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

2023 Submission

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1. Executive Summary

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 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 climate related measurement by conducting an ESG Audit on 24 February 2021 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 8th February 2023 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 22nd March 2023.

1.6 In January 2023 the Fund's third 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 third 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 30.1% more carbon efficient than the benchmark and 13.6% lower than in 2020. To build on this the Fund transitioned a further £200m (6% of its portfolio) from its passive mandates into active sustainable equity funds during 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 highcarbon footprint.

2. Purpose and Governance

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. This ensures that, the Fund's ethos is driven by a strong sense of social responsibility.

2.2 The primary purposes of the Fund are to:

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

2.3 The level of employer contribution is assessed every three years through an actuarial valuation of the Fund. This valuation establishes the solvency position of the Fund, that is, the extent to which the assets of the Fund are sufficient to meet the Fund's pension liabilities accrued to date. The objective is that the Fund should be at least 100% funded on an ongoing basis, taking account of any additional contributions paid by employer bodies to cover any past service deficit over a 12-year time frame. As at the 31 March 2022 actuarial valuation the Fund was 101% funded.

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 consultations / forums provide an additional opportunity for input. The Fund provides monthly updates to all its employers via a monthly newsletter and updates all its members using an annual 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 2022, LGPSC supported the Fund in the preparation of the Fund's third Climate-related Financial Disclosures, ensuring alignment with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). We consider this a critical 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.

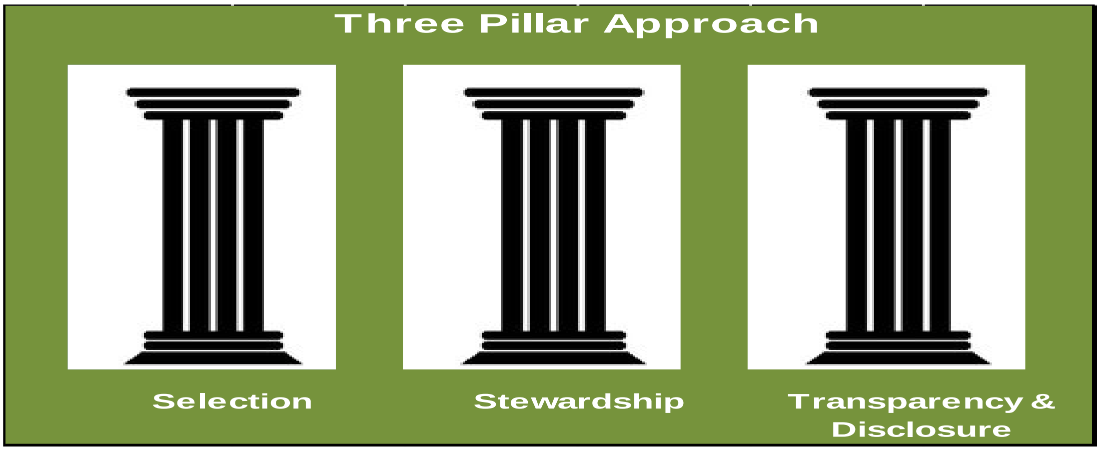
Investment beliefs

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 2022 was for the Fund to continue to look at investing in a mix of sustainable equities and low carbon factor funds. The application of these beliefs has been demonstrated in 2022 by a number of investments and asset allocation actions as follows:

- A £150m investment of £50m per annum for next 3 years with Gresham House in their Forest Growth & Sustainability Fund

- A £200m asset allocation to 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 in February 2021 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 8 February 2023 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 22nd March 2023.

2.24 In January 2023 the Fund's third 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 third year.

Transparency & disclosure

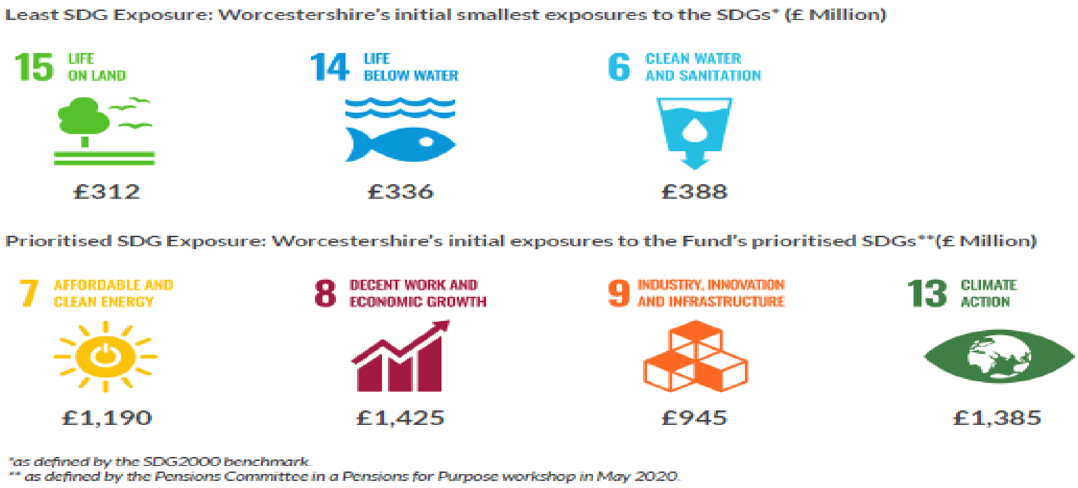
2.25 Starting in January 2020 the Fund has provided a training and workshop programme delivered by 'Pensions for Purpose' on RI, sustainable, impact and ethical investment, and the spectrum of capital for all its Pension Board, Pension Investment Sub Committee (PISC) and Pensions Committee members to 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 SDGs, 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 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:



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. During 2022 the Fund has continued to develop these initiatives as detailed below. The Responsible Investment section of our website gives a good explanation of our ESG position.

Culture

2.28 As in 2021, an ESG 2022 review workshop was provided for members on 8 February 2023.It was 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 2022
- Focussed presentations from a US infrastructure manager and a corporate private debt manager on how effective their ESG strategies had been

- A presentation from LGPSC on the outcomes of the Fund's third Climate Risk report
- Commissioning a Climate Risk Report from LGPSC to review our progress. This is expected to be a recurrent exercise received by the Fund approximately every 2-3 years
- Discussions and debate on setting a carbon reduction target and 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:

<u>SDG</u> The emphasis should remain a focus on the financial risk/return, rather than adding too many new goals. Any new goals should be compatible with existing beliefs. Responsible consumption as an SDG meets this criterion, and it was agreed to extend the Fund's beliefs to include this, in the belief that this will lead to better returns for the Fund over the long term. There is keen interest in Life on Land and Life below Water but with Biodiversity being an area where many asset managers are still developing their fund range, this might be something to return to in the next review where there will be more opportunities for the Fund to consider.
<u>Stewardship code 2020</u> It was agreed that in 2023 more effort would be made to engage with members of the Fund, recognising that this is a challenge due to numbers. This would build on the 2022 online stewardship survey of pensioners by conducting a similar exercise amongst employee members. A virtual AGM might be something to consider in future and weaving in progress around climate action etc can be a very positive story to share with members.
<u>Climate targets</u> During 2023 it would be good to explore an internal climate target for the Fund and speak to managers about how they would align to this target. Once established, 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.

3. Principle 2

Signatories' governance, resources, and incentives support stewardship

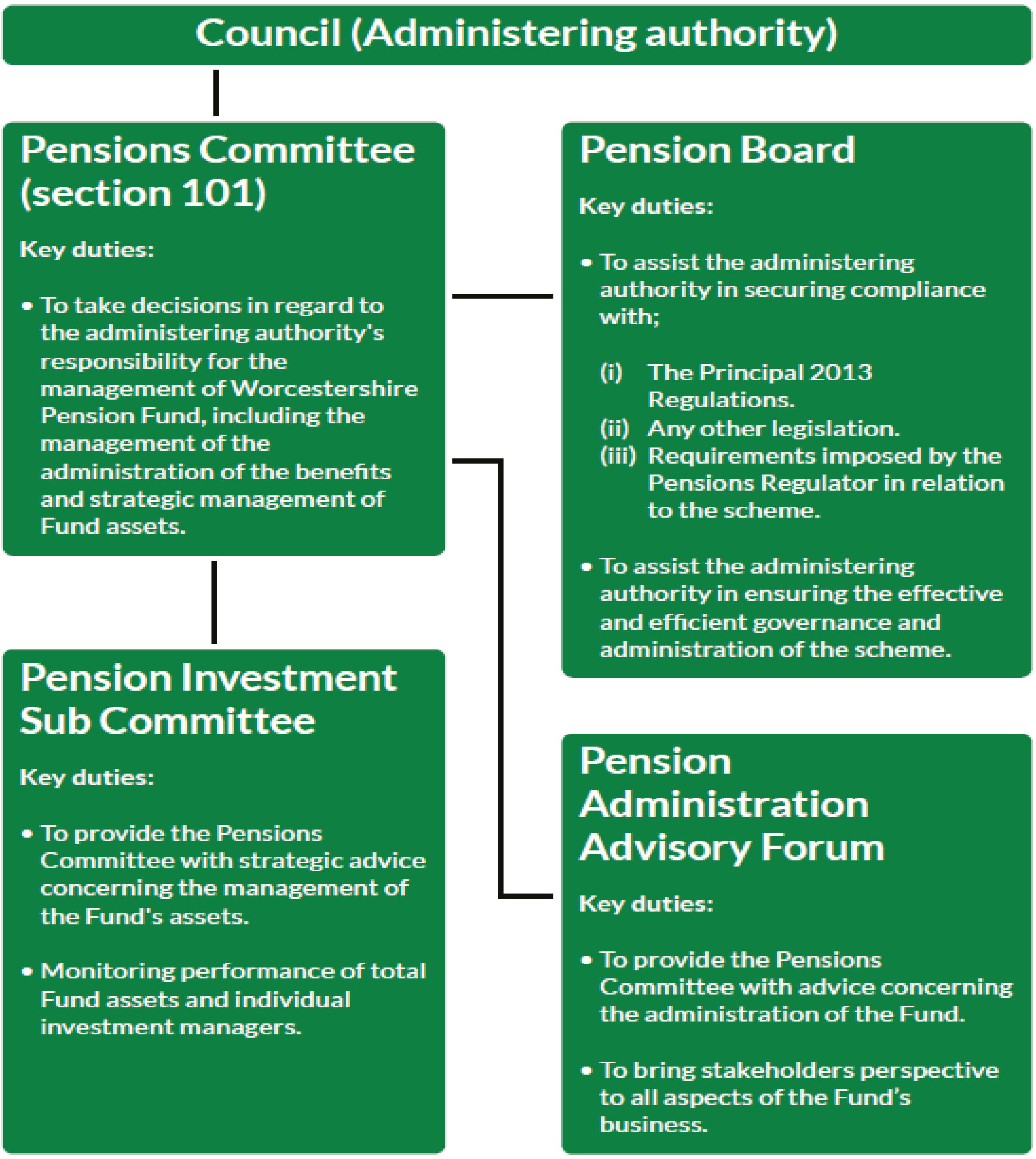
Governance

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 the strategic management of Fund assets. The Committee comprises of 8 voting members: 6 Councillors, 1 employer's representative and an employee / union representative.

3.2 The Committee's activities are overseen by the Pension Board. 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 currently 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.

Worcestershire Pension Fund Governance



3.4 The Committee is assisted by strategic investment advice from the Pension Investment Sub Committee (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 5 voting members being 4 Councillors and an employee representative from a relevant trade union.

Stewardship Resourcing

3.5 The Fund has an appointed investment advisor (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 (39.6 FTEs) and a Pensions Investment Team (4 FTEs) 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 are detailed on our intranet site. The Fund looks to keep its workforce well informed of how it integrates stewardship and investment decision-making via weekly 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 Change Risk Strategy, the Climate Risk 2022 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.

Supporting Incentives

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 Pension 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, we have tasked:

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 3rd annual Climate Risk Report, Climate Change Risk Strategy and TCFD report. LGPSC also provided a Climate Risk Scenario report.
Pensions for Purpose with delivering support to our members through an ESG review workshop on 8th February 2023 looking at progress since the initial baseline audit and recommendations agreed at Pensions Committee in March 2022 and exploring further progress requirements over the next 12 to 18 months. Outcomes from the ESG workshop are illustrated above.

3.16 In order to support good decision-making, the Fund applies the Scheme Advisory Board's Good Governance Principles and actions against these principles are reported quarterly to Board and Committee.

3.17 These principles cover six key areas including general governance matters, conflicts of interest, representation, knowledge and understanding, service delivery and compliance and improvement.

3.18 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 Policy on conflicts of interest, 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 2022. For the 2023 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 A member of the LGPSC Responsible Investment & Engagement (RI&E) Team serves on the Sustainable Investment Advisory committee of a well-known Sustainable Investment Manager. This relationship was always considered to be symbiotic, as it provides a development opportunity for the member of staff which benefits LGPSC, and it allows the local government pension perspective to be heard in the wider asset manager industry. Potential conflicts were considered from the outset, and it was agreed that should a situation arise whereby the manager in question applied for an LGPSC mandate, the RI&E team member would not be involved in the selection process. Unsurprisingly this manager put forward a mandate proposal when LGPSC was selecting managers for its Global Sustainable Equity Fund. LGPSC managed this potential conflict by ensuring that the employee in question was not involved in the selection process; neither the formulation of mandate requirements nor the manager assessment and scoring process. The selection process was established with precise and clear selection criteria and each manager was selected on their application alone. Furthermore, the process was constructed and executed by the Active Equities Team at LGPSC with input from the Director of RI&E. The application of this robust and independent process resulted in the asset manager in question being selected to manage one of the mandates within the fund structure. The employee in question will not have any involvement in the ongoing assessment of the manager post appointment in respect of ESG integration or stewardship. We consider that this process was managed in the best interests of our Partner Funds and their beneficiaries. The selection process ensured that the managers that matched the mandate criteria most closely and had a clear and demonstrable process delivered by an experienced and stable team, were selected.

4.16 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

4.17 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.

4.18 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.

