WORCESTERSHIRE PENSION FUND

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

2024 Submission – May 2024

Find out more online: www.worcestershirepensionfund.org.uk

Contents

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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 and has been followed by successful reapplications in 2022 and 2023.

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 continues to recognise 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 periodically conducting an ESG Audit. The most recent, in 2021 included mapping the Fund's portfolio to the United Nations' sustainable development goals (SDGs). The next audit is expected to take place in early 2025. The Fund has also conducted an ESG workshop for its Pensions Board and Committee in each of the last three years. The most recent was held in January 2024 and reviewed progress against last year's identified actions as well as focussing on the Fund's approach to impact investing.

1.6 In January 2024 the Fund's fourth annual Climate Risk Management Report delivered a view of the climate risk of the Fund's 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 fourth year. The Fund was particularly pleased to see that its initial focus on transitioning out of passive mandates with the greatest carbon footprint continues to benefit the Fund and has resulted in the Fund's overall listed market portfolio now being 40% more carbon efficient than the reference index 32% lower than in 2020.

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 committed a further £25m in 2023 to its existing £175m towards a UK forestry and sustainability fund. The Fund also committed a further £60m to its existing £200m in 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.

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 over 200 participating employers and approx. 69,000 member records of which 22,000 are pensioners; 24,000 are deferred; and 23,000 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. More recently, the Fund's actuarial statement for the year ended 31 March 2024 supports an improvement in the funding position to approximately 106%.

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
- Stock lending
- Strategic asset allocation

2.6 The Fund's ISS and Funding Strategy Statement (FSS), are key documents 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 over £350bn 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 The recently updated LGPSC Responsible Investment & Engagement Framework 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 identify four themes that are given particular attention in its ongoing stewardship. Themes are reviewed on a three-year basis. The current period covers 2020-2023. The existing four themes 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 2023, LGPSC supported the Fund in the preparation of the Fund's fourth 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 continues to work with 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 Principles for Responsible Investment (PRI) as evidenced on the PRI website.

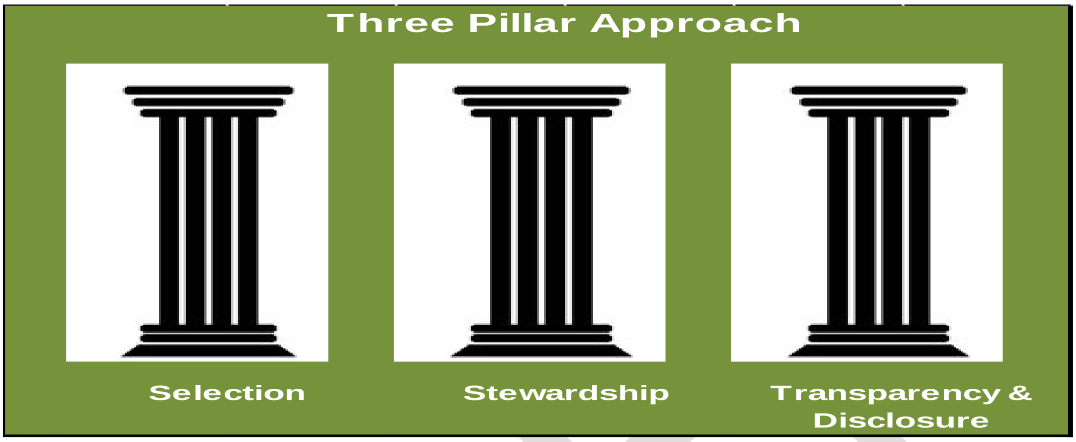
Investment beliefs

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 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 takes 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 Following on from a significant investment made in the previous year in a mix of sustainable and low carbon funds, the Fund continued to apply these beliefs in 2023 by approving a further £25m investment with Gresham House in their Forest Growth & Sustainability Fund**.**

Stewardship

2.23 During 2023 the Fund made its first allocation to private equity. As part of its investment due diligence process, a detailed review of the proposed governance structure was conducted, and recommendations presented to Pensions Committee. As a consequence, the Fund was able to negotiate a bespoke stewardship structure which was more aligned to its RI beliefs.

