success lie in building a large investor coalition, escalating the engagement, and discussing specific steps companies can take to tighten controls as well encouraging more transparency about their ongoing work and interaction with various stakeholders.