4.19 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 important 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 support 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 As part of our most recent strategic asset allocation review, the Fund commissioned a review of its investment strategy by Hymans Robertson LLP. Two key findings of their review were as follows:

- The Fund has a good mix of assets classes to generate growth but also to generate income

- Given the work the Committee has done in recent years to manage investment and other risks, no sizeable shifts in allocations were recommended

5.5 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. To mitigate risk of market volatility, we had equity protection arrangements in place for all our passive market cap equity funds which provided protection against a fall of up to 20% in market valuations whilst capturing as much of the upside as possible. Due to market conditions at the time, the Fund decided to exit that financial vehicle in early November 2022 and reinvest the proceeds into further passive equity funds.

5.6 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).

5.7 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.

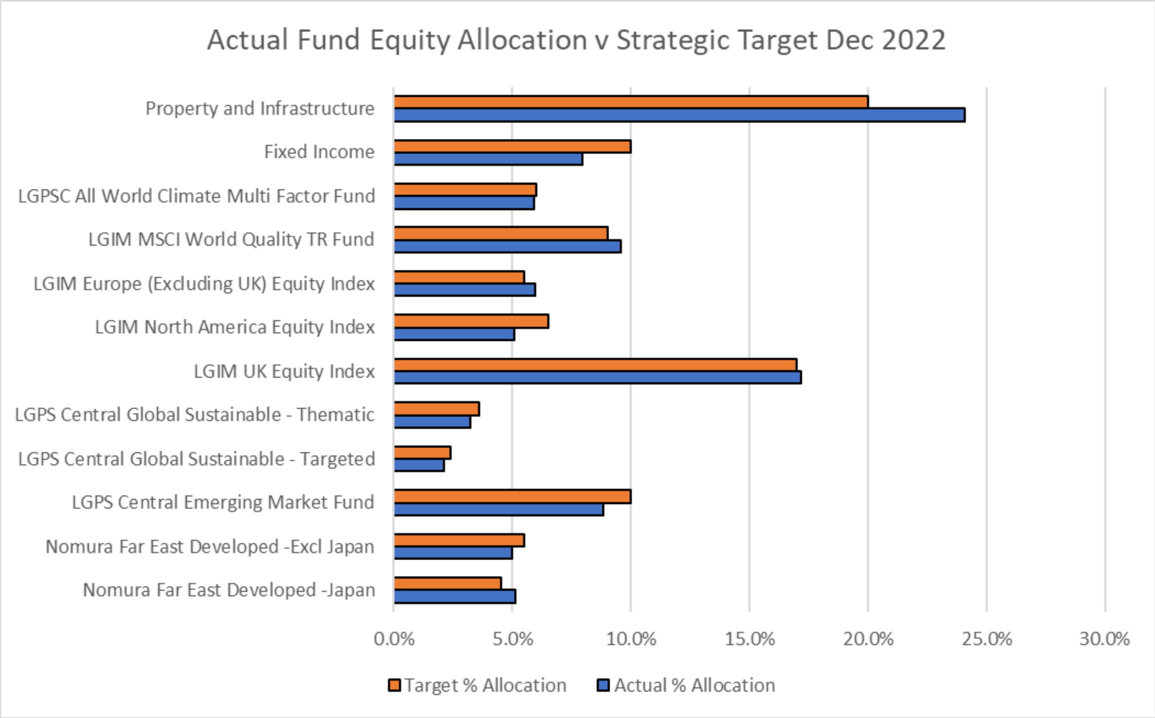
5.8 We continue to liaise with all our investment managers in response to the ongoing market volatility resulting from such as the continuing Russia / Ukraine conflict and increase in inflation. The Fund's diversified portfolio, equity protection policy and sound investment decisions helped cushion the Fund initially but at its worst COVID still had a significant valuation impact. Despite that, funding was at 101% on 31 March 2022 at the Fund's triennial valuation. This achievement is testament to the robust portfolio position and the strategy that is in place.

5.9 **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.



<u>Systemic risks</u> 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 risks

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 risks 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.

- **Risks 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:

- **<u>Concentration risks</u>** 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

- **<u>Manager underperformance risks</u>** when 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.

- **<u>Responsible investment (RI) risks</u>**, 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 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.

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

Organisation	Remit
LGPS Central Limited	The Fund is a 1/8th owner of LGPSC which has identified four stewardship themes that are the primary focus of engagement. These themes are viewed as likely to be material to the Fund's investment objectives and time horizon, likely to have broader market impact, and to be of relevance to stakeholders. See further detail immediately below. During 2022, LGPSC has been actively involved in several engagements across these themes. A selection of engagement cases is provided under Principles 9-11 below.
Federated Hermes	EOS at Federated Hermes is contracted by LGPSC to expand the scope of the engagement programme, especially to reach non-UK companies. In 2022, EOS engaged with 833 companies on 3,443 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. .
Local Authority Pension Fund Forum	The Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF conducts engagements with companies on behalf of local authority pension funds. In 2022, LAPFF engaged 294 companies through more than 80 meetings across a spectrum of material ESG issues.

Stewardship themes

5.11 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 interest

5.12 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 6.9 below, we give a detailed overview of engagement activity and progress for each stewardship theme. In Section 6.10, we provide information on the annual review of stewardship themes that was carried out during 2022.

Climate Risk Monitoring Service provided by LGPSC

5.13 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.

5.14 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.

5.15 In 2022, 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 delivered the best assessment on climate-related risk that 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 have made to the service.

5.16 Having recently completed the 2022 reporting cycle, LGPSC has conducted a review to identify further improvements to the service. Enhancements that have been made to the 2023 reports include:

- Inclusion of a 1.5°C scenario into the Climate Scenario Analysis
- Enhancing 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

5.17 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 climate-related risk. Aside from strategy setting, the CRRs have also been used to facilitate our 3rd 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.

5.18 In 2022, 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 2022 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:

5.19 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.

5.20 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 2022.

Policy engagements and consultation responses:

5.21 Since inception of LGPSC in April 2018, it has taken an 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.

5.22 Ahead of COP27, LGPSC signed the 2022 Global Investor Statement to Governments on the Climate Crisis. Drawing on evidence including the IPCC's 6th Assessment Report and the IEA's 2021 World Energy Outlook, the Statement recognised progress already made towards limiting the global temperature increase. However, it recognised that current targets, if implemented, would only reduce the predicted temperature rise from 2.7C to 2.1-2.4C. The Statement recognised the importance of investors using capital allocation and stewardship in order to support an effective and just transition. In order to achieve this, the Statement called on global governments to ensure national targets were aligned to a 1.5C scenario ahead of COP27. It also called for a scaling up of climate finance in order to help climate adaptation efforts, especially within developing countries. We were pleased to see that part of the final agreement reached at COP27 included the development of a “loss and damage” fund; an importance step forwards for the just transition and global climate adaptation efforts.

5.23 LGPSC responded to a consultation by the Department for Levelling Up, Housing and Communities that seeks views on proposals to require Local Government Pension Scheme (LGPS) administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). We expressed support for the new requirement, noting that LGPSC has published two editions of our TCFD report as of response date. We consider that mandatory reporting will encourage more comprehensive reporting of emissions by Administrative Authorities. We do note that the financial cost associated with TCFD reporting in a manner consistent with the regulation proposed by DLUHC may be underestimated and we recognise that this might be challenging for some investors to achieve.

5.24 In May 2022, LGPSC co-signed a letter to the Secretary of State for Environment, Food and Rural Affairs to highlight our serious concerns regarding microfibre pollution and the systemic risks that it presents to the environment and to the market. The letter encouraged the UK Government to take a global leadership position and prioritise the recommendation of the All-Party Parliamentary Group on Microplastics, specifically to mandate the installation of microfibre filters in new washing machines by 2025. This letter was a culmination of 18 months of corporate engagement programme to encourage manufacturers to fit such filters, which highlighted the reluctance of manufacturers to voluntarily do so. As co-chair of the Finance for Biodiversity Foundation’s public policy and advocacy working group, EOS advocated for an ambitious Global Biodiversity Framework (GBF) to be agreed at COP 15. EOS focused on the need for the GBF to require public and private financial flows to be aligned with global biodiversity goals and targets. EOS attended international biodiversity negotiations virtually in August 2021, in Geneva in March 2022, and in Montreal in December 2022. At COP 15 the Kunming-Montreal Global Biodiversity Framework was adopted by almost 200 countries. This features a target to protect at least 30% of land and seas by 2030, and addresses key issues related to biodiversity loss, such as subsidies and the financing gap.

6. Principle 5

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

6.1 The Fund has considered the feedback received from its 2022 application in respect of Principle 5. Governance policies are subject to annual review, usually in March by both the Pension Board and Pension Committee. In addition to that, the Fund consults closely with the dedicated LGPSC RI Team and other partner funds within the pool to ensure its reporting is reasonable, balanced, and clear. Details of this continuous collaboration are reported to Pension Committee and Pension Board for their consideration and feedback. The Fund is fortunate to have Councillor Roger Philips, Chair of the Local Government Pension Scheme Advisory Board, as it's Chair of the Pension Board who has significant knowledge and understanding of the stewardship landscape.

6.2 Through its participation of the LGPSC RI Working Group, the Fund discusses trends and developments in RI with investor peers on a continuous basis, in particular with other LGPS pools. The Fund's Pension Committee and Board are both updated on the work of that working group.

6.3 Fund Officers review 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.

6.4 The Fund has undertaken a fundamental review over the past 3 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.

6.5 The Fund has also conducted its first specific ESG review workshop on 8 February 2023 aimed at reviewing the recommendations from the Pensions Committee in March 2022 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 22 March 2023.

6.6 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.

6.7 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.

6.8 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.

6.9 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

6.10 Through our quarterly Partner Advisory Forum Responsible Investment Working Group (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.

6.11 LGPSC undertake an annual review of the effectiveness of the stewardship themes in close collaboration with Partner Funds. During 2022, 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 2022
Climate Change	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. 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 in 2024. Investor best practice on climate change is emerging through the Institutional Investor Group on Climate Change (IIGCC) Net-Zero Investment Framework. 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 CO_2 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

Theme	Discussions and review during 2022
	deforestation by 2025 through engagement at policy and corporate levels.
Plastics	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. 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.
Technology & disruptive industries risk **replaced by Human Rights**	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 human rights risks including privacy and data protection; freedom of expression; disinformation and political discourse; and on 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. 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.

Theme	Discussions and review during 2022
Tax - transparency and fair tax payment	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. 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 businesses during the COVID-19 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.

6.12 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.

6.13 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 at March 2021 Committee	Action taken
• 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	Meetings with our fund managers to discuss the ESG aspect of the Fund's investments continued through 2022. Two key managers were invited to contribute to our ESG Workshop on 8 February 2023. As a result of engagement over the last two years, ESG now forms a distinct section of regular meetings with managers where performance and future issues are discussed.
• Ask managers to report on the portfolio's alignment to the Fund's agreed targeted SDG's and carbon risk metrics	
• Ask managers to present their TCFD report	
• See evidence of a strong investment thesis where the Fund may have concerns	

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

Actions agreed at March 2021 Committee	• Action taken
• Having an overarching climate statement to include in the ISS	Completed

• 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
• 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
• Repeating carbon metrics analysis annually	Completed
• Repeating climate scenario analysis every 2 to 3 years	Completed in 2022 and will continue
• Reporting progress on climate risk using the TCFD Framework annually	Updated TCFD report
• Mapping the Fund's portfolio to the UN SDGs every 2 to 3 years	Considering in 2023

6.15 The Fund continues to look to invest further in sustainable equities and low carbon factor funds. Agreed recommendations at the March 2022 Pensions Committee were:

Actions agreed at March 2022 Committee	**Action taken**
To continue to aim to reduce the Fund's carbon metric whilst protecting or maintaining returns. Initial focus during 2021 was placed on "Factor" based portfolios. In 2022 the "Value" portfolio was considered and consolidated into the "Quality" portfolio, with LGIM, which has a lower carbon footprint	Consolidated circa £120m into the "Quality" portfolio with LGIM
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	Transitioned £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

At the most recent Pensions Committee in March 2023, the Fund:

- Approved the update to its Climate Risk Strategy
- Agreed to undertake a review of the existing approach to the separation of leadership roles in relation its administering authority to determine adequacy.
- Agreed to consider setting and monitoring an internal carbon reduction target for its investment portfolio.

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 approximately 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.