2.24 The Fund believes that by publishing its fourth consecutive Climate Risk Management and TCFD reports evidence its commitment to effective stewardship.

Transparency & disclosure

2.25 The Fund has provided a dedicated training and workshop programme for its Board and Committee members since 2020. These events are delivered in collaboration with Pensions for Purpose (PfP) and cover RI and sustainable impact and ethical investment. This enables Pension Investment Sub Committee (PISC) and Pensions Committee members to enable them to make informed decisions going forward. LGPSC also provides a dedicated annual RI training event to which all members are invited.

2.26 During 2023 the Fund has continued to develop RI initiatives and communicate its ESG position through the Responsible Investment section of its website.

Culture

2.27 As in the previous two years, an ESG 2024 review workshop was provided for members on 31 January 2024.It was delivered in collaboration with PfP to ensure consistency of approach. The review included:

- Reviewing progress against the ESG recommendations approved by the Pensions Committee in March 2023.
- Focussed presentations from a UK fund manager showcasing how their ESG and impact investing strategies have been.
- A presentation from LGPSC on the outcomes of the Fund's fourth Climate Risk and TCFD reports.
- A presentation from and discussion lead by PfP focussing on impact investing strategies.
- Further discussions and debate on setting a carbon reduction target and the way forward for the next 12 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>ESG Successes</u> There have been many ESG successes since the February 2023 ESG workshop, such as further investment in forestry, investment in vertical farming and energy from waste. Additionally, the Fund has enhanced its TCFD reporting (now into fourth year on a voluntary basis), enhanced engagement with LGPSC RI&E Team and maintained signatory status with the Stewardship Code 2020. Over the year the Fund has been well supported by LGPSC including via their reporting on Climate Risk Metrics.
<u>Investment Beliefs</u> It was noted the current Sustainable Development Goal's highlighted as priorities remain as Good Health and Well-Being (SDG 3), Affordable and Clean Energy (SDG 7), Industry, Innovation, and Infrastructure (SDG 9), Responsible Consumption and Production (SDG 12) and Climate Action (SDG 13). The Fund is supportive of further impact investments provided they are considered on a finance first approach.

Climate targets The Fund has agreed to continue to consider setting a net zero target despite to compliment a five-year decarbonisation goal and continue to seek investments in climate opportunities. The following observations were noted: • An explicit net zero objective could impact the current investment universe available with consequences for the Fund's fiduciary duty obligations. • With a more limited investment set it was difficult to adequately plan for net zero. Planning issues were compounded by the lack of available emissions data. • The market was still maturing, and the Committee needed more confidence in data quality and approach. The Fund needed to be honest, transparent, and real. There was a preference for the Fund to be "alert and watching". • The current absence of an explicit net zero target need not be detrimental to stewardship, collaboration, and member engagement activities.
Impact Investing The committee was happy with the way the Fund was developing its impact investment approach. It was suggested that the Fund focuses on highlighting impact achievements more effectively for members, across all the investment managers. For example, existing investments in energy from waste. It was agreed that the committee could consider adding an explicit paragraph in the Investment Strategy Statement which indicated commitment to impact investment in the Fund's own way and time.