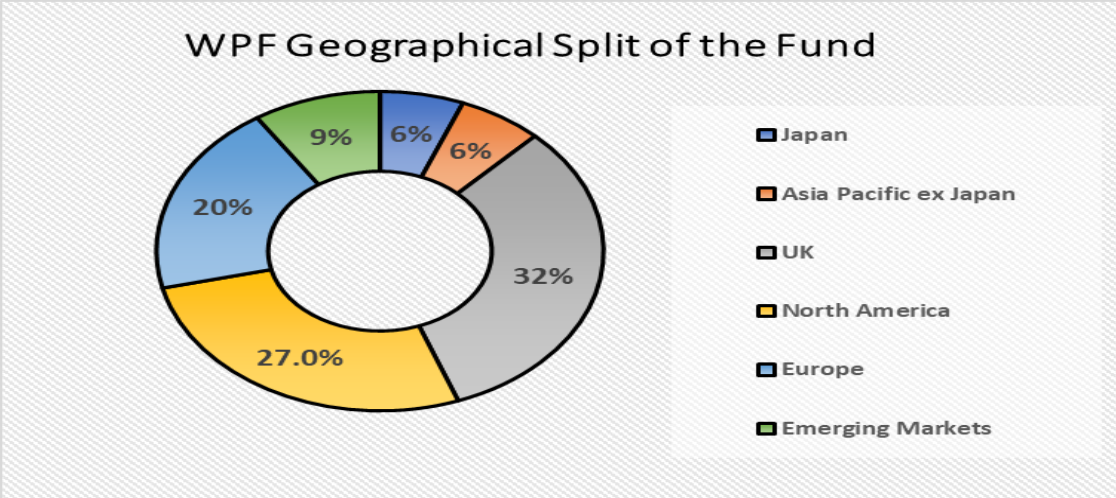
Cashflow Management	2022-23 £'M	2021-22 £'M	2020-21 £'M	2019-20 £'M	2018-19 £'M	2017-18 £'M
Contributions receivable	91.5	83.8	191.2	87.7	81.8	185.2
Benefits Payable	-112.3	-116.3	-114.0	-111.5	-106.3	-98.0
Surplus / Deficit (-)	**-20.9**	**-32.5**	**77.2**	**-23.8**	**-24.5**	**87.2**
Investment income	43.4	50.0	44.0	48.3	51.7	35.8
Net Cashflow	**22.5**	**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	6.0	3.0	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	12.0	9.0	0.0	Legal and General Asset Management - FTSE All Share Index
North America	11.5	9.0	0.0	Legal and General Asset Management - FTSE All World North America - Developed Series Index

	Growth	Medium	Cautious	
Asset Allocation	**%**	**%**	**%**	**Manager, Method & Performance Target**
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				
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**	

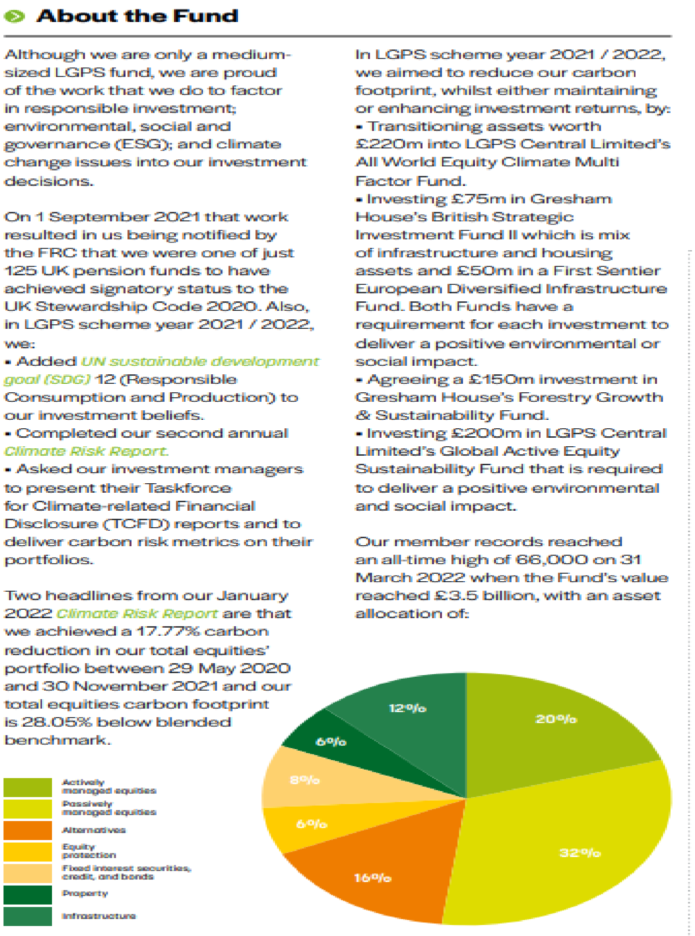
7.4 Geographical asset allocation is shown in the table below and has been developed over a number of years to ensure the long-term liabilities of the Fund can be met. As highlighted in principle 4, the Fund's diversified portfolio alongside its mitigating risk strategies such as equity protection has 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. During December 2022 a stewardship survey was conducted with the Fund's pensioners. That survey asked 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?*
- *The Fund supports the Paris agreement on Climate Change which aims for net zero by 2050. Please indicate which of the following statements most closely represents your view?*
- *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.



About the Fund

Although we are only a medium-sized LGPS fund, we are proud of the work that we do to factor in responsible investment; environmental, social and governance (ESG); and climate change issues into our investment decisions.

On 1 September 2021 that work resulted in us being notified by the FRC that we were one of just 125 UK pension funds to have achieved signatory status to the UK Stewardship Code 2020. Also, in LGPS scheme year 2021 / 2022, we:

- Added *UN sustainable development goal (SDG)* 12 (Responsible Consumption and Production) to our investment beliefs.
- Completed our second annual *Climate Risk Report*.
- Asked our investment managers to present their Taskforce for Climate-related Financial Disclosure (TCFD) reports and to deliver carbon risk metrics on their portfolios.

Two headlines from our January 2022 *Climate Risk Report* are that we achieved a 17.77% carbon reduction in our total equities' portfolio between 29 May 2020 and 30 November 2021 and our total equities carbon footprint is 28.05% below blended benchmark.

In LGPS scheme year 2021 / 2022, we aimed to reduce our carbon footprint, whilst either maintaining or enhancing investment returns, by:

- Transitioning assets worth £220m into LGPS Central Limited's All World Equity Climate Multi Factor Fund.
- Investing £75m in Gresham House's British Strategic Investment Fund II which is mix of infrastructure and housing assets and £50m in a First Sentier European Diversified Infrastructure Fund. Both Funds have a requirement for each investment to deliver a positive environmental or social impact.
- Agreeing a £150m investment in Gresham House's Forestry Growth & Sustainability Fund.
- Investing £200m in LGPS Central Limited's Global Active Equity Sustainability Fund that is required to deliver a positive environmental and social impact.

Our member records reached an all-time high of 66,000 on 31 March 2022 when the Fund's value reached £3.5 billion, with an asset allocation of:

The 2022 newsletter for deferred members illustrates the Fund's approach to stewardship.

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 also consults 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 per the Policy Statement on Communications.

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.

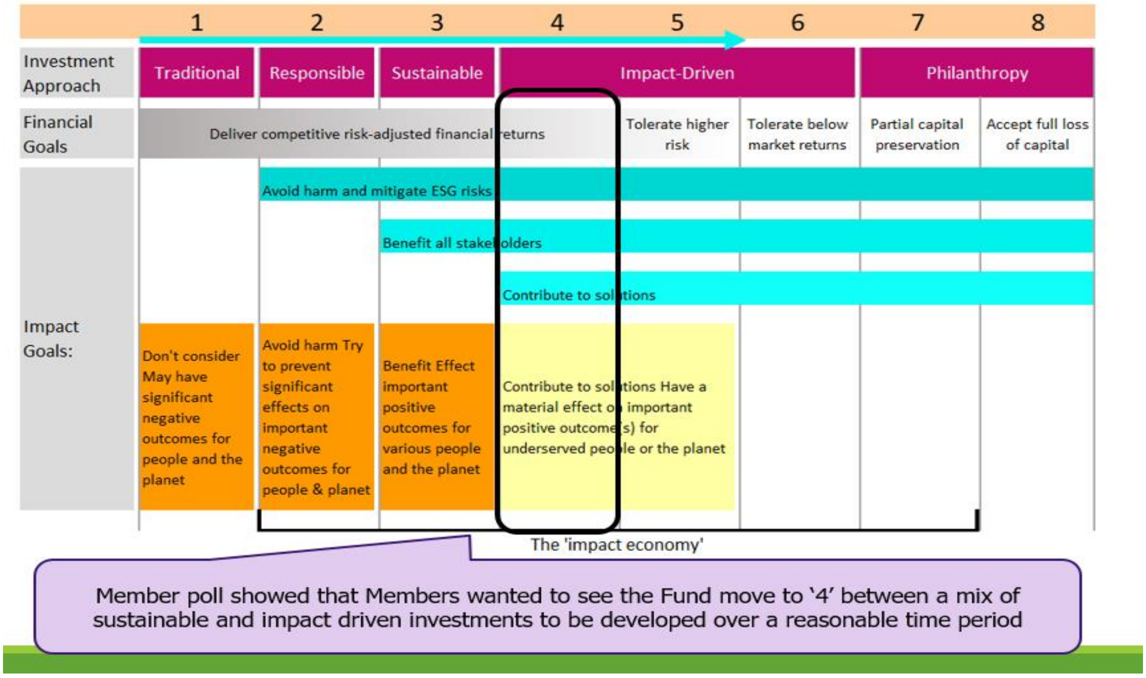
7.11 Our Annual Report and Financial Statements are available from our website and our website also provides up to date information about our governance, funding, investments, finances, and operations including a bespoke Funding and investments area.

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

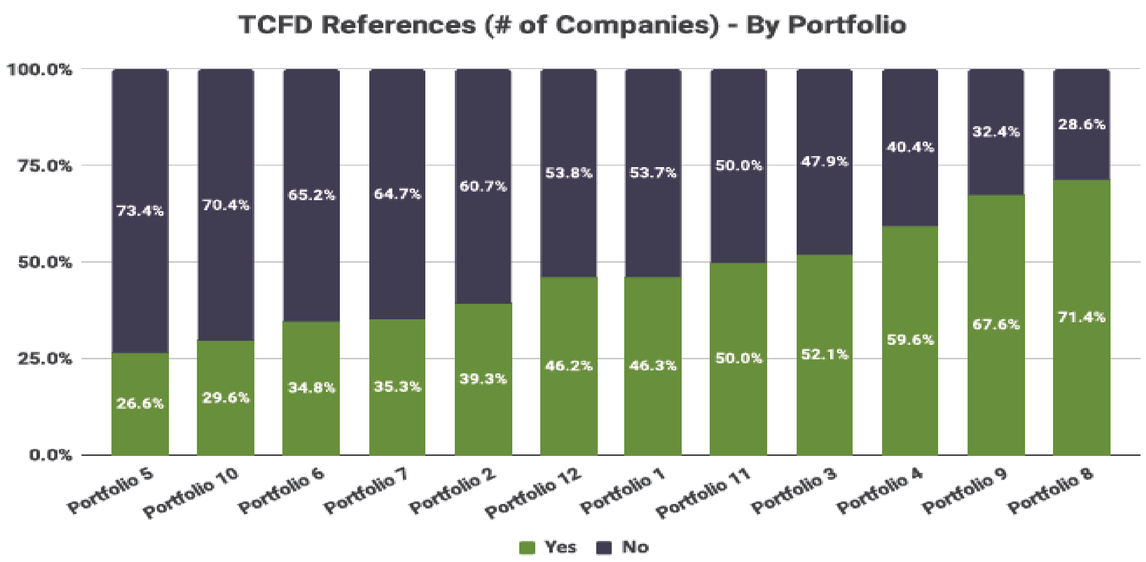
8.7 We use an **evidence-based** long-term investment appraisal to inform **decision-making** in the implementation of RI principles across our investment strategy to make better more informed investment decisions and encourage / influence better corporate practices that lead to value creation and good 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 recognise 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; and (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 The most recent example of manager selection was the tendering process for the Global Sustainable Equities Fund, which was launched in May 2022. In close dialogue with our Partner Funds, we 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 Equities Team advertised for potential managers in June 2021.

8.18 Each of the 77 applications were read and marked in a fair, transparent, and consistent manner with support from the RI&E Director and the Investment Risk Manager. Eight applications, comprising three for each sleeve, were taken through to the final due diligence stage. This took place in September 2021 and consisted of 3-hour meetings for each manager. 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 to manage approximately £1bn. The funds launched in Q2 2022. The team conducted a procurement process to select a research provider that could assist us with the measurement and analysis of impact for these funds.

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, personnel, or portfolios positions) and others are mandatory. LGPSC receives quarterly data from external fund managers on the number of engagements undertaken and the corresponding weights in the portfolio. We set expectations regarding the volume and quality of engagement, and we assess climate risk including portfolio carbon footprint and GHG data coverage. 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 LGPSC capture intelligence and recommendations from external fund managers.

8.21 The RI&E Team attends 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, so 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.

8.23 An example of LGPSC changing the RAYG rating occurred in Q2 2022. Going into 2022, one of their managers was downgraded to a 'Y' rating due to concerns around the lack of disclosure around ESG analysis on new additions to the fund. The issue persisted in Q1 2022 which prompted a warning that the RAYG rating will be downgraded to an 'A'. LGPSC reiterated their expectations for managers' ESG integration activities during our quarterly review meeting with the manager. Following this, the level of disclosure greatly improved in Q2 and Q3 2022. The manager now provides a summary of their analysis of ESG risks and opportunities of new additions and flags new ESG issues in current investee companies. LGPSC are able to gain greater confidence that ESG is integrated into their investment analysis.

Cross-team interaction in development of new LGPSC funds

8.24 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.

8.25 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 debt

8.26 The RI&E team collaborated closely with the Private Markets team to establish two infrastructure debt funds for LGPSC's Private Debt Real Asset sleeve. During the process, the RI&E team was granted complete access to the data room and the two chosen managers, who both have strong ESG credentials and are eager to collaborate with LGPSC to improve ESG integration in infrastructure debt. However, there are concerns about the effectiveness of engagement within the asset class, given the hold-to-maturity and long-tenured nature of the debt the fund will support. To address this, the managers and LGPSC have agreed to explore potential solutions and actively participate in establishing standards for the broader industry.

Case study: Due diligence for targeted return funds

8.27 Two years ago, LGPSC was asked by its Partner Funds to consider launching a targeted return sub-fund. This can be broadly described as a pooled investment fund in which the underlying strategies are liquid, are expected to produce (in combination) consistent positive returns and where the sub-fund does not behave like traditional investment markets such as equities and bonds. Many of the underlying strategies include a range of investments (including derivatives) that are designed to produce positive returns in both rising and falling markets. The asset mix contains some types of investment (such as bank loans, insurance-linked bonds, and hedging strategies) for which ESG integration is in its relative infancy. The RI&E Team has conducted due diligence into all of the strategies that are being considered and leveraged its knowledge around leading practice when assessing them. The manner in which ESG signals and data analytics are incorporated into managers' quant models and investment analysis has been considered, as well as whether the use of ESG Futures (where the weightings within the index are based on ESG scores) is relevant. Some of this due diligence was done via meetings with the senior representatives of the respective managers, where the LGPSC Investment Director and RI&E Manager were able to clarify any points around their integration, monitoring and stewardship. Special regard was given to intent and forward-looking plans to build out their current KPIs and metrics across all the ESG pillars. It was interesting to note that the managers were using an ESG overlay not just to mitigate risk but also in many instances as a value creation lever for generating better returns. All of them consider the increased integration of RI&E as an on-going project. It is expected that the sub-fund will be launched in H2 2023.

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, who attends all Pension Investment Sub Committee meetings. Our advisor's objectives were reviewed at the Pension Committee June 2022 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 Since May 2021 we have placed a specific focus on ESG as part of the quarterly performance reviews with all of 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?*

In addition, on 8 February 2023 we conducted an ESG workshop where two key fund managers were invited to present to the Pensions Committee to demonstrate their ESG credentials and provide updates on strategy.

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.

9.20 Engagement undertaken by LGPSC's external managers in 2022 has been comprehensive and robust. Several of these managers hold sizeable positions in their highest conviction portfolio holdings, giving them excellent access to company management which they used effectively to drive company change. On any occasions where the level of engagement disclosure was unsatisfactory, or where the link between an engagement and subsequent investment decision-making was not clear, fund managers were marked down during our RAYG rating review and LGPSC discussed its concerns in the quarterly meetings.

9.21 In 2022, LGPSC's external managers conducted 272 direct engagements with companies held in the Global Equity Active Multi-Manager Fund, Emerging Market Equity Active Multi-Manager Fund and Global Sustainable Equity Fund, which were launched during the same year. Below are two case studies of engagements undertaken by their managers.

Thermo Fisher, Schroders, LGPSC Global Equities Active Multi Manager Fund

Objective:

Learn more about Thermo Fisher's approach to human rights due diligence and commercial controls.

Sector:

Medical Equipment

ESG Topics Addressed:

Human rights

Issue / Reason for Engagement:

Human rights engagement regarding genetic sequencing

Scope and Process / Action Taken:

Schroders participated in an ESG engagement with Thermo Fisher regarding their current human rights due diligence and commercial controls around sale of genetic sequencers in China.

Outcomes and next steps:

The company confirmed they have stopped selling genetic sequencers in Xinjiang, but also to all police bureaus across the country. Regarding enhanced human rights due diligence, Thermo Fisher now require due diligence into end customers and use of their products, with distribution being terminated if customers violate Thermo Fisher's requirements. The company has incorporated similar policies into other regions where similar risks could arise. Following this engagement, Schroders were comfortable that Thermo Fisher had sufficiently addressed its concerns.

Chinese communications company, Vontobel, LGPSC Emerging Markets Equities Active Multi Manager Fund.

Objective:

Ensure the company is not undermining civil liberty and freedom of expression by going beyond the requirements of Chinese law regarding censorship.

Sector:

Communications

ESG Topics Addressed:

Digital rights and freedom of expression

Issue / Reason for Engagement

The company was downgraded to Fail for the UNGC Principle 2 on grounds of complicity of human right abuses. As Chinese companies must abide by Chinese laws which require platform providers to censor content and messages.

Scope and Process / Action Taken:

In the first engagement, the company shared that they are considering becoming a UNGC signatory and sought Vontobel's input on next steps. Vontobel suggested they publish a transparency report, a policy on government requests, and establish a human rights due diligence process. In the second call, the company informed Vontobel that they have published a privacy policy user service agreement and law enforcement data request handling procedures on its media platforms. Vontobel steered their focus back towards freedom of expressions and human rights. The company shared that they are working on increasing disclosure in the upcoming ESG Report.

Outcomes and Next Steps:

In the next meeting, Vontobel will review the new ESG report and share their opinions. Meanwhile, they have taken the lead investor role in a collaborative engagement with the company and will soon establish goals and milestones for that engagement.

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. LGPSC looks 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. They 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 LGPSC consider their fixed income managers to have conducted meaningful and effective engagement in 2022. Throughout the year, LGPSC's external managers conducted 260 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. Below are three case studies of engagements their managers have undertaken on our behalf.

Vale, Western Asset, LGPSC Multi Asset Credit Fund.

Objective:

Express concerns regarding risk of stranded assets embedded in thermal coal, alongside just transition considerations relating to the company's socioeconomic role in the region.

Sector:

Mining

ESG Topics Addressed:

Climate risk and just transition.

Issue / Reason for Engagement:

Management of stranded asset risk while considering the just transition.

Scope and Process / Action Taken:

Western Asset met with the company on several occasions to discuss the issues outlined above.

Outcomes and next steps:

During follow-up meetings Western Asset learned that the company bought additional shares from a main shareholder to simplify the ownership structure of their coal assets. We received confirmation that they are looking for a responsible partner to take over their operations and honour their socioeconomic commitments to the region. A year later, the company confirmed that they had sold their thermal coal asset, concluding the two-year long engagement.

Vale, Western Asset, LGPSC Multi Asset Credit Fund.

Objective:

Ensure that Vale are taking appropriate measures to manage risks associated with stranded assets, and also ensure the company is taking just transitions considerations into account alongside the socioeconomic role the company has.

Sector:

Mining

ESG Topics Addressed:

Climate risk and just transition.

Issue / Reason for Engagement:

During the initial engagement Vale owned thermal coal assets in Mozambique. This exposure concerned Western Asset due to the embed stranded asset risks. Western Asset were also concerned with the company's Just Transition considerations and the socioeconomic role the company has in the region.

Scope and Process / Action Taken:

Western Asset met with the company on several occasions to express their concerns and to understand what progress the company was making in these areas.

Outcomes and next steps:

Anheuser-Busch InBev S.A., Neuberger Berman, LGPSC Corporate Bond Fund

Objective: To encourage the company to establish and publicly disclose its ESG objectives around smart agriculture goals, water stress, circular packaging, product portfolio, and diversity and inclusion.

Sector: Consumer Discretionary

ESG Topics Addressed: Disclosure of ESG and diversity objectives.

Issue/Reason for Engagement: The Anheuser-Busch InBev S.A.'s Company's ESG reporting practices lagged sector peers, making it difficult to analyse and benchmark performance on material metrics.

Scope and process/actions taken: Neuberger Berman undertook due diligence with the members of company's Treasury team and the Head of Sustainability**.** Neuberger Berman sought to educate the issuer on the importance of disclosing key metrics such as water intensity and diversity performance.

Outcomes and next steps: Following this engagement, Anheuser Busch published its first ever standalone ESG report and implemented our feedback on publicly disclosing more detailed information around water sourcing and geographic priority areas. While this is a positive outcome, Neuberger Berman are continuing to engage with the issuer for even greater disclosure on additional information and goals regarding diversity and inclusion.

Future developments to the manager monitoring

9.24 LGPSC have undertaken a three-yearly review in 2022 of our active equity and fixed income managers. While they attend regular monitoring meetings, these reviews will include a deep dive of the managers RI processes so LGPSC can ensure their ESG integration remains best practice. LGPSC have also designed a net zero-focused questionnaire and distributed it to each manager to track their approach to climate change. The questionnaire's purpose is to gauge whether their current roster of funds can naturally align with their net zero target, or if specific adjustments are necessary to achieve this goal.

9.25 In the private markets space, LGPSC intend to continue their private equity RI&E reviews. This practice has also been rolled out to our private debt, infrastructure and property investments once these are finalised. In the co-investments space, we intend to work with our General Partners (GPs) the first time it is used GPs to improve the quality of data being disclosed. 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, and eventually the private debt industry, by providing one set of metrics for companies to report against. We contacted all of our GPs to identify whether they have joined or intend to join this project and will work with our GPs over the next year to encourage participation, or the adoption of similar policies.

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.

9.27 LGPSC holds, at minimum, one client service review meeting per year with EOS to discuss overall satisfaction with their services, any issues over the last period; alongside engagement and voting trends and voting policy reviews. However, we meet more frequently during the year to discuss specific votes and engagements and we find this ongoing dialogue to be extremely helpful particularly during proxy voting season. The EOS Team also attend our quarterly Practitioners' Advisory Forum (PAF) RI Working Group meetings, which gives our Partner Funds the opportunity to ask specific questions about engagements and prioritisation. Further to this, there are multiple touchpoints for clients to review EOS' activities, by way of regular reporting (client portal, quarterly and annual reporting) and opportunities to provide feedback, for instance through EOS' semi-annual client conference which hosts client-only discussion forum.

9.28 The RI&E Team undertakes an annual review of EOS' services to provide assurance to the Investment Committee that the Stewardship Provider, EOS at Federated Hermes, is delivering sufficiently against the terms of the contract. This document is issued to and approved by the Investment Committee on an annual basis.

9.29 Summary for 2022 review:

- Provider has given generally strong and value-adding services to LGPSC, including close dialogue during voting season related to LGPSC's Voting Watch List
- Provider has given direct support to Partner Funds through participation at all PAF RI Working Group meetings during the year

9.30 The table below provides an example of KPI reviews held during 2022.

KPI Area	*KPI Review*
Global engagement	Engaged 833 companies, with a regional and thematic breakdown.
Engagement quality	At least one milestone was moved forward for 55% of current engagement objectives.
Voting coverage	Made voting recommendations at 3,443 meetings, with a regional breakdown.
Client service	Majority of queries to EOS were dealt with in less than 48 hours.
Complaint handling	No formal complaints escalated during 2022.
Client service meeting	Several meetings held pre, during and post voting season 2022 relating to planning of voting season and overall feedback on EOS' services.
Reporting punctuality	Reporting has generally been on schedule. Several instances of incomplete reports, however these were duly ratified once raised by LGPS Central.
Reporting quality	Overall good quality.
Team stability	Staff turnover during 2022 was just below 23%. Following a peak of 32% in 2021, it appears that turnover is beginning to normalise, returning to previous years' figures (10% in 2020 and 19% in 2019).

ENGAGEMENT (PRINCIPLES 9 TO 11)

10. Principle 9

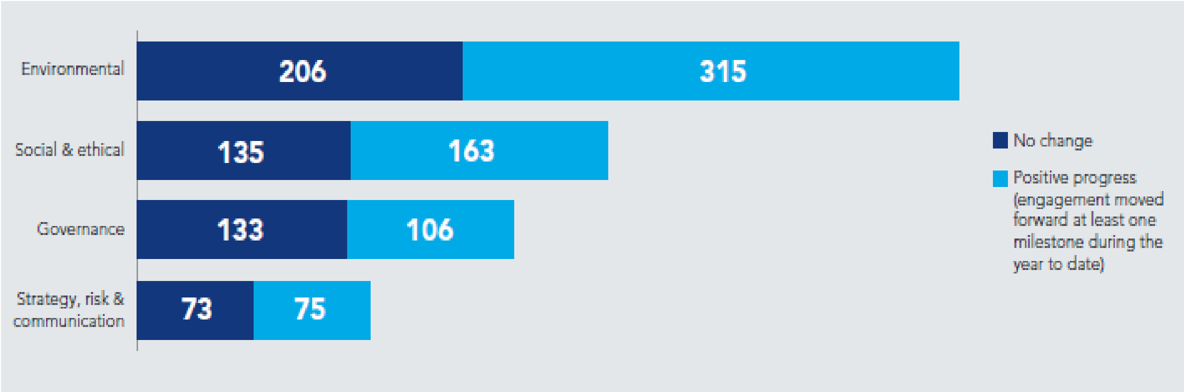
Signatories engage with issuers to maintain or enhance the value of assets.

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 2022. Below they give further detail and examples to some of these engagements.

10.2 During 2022 LGPSC 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.

10.3 Most of these engagements were conducted by EOS who engaged with 833 companies on 3,477 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. Over 35% of engagements centred around governance issues, and close to 30% involved discussions on environmental issues. 2,128 of the issues and objectives engaged in 2022 were linked to one or more of the UN Sustainable Development Goals (see below). At least one milestone was moved forward for about 55% of EOS' engagement objectives during the year. The figures below describe how much progress has been made in achieving the milestones set for each engagement.

Progress against engagement objectives in 2022



Engagement supporting the UN Sustainable Development Goals

10.4 LGPSC and all their Partner Funds are members of the Local Authority Pension Fund Forum (LAPFF). LAPFF conducts engagements with companies on behalf of local authority pension funds. In 2022, LAPFF engaged 294 companies, sent over 150 correspondences, attended over 80 meetings and 9 annual general meetings across a spectrum of material ESG issues. In these engagements, LAPFF saw 133 instances of improvements or change in progress.

Engagement on themes and issues outside of Stewardship Themes

10.5 **Diversity:** LGPSC is a member of the Employers Network for Equality & Inclusion, and we participate in a number of work streams of the Diversity Project promoting good practice on flexible working, ethnicity, working families and an early careers programme (mentoring potential graduates from socially disadvantaged communities). When selecting external managers for LGPSC investment mandates, we expect both good in-house diversity across the organisation, *and* we expect that the manager integrates diversity in their ESG assessments of companies they invest in. Diversity is one element of our broader assessment of a given manager's culture and ethos, and we view strong diversity across gender, culture and ethnicity as indicative of overall strong governance. We support the newly established Asset Owner Diversity Charter and will use the toolkit provided through the charter to assess managers' approach and processes to enable diversity and inclusion throughout their organisations and value chains.

10.6 **Modern slavery:** LGPSC have developed a Modern Slavery Statement, not as a legal requirement, but with a view to applying leading practice, as a company, as an investor engaging companies and in our procurements. We currently assess external managers' compliance with the Modern Slavery Act in the selection process. The procurements follow the Official Journal of the EU (OJEU) process that is adopted by all English public sector entities, but dates from the time the UK was part of the EU. We continue to be a part of an investor collaboration engaging FTSE 350 companies on Modern Slavery Act compliance. We do not currently ask investee companies to voluntarily comply with the Modern Slavery Act if they fall below the revenue threshold. However, we still view it as appropriate to set a high standard for ourselves as a Company as well as to protect our stakeholders from any reputational risk. We perceive the level of modern slavery related risk to our business as low from the outset and will develop a proportionate approach to this which covers all parts of the business.

11. Principle 10

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

11.1 LGPSC has continued active involvement in several strong investor collaborations that pursue better corporate standards across ESG issues, including for several stewardship themes, during 2022. 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, refer to Appendix 1.

11.2 Examples of collaborative initiatives of particular importance to LGPSC's stewardship effort in 2022 are as follows:

Tax transparency and responsible tax behaviour

Experian Ltd.

Theme: Responsible tax behaviour

Objective:

We aim for positive interactions at senior levels of target companies encouraging robust tax governance and acknowledgement of lack of tax transparency as a business risk, along with commitments to strategies or targets to manage those risks.

Engagement:

Following engagement with LGPS Central and a group of four other European investors, Experian published its first standalone tax report in 2022. We expect companies to disclose tax-relevant Country-by-Country-Reporting (CBCR), which would facilitate our analysis of their tax behaviour. The report should show jurisdiction-wise activities of a company and disclose how the activities correspond to tax paid. The underlying aim is to ensure that multinational enterprises are taxed where their economic activities take place, and value is created.

We commend Experian for taking this important step to provide shareholders and wider stakeholders an overview of their approach to tax and how the company manages its tax affairs in an easily explained and accessible format. In feedback to Experian, we have suggested that they consider using the Global Reporting Initiative (GRI) Tax Standard 207, which covers key elements that should be included in tax reporting such as approach to tax, tax governance/controls/risk management, stakeholder engagement and CBCR. We think that the company is well on its way to meet core elements of the standard, while there is further scope related to CBCR.

Outcome:

We appreciate the company's effort in disclosing a tax contribution report. Experian has found our collective feedback constructive and has expressed its plans to take our feedback into account in their tax report next year.

Engagement on deforestation-related risks

Lowe's Companies Inc.

Theme: Deforestation risk

Objective:

We are a part of a recently established investor collaboration, Finance Sector Deforestation Action Group, that focuses specifically on commodity-driven deforestation. We aim to engage with portfolio companies that have exposure to such commodities like wood, palm oil, soy, beef, pulp, and paper to better map and mitigate deforestation in their supply chain.

Engagement:

We engaged with the **second-largest hardware retailer in the U.S., Lowe's Companies Inc**. on their efforts to understand and mitigate commodity driven-deforestation in their supply chain, as well as human rights considerations of indigenous people.

We welcome Lowe's commitment to transparency on their forestry footprint and wood sourcing practices through a stand-alone Forestry Report (published December 2022). Lowe's published its first wood policy in 2000, has partnered with World Wildlife Fund (WWF) and last year set a net zero goal across its value chain by 2050 in accordance with guidelines from the Science Based Targets initiative (SBTi).

Outcome:

Lowe's stated that Forest Stewardship Council (FSC) and other certification carries an administrative burden and increases costs, leading to a reduced demand. For traceability in its supply chain, Lowe's has a vendor code of conduct and carries out periodic supplier audits. However, a few suppliers show reluctance to disclose their wood sourcing as they think it would hamper their competitiveness, but the company is engaging with them to resolve this issue. Lowe's will be putting a grievance mechanism on its website, which strengthens the company's commitment towards human rights.

Engagement on diversity

Theme: Diversity

Objective: We view diversity as integral to sound decision making and we believe that the most effective Boards of companies include a diversity of skills, experiences, and perspectives. Strong diversity across gender, culture and ethnicity is furthermore indicative of overall strong governance, and something we will encourage for companies across sectors and markets.

Engagement: Japanese boards have one of the lowest proportions of female representation in developed 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 24 months, we have together with fellow 30% Investor Club members, and led by Royal London Asset Management, engaged a selection of Japanese companies to encourage better diversity and to seek more disclosure on diversity-related policies and practices.

Outcome: We have ongoing dialogue with 6 Japanese companies and have held 2 meetings during 2022, including with an industrials sector company that places importance on diversity across the organisation but faces challenges in some regards. The company has a board of

10 members with only one female director. The investor group expects to follow up with the company on having a specific board diversity policy and to encourage a greater degree of board training/mentoring that could allow a wider pool of candidates to be considered.

LAPFF collaborative engagement example

11.3 In addition to the support provided directly via LGPSC there are examples provided through LAPFF of the supported engagement activities undertaken. Recent examples can be found in the LAPFF 2022 fourth quarter report.

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 Fund's 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 June 2022 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

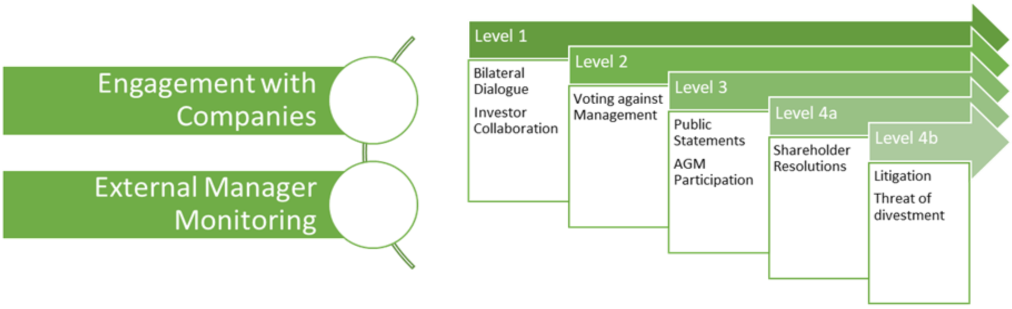
12.8 LGIM’s longstanding climate engagement programme, the Climate Impact Pledge, is linked to tangible voting and engagement sanctions and was introduced in 2016. It launched its revised Climate Impact Pledge 2.0 in October 2020 to make its targeted engagement programme even more ambitious. Details of LGIM’s Climate Impact Pledge score can be accessed here. Please also refer to the LGIM's Climate Impact Pledge: the 2022 results (pages 12-19) which outlines key areas of focus and a sanction list of companies that have persistently fallen short of its minimum standards or have been included due to a lack of response to its engagement requests.

12.9 As 2022 goes on, it will continue to press companies to establish robust decarbonisation strategies, with granular interim roadmaps out to 2050, to accompany their public announcements. Ultimately, however, the momentum behind the net-zero transition is unmistakeable: the percentage of companies setting ambitious decarbonisation targets has almost doubled in a year. Even where companies do not yet have net-zero aligned transition plans in place, practices are improving. The number of companies sanctioned for not meeting its minimum expectations has decreased by over 35% since 2021.

LGPSC escalation example

12.10 The stewardship themes that it has identified as priority areas for engagement are all long-term and systemic in nature. Against that backdrop, it 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 it 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, in line with LGPSC’s escalation strategy detailed below:



- 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 LGPSC's 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. As of the end of 2022, CA100+ has now released three iterations of its Benchmark Framework, which allows for an evaluation of company progress against Paris alignment on key parameters including short-, medium-, and long-term targets; decarbonisation strategy; capex plans, and climate governance.

Examples of escalation of engagement during 2022

12.12 Following a thorough assessment of the potential risks and benefits associated with supporting the claim, LGPSC provided a copy of a recent engagement with Shell to the Court as evidence of its concerns. This escalation was made in recognition of the significant overlap between the points raised in the Client Earth claim and its own engagement objectives for dialogue with Shell.

Shell Plc

Theme: Climate Change

Objective: We expect companies to set clear, reasonable, and measurable climate action targets aligned with the Paris Agreement. We also compare those targets with the company's industry peers, as well as Paris-aligned sector pathways, and engage with the company in case of any major deviations.

Engagement: In November 2022 LGPS Central sent a letter to the Chair of the Board at Shell, outlining why we voted against the company's Energy Transition Strategy in the 2022 AGM. The letter outlined the strategy's misalignment with the Paris Agreement; a lack of targets which would facilitate the achievement of the Strategy; and questioned whether Shell's capital expenditure plans are genuinely aligned with a 1.5˚C temperature rise scenario. Following receipt of this letter, a 1-1 meeting was scheduled between LGPSC and the head of Investor Relations at Shell.

This meeting allowed a detailed discussion on Shell's climate strategy, highlighting the risks and opportunities the company has focussed on ahead of the energy transition. We were happy to hear that Shell recognises the key role it must play in addressing climate risk on a global level and were encouraged by the company's progress in decreasing its oil production. However, Shell expressed a reluctance to set absolute short- and medium-term Scope 3 targets for its upstream emissions. Shell also stressed the fact that it believes it is currently a leader in the global transition, and that now the responsibility must shift towards governments and consumers to continue progress towards net zero.

Outcome: We very much appreciate Shell's desire to have a meaningful and open dialogue with its shareholders, and it is clear that Shell is a sector leader in the climate transition. However, significant doubts remain regarding the feasibility and robustness of Shell's transition strategy, evidenced by a lack of meaningful targets which detail how Shell will achieve its long-term goals. We are therefore considering further engagement or escalation in early 2023. In February 2023, the environmental charity ClientEarth filed a derivative claim against the Board of Directors at Shell, stating that the Board is mismanaging climate risk, evidenced by an insufficient Energy Transition Strategy and a fundamental misalignment with the goals of the Paris Agreement.

12.13 Below is an example of LGPSC's engagement with DEFRA relating to policy on plastic pollution.

Policy dialogue with UK Department of Environment, Food and Rural Affairs (DEFRA)

Theme: Plastic pollution (microfibres)

Objective:

Through a microplastics 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 microfibres (a type of microplastic) when washed. A first round of engagements with 13 target companies commenced in 2021. One company, Arcelik, has launched a machine under the Grundig brand with a filter fitted as standard in the UK (Fibrecatcher).

Engagement:

As an escalation to the engagements, LGPSC co-signed a letter with First Sentier Investors and LGIM, on behalf of 29 investors with £5 billion AUM, to the ministers at DEFRA. In the letter, we emphasised our support for the recommendations of the "All Party Parliamentary Group on Microplastics" issued in 2021, specifically to mandate the installation of microfibre filters in new washing machines by 2025. We also highlighted Alberto Costa MP's Microplastic Filters (Washing Machines) Bill that would allow the government to take this legislation forward appropriately.

Outcome:

The letter was sent in May 2022. We will seek direct dialogue with ministers at DEFRA and monitor the legislation, alongside further engagements with companies. [Next steps – checking wording with First Sentier]

Expectations on external managers to escalate on our behalf

12.14 LGPSC expects managers to be ready to escalate any engagement where there is lack of progress relative to engagement objectives, on any material ESG topic. During 2022, LGPSC 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 net zero targets.

Stellantis, CTI, LGPSC Multi Asset Credit Fund

Objective:

Improve climate-related disclosures.

Sector:

Automotive

ESG Topics Addressed:

Strategy and business model; transparency and disclosure; climate change.

Issue / Reason for Engagement:

Company slow to publish publicly release details on its climate ambition, strategy, and management.

Scope and Process / Action Taken:

CTI engaged with Stellantis six times in 12 months on climate change. Main asks include an ambitious net zero target and BEV strategy.

Escalation strategy:

Repeated engagements with different people in the company, including the Head of Sustainability, the Strategy Lead, and the CFO.

Outcomes and next steps:

Following these escalations, the company has unveiled a strategy plan to achieve net zero by 2038 across its entire value chain and cut emissions intensity by 50% by 2030. It also includes a sales target of 100% BEV passenger cars in Europe by 2030. This year CTI will focus on shifting from climate targets to strategy, climate lobbying and sustainable sourcing.

Orpea, Mirova, LGPSC Global Sustainable Equity Fund

Objective: Improve the social aspects of the business which had been the subject of controversies.

Sector: Residential Care

ESG Topics Addressed: Social issues and governance.

Issue/Reason for Engagement: Mirova has a long history of successful engagement with Orpea related to processes implemented to address serious social risks. Following allegations made against the company during early 2022, this engagement and the expectations of the company have been radically strengthened.

Scope and Process/Action Taken: Mirova sent a letter to the President of the Board regarding specific points related to potential social risks as well as Mirova's expectations of the company. The company responded stating it was willing to consider Mirova's demands and committed to answer concerns. Mirova was able to escalate this engagement, and arranged two meetings, the first with the CEO and Board members and the second with CSR representatives. Mirova shortly followed up, arranging a further three meetings with the company, firstly meeting the recently appointed Transition Manager - HR Strategy. Mirova also had a meeting with current CEO, future CEO and Board members, where they discussed proposed AGM resolutions. In May 2022, financial malpractices from Orpea's former management were revealed. Mirova immediately advocated for a change of management and a new board.

Outcomes and Next Steps: Following this engagement, at the company's AGM the new CEO expressed its commitment to transition the company towards more consideration of residents and employees. Unfortunately, in conjunction with an unexpected conciliation plan, which would leave Mirova with less leverage over the company, and since Mirova had no guarantee that Orpea was going to align on social issues which had dominated the engagements, Mirova decided to divest from Orpea.

13. Principle 12

Signatories actively exercise their rights and responsibilities

13.1 The Fund has considered the feedback received from its 2022 application in respect of Principle 12. The Fund does make its ESG, and RI beliefs known to its property and infrastructure Managers. The Fund also communicates its expectations of them during each performance review meeting where a dedicated section of the meeting is allocated to stewardship matters. An example of such collaboration is illustrated by a video publication with one of its Fund Managers as a result of the Fund's forestry investment. In addition, the Fund invited key asset managers to its ESG workshop on 8 February 2023. The Fund intends to extend this to property and infrastructure asset managers over the current year.

13.2 LGSPC have recently begun rolling out RI&E reviews to property and infrastructure investments. The Fund has communicated its eagerness to work with them to improve the quality of data being disclosed. 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, and eventually private debt industry, by providing one set of metrics for companies to report against. They have contacted all of their GPs to identify whether they have joined or intend to join this project and will work with them over the next year to encourage participation, or the adoption of similar policies.

13.3 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

13.4 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.

13.5 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 voted at 3,443 meetings, on 42,538 resolutions and attended 66 AGMs. An example of the voting and engagement statistics provided is detailed below.

13.6 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 2022, we increased our exposure to private markets further. LGPSC in liaison with partner funds continue to work 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

13.7 **High-level objectives:** LGPSC views voting as a core component of its stewardship efforts on our behalf. In a long-term perspective, all voting activities it undertakes 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

13.8 **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.

13.9 **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.

13.10 **Stock-lending:** LGPSC has an active securities lending programme. During 2021, it considered options for restriction on securities lending to bolster its overall stewardship and voting impact. Based on dialogue with its Partner Funds, alongside discussions in-house at Investment Committee and Operations, Risk, Compliance and Administration Committee, it revised the securities lending policy with effect from 2022. The revision means that it fully restricts certain securities from lending at the start of voting season. This is to ensure that it maximises our voting impact, e.g., in relation to critical, ongoing engagements that it expects to escalate through shareholder resolutions or other forms of voting (e.g., votes against Board members). This is to eliminate the risk of not being able to recall all our shares ahead of the meeting. 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+. It considered the cost implications of excluding all companies in its 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 its Voting Watch List (of 50 companies) were restricted from lending. The restriction was lifted at the end of AGM season. This change has guaranteed that we are able to vote all the shares we hold for certain companies in the portfolio

13.11 **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 2022 (high voting season) we saw a record number of proposals filed by shareholders. Social issues rose up the agenda whilst climate remained a keen topic for investors. Many of these shareholder proposals got very strong or even majority support.

13.12 **Transparency**: LGPSC's disclosure of its Voting Principles, and its voting outcomes, supports the Company's ambition of full transparency. With regards to voting outcomes, disclosures are made in three formats. Firstly, a report summarising its voting activities is provided in Stewardship Updates three times a year (covering the first three quarters of the calendar year). Secondly, it provides an annual summary of its voting activities, as part of the Annual Stewardship Report, and thirdly, it discloses its voting decision for every resolution at every eligible company meeting via an online portal. Each of these disclosures is available to the public.

Voting strategy

13.13 **Ensuring that Voting Principles are applied**: LGPSC has set up a structure whereby EOS at Federated Hermes provides it with voting recommendations based on its 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. It currently holds just under 3,000 companies through its ACS equities funds. With this voting structure, it has confidence that votes are cast according to LGPSC 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

13.14 **Voting Watch List**: It is not feasible to do in-depth research into all proxies that will be voted at each of the companies LGPSC holds through its ACS equity funds. To prioritise, it has established a "Voting Watch List" annually that consists of approximately 50 companies which cover larger holdings and/or core engagements in and outside of 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, it aims to attend AGMs virtually (if permissible) for core Climate Action 100+ engagements and for any company with which it has filed a shareholder resolution. 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:

13.15 Ahead of each voting season, LGPSC shares its 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.

13.16 **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 LGPSC's 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.

Credit Suisse Group AG

Theme: Climate Change

Objective: Appointed managers are expected to integrate relevant, material social and environmental risk factors in their portfolio construction. Credit Suisse is held in one of our active equity mandates.

Engagement: LGPSC, along with eleven institutional investors who collectively manage €2.18 trillion, have jointly submitted a climate resolution to Credit Suisse. Before submitting the resolution, we had communicated with the fund manager to inform them of the possibility of doing so. We also explained why we felt the need to escalate our engagement and asked for their opinion on the bank's level of climate risk management. We considered the manager's response and decided to proceed with the escalation.

Outcome: Several rounds of engagement with Credit Suisse, led by co-filers ShareAction and Ethos Foundation, has led to the bank making several commitments in the weeks ahead of its AGM. However, LGPSC believed the bank did not address several requests that were made in the resolution, including disclosing its capital markets fossil fuel activities. The co-filers unanimously decided to keep the resolution on the AGM ballot, making it the first climate-related shareholder resolution at a Swiss bank. The resolution received support from 18.52% of shareholders and a further 4.27% abstained.

Voting highlights and outcomes 2022
Proportion of shares voted during 2022

13.17 Based on our voting set-up with EOS at Federated Hermes – whereby EOS' voting recommendations (aligned with LGPSC's 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.

13.18 The 2022 shareholder meeting season saw social issues rise up the agenda with resolutions on issues ranging from animal welfare to paid sick leave and reproductive rights. With soaring inflation eroding purchasing power, investors pressed for living wages for struggling workers through actions like the shareholder resolution at Sainsbury's AGM. 2022 was also the second year for formal shareholder votes on companies' responses to climate change, with a steep rise in management say on climate proposals, including for Anglo American, Barclays, BP and Rio Tinto. Glencore, Shell and Total Energies were among companies that also offered shareholders the opportunity to vote on the progress achieved on climate transition plans presented to the 2021 AGM.

2022 voting statistics

- Voted at 3,443 meetings
- 42,538 resolutions
- Attended virtual AGM of Shell
- EOS attended 66 AGMs on our behalf, including 13 shareholder meetings and asked questions at eight of these, including BP, Volkswagen, BMW, Royal Bank of Canada, Bank of Nova Scotia, Siemens Energy and Canadian Imperial Bank of Commerce

- EOS made a statement and co-filed a shareholder resolution at Berkshire Hathaway
- Voted against management and abstaining, for one or more resolutions at 62.2% of meetings

13.19 Continued momentum for investor engagement and voting on climate change, and more emphasis on deforestation risk

- 58 Say-on-climate votes, up from 18 such votes during 2021 vote season, asking investors to approve transition plans or providing an annual update on already-approved plans
- LGPSC continues to take a robust approach to assessing these plans and voted against a number, which we considered to be not fully aligned to 1.5°C scenario, including plans proposed by **BP, Rio Tinto, Glencore, Shell,** and **Barclays**
- Companies that clearly indicated that alignment with 1.5C was the goal, with a more developed plan to be put to a further vote, such as at **NatWest** and **Amundi**, received our support
- Alongside Say-on-climate votes, we saw many climate-related shareholder proposals. It was encouraging to see some companies support such proposals, including **Caterpillar** for a report on long-term greenhouse gas targets aligned with Paris (95% support) and **Boeing** for a report on a net-zero by 2050 ambition (89% support)
- We supported climate-related shareholder proposals at three power utilities and two financial groups in Japan, including **J-Power** and **Sumitomo Mitsui Financial Group,** which garnered well above 20% support
- We voted against directors or relevant proposals at 292 companies, up from 144 companies in 2021, due to concerns about insufficient management of climate-related risks
- We co-filed a shareholder proposal asking **Credit Suisse** to provide further disclosures on the company's strategy to align with the 1.5°C goal of the Paris Agreement, specifically with respect to the banks' strategy to reduce its exposure to fossil fuel assets
- We opposed the directors responsible at companies that were the poorest performers on the Forest 500 assessment, which targets companies that are most exposed to deforestation risks. This led us to oppose the directors responsible at retailer **TJX** and food manufacturer **Kikkoman**

- We voted on climate transition across oil and gas, construction, aviation, and consumer goods – all passed with support ranging from 88% to 99%.

13.20 Social issues proposals on the rise

- Record numbers of shareholder proposals at major US companies, including many on social issues such as paid sick leave, reproductive rights, unionisation, and animal welfare
- At retailer **TJX**, we supported a shareholder proposal to adopt and publicly disclose a policy that all employees, part-and full-time, accrue some paid sick leave that can be used after working at TJX for a reasonable probationary period. The proposal received 33% support showing that shareholders increasingly view paid sick leave as a basic human right

- At **Meta**, we supported several shareholder resolutions including requests for a report on the enforcement of policies to moderate problematic content; a human rights impact assessment of targeted advertising; and a report on the trade-offs between privacy rights and child protection
- More Civil Rights Audit (CRA), Racial Equity Audit (REA) and Racial Justice Audit shareholder proposals were filed, including at **Apple, Chevron, Wells Fargo,** and **Johnson & Johnson**. In general, such proposals urged boards to oversee a third-party audit analysing the adverse impacts of companies' policies and practices on the civil rights of stakeholders
- We opposed directors on human rights grounds, including companies' being in clear breach of applicable regulatory human rights responsibilities or those outlined in the UN Guiding Principles on Business and Human Rights. These included **Telefonaktiebolaget LM Ericsson**, due to various alleged compliance breaches and insufficient remedial actions, **Grupo Mexico**, due to spills of toxic waste and heavy metals in rivers adjacent to its mines, and **Meta**, due to the spread of problematic content on its platforms

13.21 Diversity and inclusion

- We voted against **2,920 proposals due to diversity concerns**, versus 2,693 proposals in 2021. Along with this, we encouraged greater representation of **women and ethnic minorities on boards and leadership positions**
- In the **US**, we expect women and ethnic minorities to make up at least 40% of the board at the largest companies, with a minimum of 30% gender diversity in line with our support for the 30% Club. As a result, we opposed 1,033 proposals for insufficient gender and ethnic diversity. This included companies like **Berkshire Hathaway**, **NextEra,** among others
- In **Europe**, we opposed the nomination committee chair for poor board gender diversity at mining companies like **Antofagasta** and **Fresnillo**
- We were pleased to see immense **progress by FTSE 100** companies in meeting minimum standards of **ethnic representation** on UK boards. In the **UK** in general, we opposed 19 proposals due to insufficient diversity at board level and below, versus 37 proposals in 2021
- In **Brazil**, the B3 Brazilian Stock Exchange proposed a new listing rule related to gender diversity. However, it falls short of our expectations that companies have at least one woman and one ethnically diverse member on the board or the executive committee from 2025
- In **Japan**, there was progress on gender diversity in companies like **Chubu Electric Power** and **Seven & i.** However, other companies like **Toyota Industries, Canon** are lagging, and we voted against the responsible directors and EOS are engaging with them on the same on our behalf
- Legal requirements are tightening in **South Korea, Malaysia and Hong Kong** and we were pleased to see progress at companies such as **Geely Automobile**, where board gender diversity reached 30% after several years of engagement on this topic
- At **AIA Group** and **Ping An Insurance**, we supported directors by exception to recognise their progress in reaching a level of diversity that is just below our minimum expectations. However, we voted against at **Beijing Enterprises**, **China Mengniu Dairy**, and **China Resources Beer**

13.22 **Remuneration**

- We **voted against 65% of pay proposals**, as we saw a resurgence in some executive pay packages
- In **North America**, we opposed 78% of say-on-pay proposals as the practices across the region remained materially misaligned with our principles. In the **UK**, we opposed 17% of remuneration policy proposals versus 23% in 2021. While in **Europe**, we pushed for greater shareholdings for executives, and improving disclosure where this was lacking or where pay awards were substantial, either through salary increases or incentive scheme opportunities
- At **Netflix**, we voted against executive pay and the compensation committee chair, alongside around 73% of shareholders who rejected this pay proposal
- At **GSK** we were not supportive of a remuneration policy that continues to increase the variable pay opportunity far in excess of our policy limits. We also noted a duplication of metrics across the bonus scheme and long-term incentive plan (LTIP), which we generally do not support as it rewards executives twice for the same performance
- We **opposed pay at Meta, ExxonMobil, Chevron, JPMorgan Chase,** and others where we view the quantum of pay as too high, without adequate disclosure of additional value for long-term shareholders when paying the CEO significantly above the labour-market median

Voting outcomes

13.23 Below is a selection of significant votes related LGPSC's stewardship themes

Case Study: General Mills

Theme: Plastic pollution

Objective: Plastics pollution is one of LGPSC's stewardship themes and on our behalf it leverages collaboration opportunities to deliver progress in the form of reduction, re-use and replacement of fossil-fuel based plastics in the economy. Voting is engagement led, and it 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).

Vote decision and rationale: LGPSC supported a shareholder proposal at General Mills' 2022 AGM on Absolute Plastic Packaging Use Reduction. The proposal required the company to report absolute reduction in its use of plastic packaging. In the company's 2022 Global Responsibility Report, it has set a 2030 goal for 100 percent of its packaging to be recyclable or reusable, and it reports that 89 percent of its packaging by weight currently meets this goal. It is also a major investor in Myplas, a flexible film recycling facility which opened in spring 2023.

However, the company is lagging its peers like Kellogg's and Mondelez International, which have established goals to reduce absolute plastic use and have joined the Ellen MacArthur New Plastics Economy Global Commitment. Multiple states in the US have started enacting legislation requiring companies to be responsible for post-consumer package waste handling and describes adopting minimum recycled content standards.

We believe that additional disclosure from General Mills as per the proposal would assist shareholders to assess the risk management with regards to its plastic packaging.

Outcome: This resolution passed with 56.5% votes which signifies the concerns of shareholders related to plastic packaging risks that the company faces. Following up on the same (in early 2023), our stewardship provider EOS was a part of a collaborative engagement with General Mills, and it was welcoming to know that the company is prioritising this issue. General Mills is a signatory of the UK and French plastic pact and has a commitment to have 100% recyclable or reusable packaging by 2030. However, General Mills explained about technological challenges for its plastic commitments.

Case Study: Meta

Theme: Human rights

Objective: We ask companies to make adequate disclosures of their human rights policies, as well as to follow best practices to ensure that those policies are effectively implemented. For technology companies, we require that they manage a broad spectrum of human rights related risks diversity and inclusion, freedom of expression, data protection, content moderation and other industry-specific issues.

Vote decision and rationale: At the AGM of Meta in 2022, we supported several shareholder resolutions that in our view will enhance the companies' ability to manage and mitigate material human rights risks that are directly linked to its business strategy and operations. These included requests for a report on the enforcement of policies to moderate problematic content; a human rights impact assessment of targeted advertising; and a report on the trade-offs between privacy rights and child protection.

On our behalf, EOS participated in a joint investor call with the chief diversity officer and the head of human rights and asked about eliminating emotional bias from artificial intelligence. As the company's revenue is highly corelated with the amount of clicks, likes, and shares, we asked how its algorithms determine the dissemination of paid and labelled political content throughout its user base and address any related "echo chamber" effects. The company also discussed its progress with statistics of its five-year representation targets set in 2019. We encourage Meta to acknowledge tensions between freedom of expression and issues like hate speech, bullying, misinformation, as well as to enhance its child safety practices to also include protection from mental health, device addiction, and other emerging issues.

Outcome: We welcome Meta taking actions to enhance disclosure on human rights through publication of a standalone Human Rights Report (July 2022). However, there could be more disclosure on whether its business model contributes to the spread of problematic content on its platforms. In EOS' view, the report falls short of the highest standard for user privacy rights. Meta acknowledges significant interest from investors on the human rights impacts of the metaverse, which LGPSC has expressed directly to the company in a letter after the AGM in May. Meta has improved disclosure on children's rights, which we requested, but we still lack metrics and targets that show the effectiveness of its substantial efforts.

Case Study: Microsoft Corporation

Theme: Responsible tax behaviour and tax transparency

Objective: We recognise the importance of companies being accountable for and transparent about their tax practices. We expect portfolio companies to have a tax policy that outlines the company's approach to taxation and how it aligns with the overall business strategy. We also expect companies to have a robust tax governance and management framework in place, to pay taxes where economic value is created and to provide country-by-country reporting.

Vote decision and rationale: We supported a shareholder proposal at the 2022 AGM requesting Microsoft's Board of Directors to issue a tax transparency report, at reasonable expense and excluding confidential information, in accordance with the Global Reporting

Initiative (GRI), including country-by-country reporting. Country-by-country reporting would amongst others help ensure that multinational enterprises are taxed where their economic activities take place, and value is created, rather than shifted away and reported in a low tax jurisdiction. According to the proponents of the proposal, the practice of profit shifting by corporations costs the US Government approximately $70-$100 billion annually. Microsoft does provide extensive tax information in the company's reporting in the US through Form 10-K in the Annual Report and many of the company's subsidiaries file statutory reports that are publicly available. This means that there should is negligible increased reporting burden in order to comply with the GRI Tax Standard. In October 2022, KPMG published results of a survey of the disclosure practices of the world's biggest 250 companies by revenue and stated that 78% of the G250 companies adopt the GRI Standards for reporting (up from 73% in 2020).

Outcome: The proposal failed to pass but received a significant 23% support from shareholders. Microsoft expects to comply with the EU public country-by-country reporting requirements as required effective for fiscal year 2025. Microsoft is on LGPSC's Voting Watch List, and we look forward to monitoring the situation. Our stewardship provider EOS is engaging with Microsoft on this and in a meeting in early 2023, the company said that it is awaiting relevant EU and OECD regulation, stating that it is confident that it pays more taxes. EOS is seeking further dialogue with Microsoft on this issue, and we look forward to continuing monitoring the situation.

<u>Case Study: Barclays Plc</u>

Theme: Climate change

Objective: We expect companies to set clear, reasonable, and measurable climate action targets aligned with the Paris Agreement. We also compare those targets with the company's industry peers, as well as Paris-aligned sector pathways, and engage with the company in case of any major deviations.

Vote decision and rationale: Barclays published its updated climate strategy, targets and progress report for an advisory vote at its AGM on 4 May 2022. Following an analysis of the report as well as a review of our long-standing engagement with the bank, LGPSC decided to vote against the resolution. While Barclays has taken some positive steps on climate, our analysis shows that the bank has yet to fully align with a 1.5C trajectory. We were concerned with the bank's target ranges for emissions intensity for several high emitting sectors which in our view were not aligned with IEA NZE and may not lead to absolute emission reductions. The bank's planned exit from US coal power generation is also later than the limit set by IEA NZE. Further, our analysis shows that despite setting a reasonably robust net zero ambition, some of Barclays' restrictive sector policies (e.g., on financing for oil sands production) are insufficient making the bank an outlier among European peers. Given our own net zero ambition, we believe that supporting the "Say on Climate" vote would run counter to our ambition and send the wrong signal to our stakeholders.

Outcome: Following the AGM, we sent a letter to Barclays explaining why we voted against their Climate Strategy, Targets and Progress 2022 report and subsequently engaged on the same alongside a group of other investors. We appreciate Barclays' positive approach towards engagement. While the company initially set a 2035 timeline for phasing out financing of US thermal coal power generation, we greatly welcome their recent commitment to prepone this deadline from 2035 to 2030. This took effect at the time of Barclays' 2022 year-end climate update and aligns with the company's approach in the UK and the EU. We will continue our engagement with the company on their climate transition efforts, including on targets to reduce absolute emission in the period to 2030.

Fixed income – exercise of rights and responsibilities

13.24 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.

J Power, Amundi, LGPSC Emerging Market Debt

Objective:

Co-lead an AIGCC collaborative engagement with J Power to improve its climate strategy.

Sector:

Electric Utilities

ESG Topics Addressed:

Climate change; coal policy; transparency and disclosure.

Issue / Reason for Engagement:

Ensure the responsible and timely phase out of coal.

Scope and Process / Action Taken:

As co-leader of an AIGCC collaborative engagement, Amundi co-filed three resolutions aiming to improve the J Power's climate strategy.

Outcomes and next steps:

The three proposals garnered 25.8%, 18.1%, and 18.9% respectively.

Private Markets

13.25 We expect all our private markets managers to fully exercise their rights and responsibilities. We provide below an example of how our external managers approach this.

Project Goethe, Benjamin de Rothschild Infrastructure Debt Generation (BRIDGE) V, 2021 Infrastructure Debt Fund

Objective:

Improve sustainability performance of the company through the setting of Sustainability Performance Target (SPT) KPI's.

Sector:

Telecom

Issue / Reason for Engagement:

BRIDGE place a large emphasis on the ESG and sustainability aspects of their portfolio and will utilise ESG focused ratchets to incentivise portfolio companies to improve various ESG metrics.

Scope and Process / Action Taken:

Project Goethe provided financing for a fibre optic roll out in underserved areas in Germany. Fibre optic helps bridge the digital divide through providing improved connectivity and contributes to socio-economic development in these areas. This financing identifies 3 themes each with a KPI, setting a SPT. Achieving or falling short of the SPT results in a negative or positive adjustment of the interest rate margin respectively. The three KPIs cover: reduction in scope 1, 2 and 3 GHG emissions, fibre network coverage and employee satisfaction / quality of employment in these rural areas.

Outcomes and Next Steps:

This method of utilising ESG focused ratchets allows BRIDGE to continue incentivising companies to pursue ESG targets after the initial deal has been signed. The initial test date took place on the 31st of December 2022, from here the company has 135 days to deliver the KPI compliance certificate, from there the new interest rate will take affect within 3 business days.

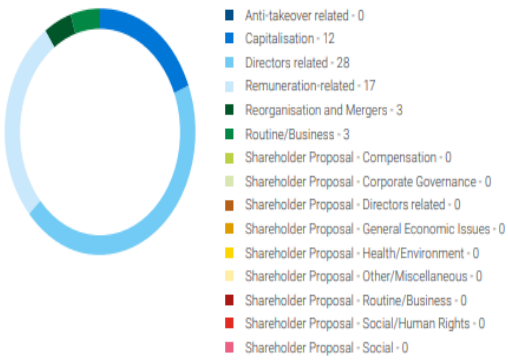
13.26 Our passive pooled products managed by LGIM are voted according to the voting policies of LGIM. LGIM believes in using its scale and influence to bring about real, positive change to create sustainable investor and produces (see the penultimate paragraph) a quarterly ESG impact report that includes 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 2022 annual report 'Active ownership – global engagement to deliver positive change is detailed below.

Regional updates

UK - Q4 2022 voting summary

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	56	0	0
Capitalisation	262	12	0
Directors related	543	28	0
Remuneration related	106	17	0
Reorganisation and Mergers	25	3	0
Routine/Business	270	3	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	0	0	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	0	0	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	1262	63	0

Votes against management



Number of companies voted for/against management

During 2022, 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%), LPGSC took a similar view to LAPFF. Any difference in view was explained to the Fund and other Partner Funds, with the opportunity for Partner Funds to seek further clarifications on LGPSC's voting intention.

Appendix 1

Overview of initiatives that LGSPC is an active member of

The table below is a list of organisations and initiatives that LGPSC is an active member of and includes a brief assessment of the efficiency of the initiative and outcomes during 2022.

Organisation/Initiative Name	***About the organisation/initiative***	***Efficiency and outcomes***
PRI	Largest RI-related organisation globally. Helps with research, policy influence and collaborative engagement. During 2022, LGPSC Head of Stewardship has been a member of the PRI Plastics Working Group and the PRI Tax Working Group.	PRI is a standard bearer of good practice for RI. 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
IIGCC (Institutional Investor Group on Climate Change)	Influential asset owner and asset manager group. Useful for climate change research and policy influence. During 2022, LGPSC Head of Stewardship has been a member of the Corporate Programme Advisory Group.	IIGCC's corporate engagement and policy engagement programmes are both highly value-adding to LGPSC's work on climate change on behalf of all Partner Funds. It has a clear purpose and seems attentive to member needs and input. IIGCC engages broadly with stakeholders, for example with policy makers in the lead-up to COP27
Cross-Pool RI Group within LGPS	Collaboration group across the LGPS pools and funds. Includes funds and pool operators. LGPSC Head of	This is a good forum to allow discussion between like-minded investors, who operate in the same regulatory environment and with similar expectations

	Stewardship was Vice Chair of the group during 2022.	from Partner Funds and beneficiaries, on RI topics of interest and/or urgency, including net zero commitments for investors, human rights risks, biodiversity etc.
The Local Government Pension Scheme Advisory Board	LGPSC Head of Stewardship is a member of an RI Advisory Group to SAB that was formed at the start of 2022. Discussions are held on RI relevant policies and standards that will have direct or indirect implications for LGPS funds and pools	Discussions during 2022 have centred around themes such as just transition, impact investing and DLUHC's plan to require TFCD-aligned reporting across LGPS Pools and Funds.
Transition Pathway Initiative (TPI)	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. Her role as Board member to TPI Limited will be taken over by LGPSC CEO after her departure.	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). In 2022, TPI established the Global Climate Transition Centre, an independent, authoritative source of research and data on the progress of the financial and corporate world in transitioning to a low-carbon economy. The TPI Centre's analysis considers corporate climate governance and carbon emissions.

CDP	CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.	Our membership of CDP is in support of ongoing work for carbon emissions reporting across companies and sectors, and to tap into analysis and research. We welcome CDP's work on deforestation, including a "Forest champions programme", which we aim to tap into for our current and future engagement on deforestation.
30% Club Investor Group	Investor group engaging both UK listed equities and increasingly companies abroad, on gender diversity. LGPSC has been a member since inception of our Company	This forum has a clear target and allows for discussion, learning and direct engagement with like-minded peers on an ongoing critical governance issue. Throughout 2022, a sub-set of 30% Club Investor Group members, including LGPSC, has engaged in the Japanese market.
BVCA British Private Equity and Venture Capital Association	UK trade body for private equity.	This forum is very useful for deal flow information. It also runs discounted training courses which helps build knowledge.
LAPFF Local Authority Pension Fund Forum	Engagement with companies in the UK and abroad, assisting LGPS funds with sustainable and ethical investment challenges.	LAPFF has conducted engagements that is complimentary to LGPSC's stewardship theme engagement effort, for instance in reaching out to communities affected by the collapse of Brumadinho tailings dam operated by Vale and BHP.

Climate Action 100+	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 targeted and robust investor collaboration which LGPSC views as highly value adding relative to climate change risk management. The 2021 CA100+ Benchmark Framework, with scores published in March 2022 and updated in October 2022, embeds structure and rigour to assessments of companies against a Paris trajectory
Investor Forum	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

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 each[1]

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).

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 2022

During 2022 the following engagement highlights were achieved

- 547 companies engaged on 1022 climate-related issues and objectives with progress on 378 specific objectives.

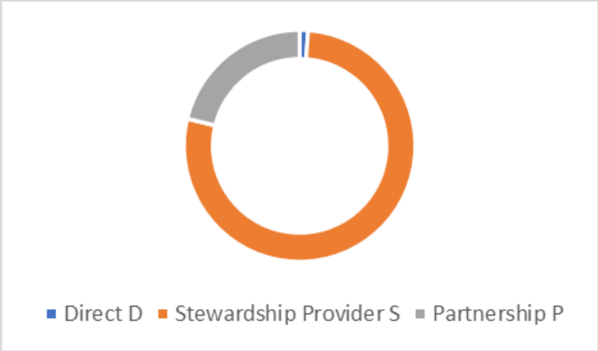
- Following a surge in climate transition plan disclosure, alongside a corresponding increase in "Say on Climate" votes at corporate AGMs, these areas have become an area of focus for CA100+ co-leads, including LGPS Central, in their climate related engagements. LGPS Central voted against climate-related resolutions at the AGMs for Shell, BP and Glencore. We followed up the votes at Shell's AGM with a letter to the Chair of the Board detailing our rationale for the vote.

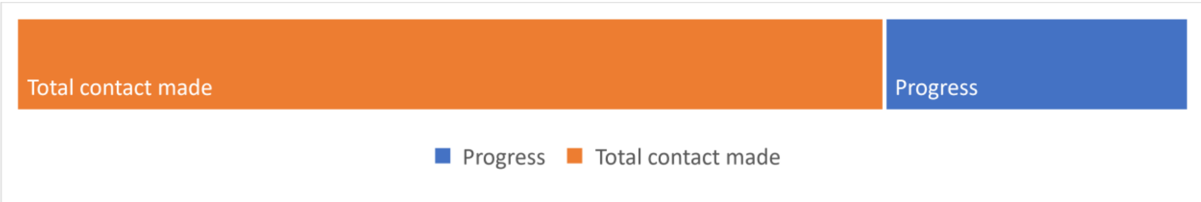
- Provided evidence to the Court as Shell's Board of Directors were sued by ClientEarth for their mismanagement of climate risk.

- Examples of these engagements carried out by EOS include repeatedly meeting with management at BP to challenge their climate strategy. EOS also made a statement at the company's AGM.

- EOS also engaged with TotalEnergies, having determined that the company's climate strategy remained materially below their sector-specific expectations. EOS escalated their concerns by pre-declaring their intention to recommend a vote against the company's climate change progress report. EOS also met with the CEO at Total's headquarters in Paris.

- In the mining sector "Say on Climate" votes were also common in 2022. In engagement ahead of the votes, EOS discussed different approaches to targeting Scope 3 emission reductions with Anglo American and Rio Tinto.





Climate engagement case

Glencore

Theme: Climate change

Objective:

We expect companies to set clear, reasonable, and measurable climate action targets aligned with the Paris Agreement. We also compare those targets with the company's industry peers, as well as Paris-aligned sector pathways, and engage with the company in case of any major deviations.

Engagement:

We sent a letter to the CEO of Glencore from LGPS Central, outlining concerns that led us to vote against Glencore's climate progress report at the 2022 AGM. Glencore's total carbon footprint is highly correlated with coal production. We take the view that the company should seek alignment with the International Energy Agency's (IEA) NZ2050 coal pathway rather than an overall fossil fuel pathway. Based on Glencore's current disclosures, we are concerned that Glencore's current plans to reduce coal production over the next decade appear inconsistent with a 1.5C trajectory. In a letter to Glencore's CEO in December 2022, signed by eight investors including LGPS Central, we reiterated this concern asking for clarification on the expansionary capital expenditure for thermal coal and whether this is consistent with a 1.5C trajectory.

Outcome: Glencore has responded to the letters stating that the company will provide further detail in the upcoming 2022 report against the climate strategy, and that they welcome our feedback to these disclosures. In December 2022, Glencore decided to withdraw a coal project in Australia from the current approvals process. We are seeking a meeting with the company to discuss how this will affect Glencore's achievement of climate targets and the responsibly managed decline of coal assets, alongside other issues raised.

DRAFT

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

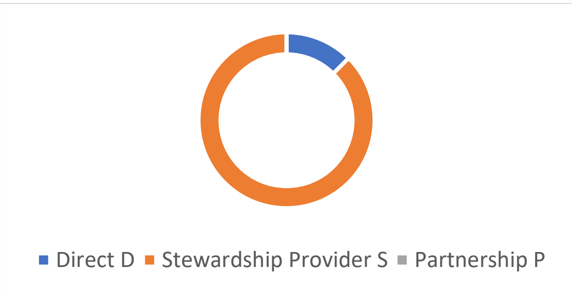
Engagement highlights during 2022 were:

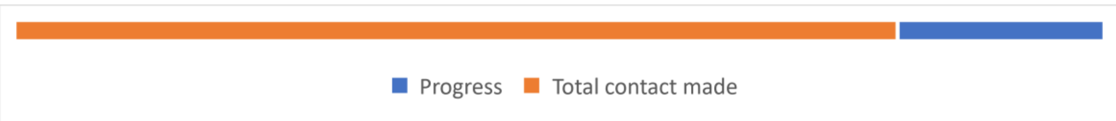
- 43 companies engaged on 56 plastics and circular economy related issues and objectives, with progress on 15 specific objectives.

- LGPSC continues to participate in a collective engagement on microfibres. As part of this engagement, LGPSC co-signed a letter to the Secretary of State for Environment, Food, and Rural Affairs to highlight concerns over the risk posed by microfibre pollution, recommending the government mandate the installation of microfibre filters in all new washing machine filters from 2025.

- During the first half of 2022, LGPSC engaged with 7 companies regarding the use of plastic packaging. Each of the manufacturers in the engagement program had the tackling of plastic pollution high on the agenda.

This engagement led to a recognition of the need for government intervention, which prompted one of the collaborators to invite investors to support the "business statement for a legally binding UN Treaty on plastic pollution". 37 institutional investors have now signed that statement.





Case study

PRI PLASTICS WG (SUB-GROUP) – ENGAGEMENT WITH SIX PACKAGING COMPANIES Theme: Plastic pollution Objective: Engagement project with six packaging companies, asking these to reduce, re-use and replace fossil-fuel based plastics in their packaging products. Engagement: Meetings have been held with senior management at Amcor (Australia), Berry Global (US), Huhtamaki Oyj (Finland), LyondellBasell (US), Mondi (UK) and Sealed Air (US). We have asked for more transparency on materials used, (more ambitious) targets for the use of more sustainable and circular materials, and ESG performance indicators in executive remuneration. Companies have responded positively to our asks e.g., by introducing SASB reporting standards providing more insight into materials used. Overall, dialogues have been very constructive. All companies have set plastic reduction/recycling/reuse targets which show ambition. We have also seen progress with companies on adding ESG related KPIs in remuneration. We would like to see removal of plastics and use of alternative materials scaled up. Outcome: This engagement project will now be closed after two years due to steady progress by these packaging companies. While we would like to see greater ambition (short/medium-term

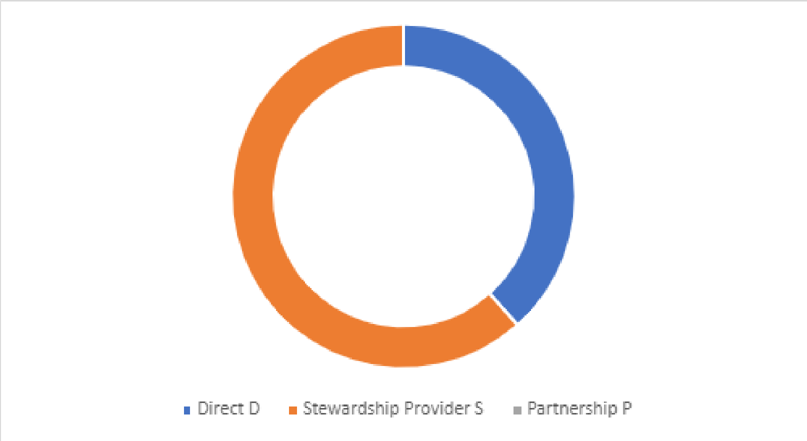
Responsible tax behaviour stewardship theme

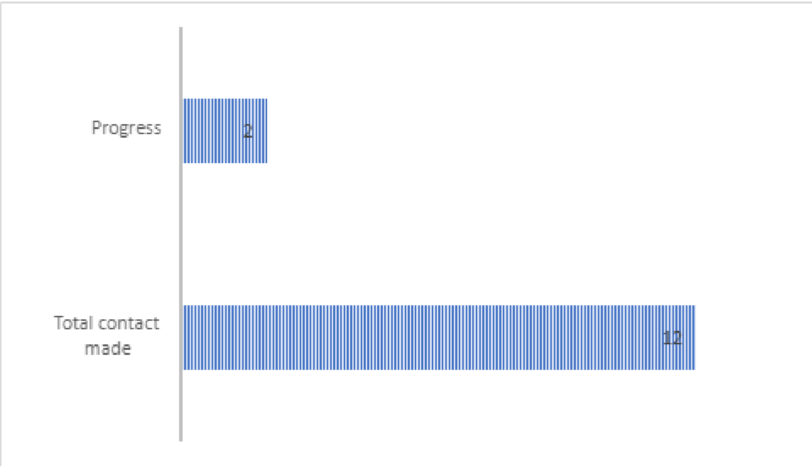
Stewardship strategy: We will leverage investor collaboration opportunities for instance through PRI Tax Investor Working Group and a Tax Roundtable (led by NBIM (Norway) and APG (Netherlands). Voting will be engagement led, and we will e.g., consider co-filing or supporting shareholder resolutions that 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 2022 were:
- 11 companies engaged on 13 tax related issues and objectives, with progress on two specific objectives.
- LGPS Central as part of a group of institutional investors previously engaged with Barrick Gold regarding their tax policy and transparency. Since March 2021 this collaboration group has provided feedback to Barrick Gold on their Tax Contribution Report.
- LGPS Central as part of a collaboration lead by PRI engaged with Experian, to provide feedback regarding their 2022 tax report.

- LGPS Central and other institutional investors signed a letter to GlaxoSmithKline, attempting to initiate a dialog with the company to better understand their tax strategy.
- LGPS Central joined the PIRC and CICTAR Initiative on Responsible Corporate Tax. The initiative aims to facilitate active, collaborative engagements with multinationals on tax transparency and responsible tax. In May 2020 PIRC published a tax brief outlining the expectations of the companies.





Case study

Amazon.com, Inc.

Theme: Responsible Tax Behaviour

Objective: We recognise the importance of companies being accountable for and transparent about their tax practices. We expect portfolio companies to have a tax policy that outlines the company's approach to taxation and how it aligns with the overall business strategy. We also expect companies to have a robust tax governance and management framework in place, to pay taxes where economic value is created and to provide country-by-country reporting.

Through our engagement with companies on tax, 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:

In March 2022, in support of a shareholder proposal at **Amazon** asking for tax transparency, we signed a letter to the US Securities and Exchange Commission (SEC), alongside over 100 other investors. The company had earlier in January 2022 written to the SEC requesting approval for the shareholder resolution to be excluded from voting at the AGM.

Outcome:

The SEC ruled in favour of the shareholders and hence the proposal was put to a vote. **This represented one of the first times the regulator granted a shareholder request on tax matters**. The proposed tax transparency report had to be in line with the Global Reporting Initiative's (GRI) Tax Standard. We voted in favour of this resolution, and it received 17.5% shareholder support which is reflective of shareholder concerns.

Barrick Gold

Theme: Responsible Tax Engagement

Objective: We recognise the importance of companies being accountable for and transparent about their tax practices. We expect portfolio companies to have a tax policy that outlines the company's approach to taxation and how it aligns with the overall business strategy. We also expect companies to have a robust tax governance and management framework in place, to pay taxes where economic value is created and to provide country-by-country reporting. Through our engagement with companies on tax, 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: In April 2022, Barrick Gold published their inaugural tax report. While the report represented a positive step forward for the company in terms of tax transparency, there were some areas which we felt could be further improved. In particular, these included the potential for country-by-country tax reporting, as well as further details regarding subsidiaries which are registered in low tax jurisdictions.

Outcome: This is an ongoing engagement, with investors providing annual feedback to the company. In 2023 Barrick Gold released their new tax report, prompting a new round of investor

Human Rights 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.

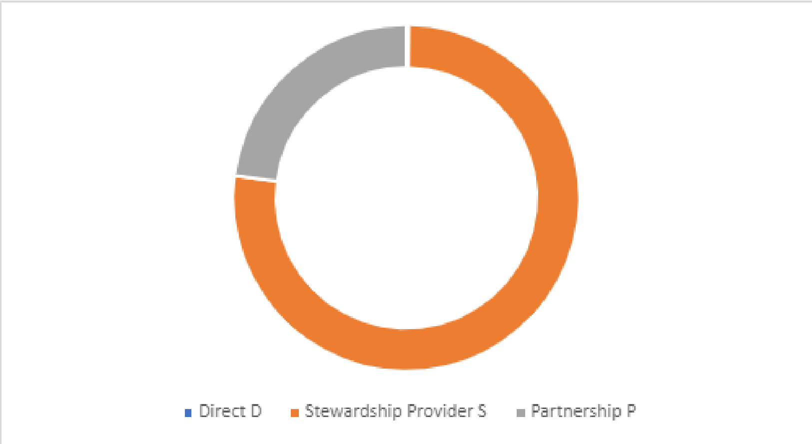
Measures of success were:

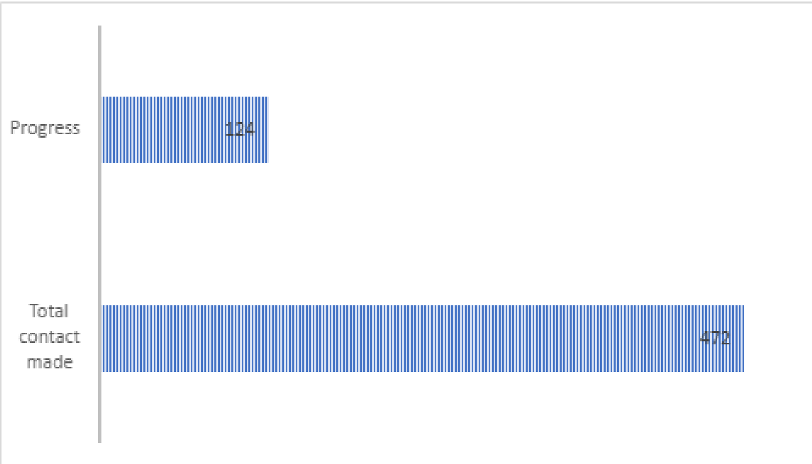
- We aim for positive interactions at senior levels of target companies and acknowledgement of relevant risk factors.
- We seek Board oversight of human rights risk; company policy to respect human rights; relevant measures to manage human rights risks integrated into corporate business strategy, risk management and reporting; engagement with stakeholders and grievance mechanisms.
- We expect strategies for responsible business conduct should follow the UN Guiding Principles for Business and Human Rights, where applicable.
- We encourage improvements in benchmarks such as Ranking Digital Rights and the Workforce Disclosure Initiative (WDI).

Engagement highlights during 2022 were

- 277 companies engaged on a range of 427 broader human rights risks. Progress was seen in 124 cases against specific objectives and three engagements were concluded during the year.
- LGPS Central have collaborated with the Swedish Council on Ethics and other institutional investors to conduct engagement with tech giants with the aim of strengthening their management of human rights risks and impacts.

- Prior to this collaboration we were able to engage with Meta during September 2022. During this engagement several issues were discussed, including Meta's first human rights policy report.
- LGPS Central met with ITV to discuss their Modern Slavery Statement.
- LGPS Central were also able to meet with Tritax during July 2022, to discuss their approach to modern slavery.





Case study

ITV Plc

Theme: Modern Slavery

Objective:

Over the last two years, LGPSC 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; and reviewed annually and published on the company's UK website. We engage with companies for which we would like to get in-depth understanding of their approach to modern slavery risks, including modern slavery governance, policies, and mitigation.

Engagement:

Alongside Rathbones Group Plc, we held a meeting with **ITV plc** discussing the company's management of modern slavery risks. We discussed ITV's corporate governance process and asked whether there are any plans to link modern slavery targets to executive pay. We also discussed the company's practices on whistleblowing, past whistleblowing instances due to modern slavery, training, and the company's collaboration efforts to tackle the issue. We also asked the company about its supply chain and oversight for its suppliers, including identification of high-risk suppliers and conducting unannounced audits.

Outcome:

We appreciate ITV's commitment to mitigate modern slavery risk. The company is compliant with the Modern Slavery Act and has published its sixth Modern Slavery Act Transparency Statement. In terms of modern slavery risk governance, the company's General Counsel is the executive sponsor and heads the steering committee which meets on ad-hoc basis. The new Chair is also the chair of another company, which is generally more exposed to modern slavery, bringing relevant experience for robust risk management. ITV also provides appropriate modern slavery training to staff. The company has disclosed a comprehensive procurement policy 2021, stating that the company conducts supplier-risk mapping, due diligence questionnaires and periodic assessments.

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