3. Principle 2

Signatories' governance, resources, and incentives support stewardship

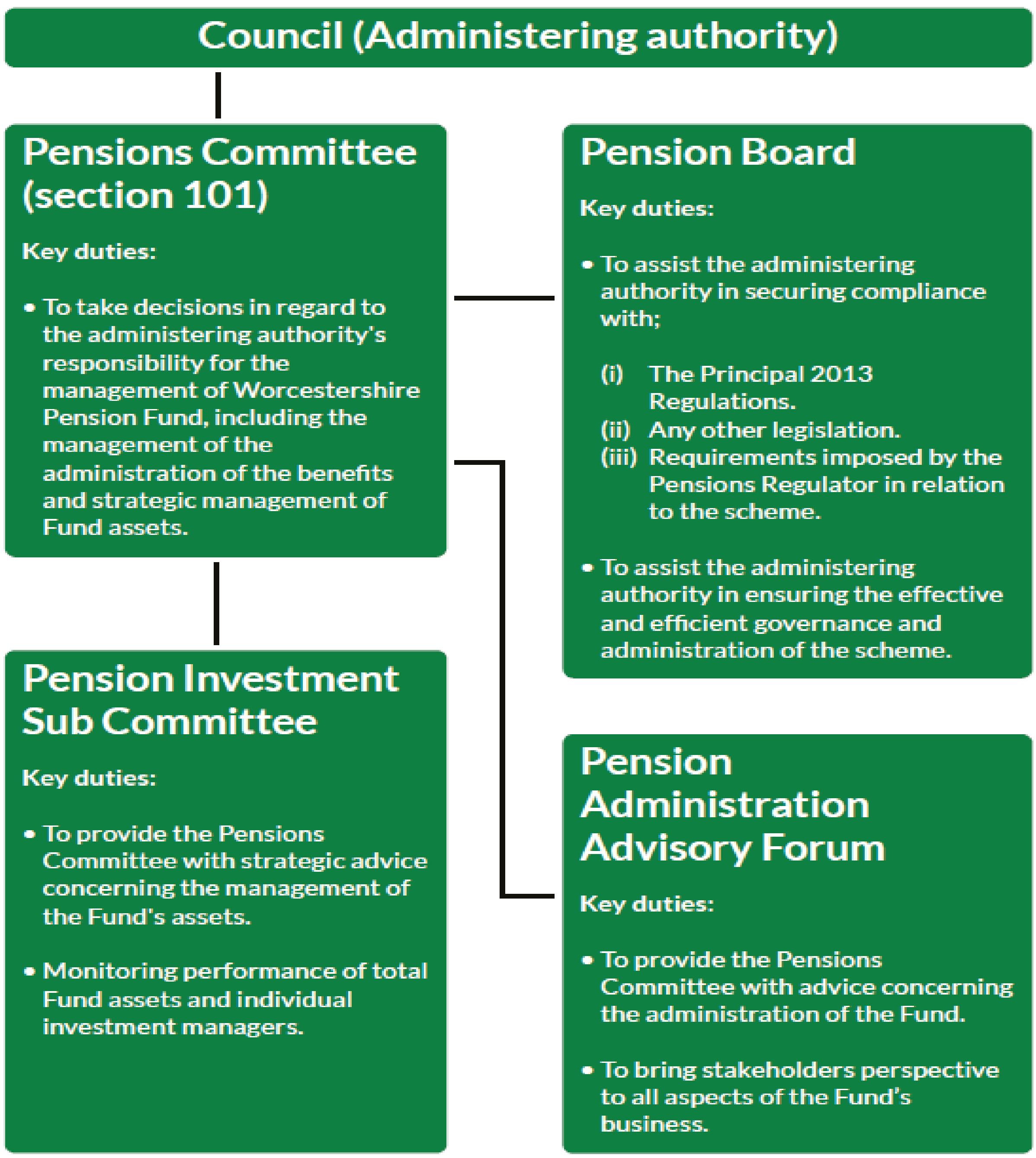
Governance

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, Roger Phillips, 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 (41 FTEs) and a Pensions Investment Team (2.5 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 2023 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 Senior Stewardship Analyst, ESG Integration Manager and Net Zero Manager, and two ICM qualified RI analysts. 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 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, over the last three years we have tasked PfP with delivering support to our members through RI and impact investment workshops / training, LGPSC with completing A Climate Risk Management, Climate Risk Scenario and TCFD reports. In addition, the Fund engages Minerva to deliver an ESG audit.

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 discussed quarterly at Board and Committee meetings.

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.
- 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).

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. This is to ensure consistency and fairness among Partner Funds.

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.

Example of addressing possible conflicts of interest

Appointment of a new Emerging Markets Investment Manager

4.15 LGPSC have appointed an Investment Manager for the Emerging Markets funds. All colleagues involved in the evaluation of tenders were required to complete a conflict-of-interest declaration. The declaration asked colleagues to provide details of any conflicts of interest with any of the potential transition managers for assessment by the compliance team. The approach taken is that conflict may 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. On this occasion no conflicts arose. The managers appointed were pre-existing providers that had already gone through this process. The conflicts declaration was refreshed to ensure there had been no changes.

Voting

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

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

4.18 The proxy voting research provider, ISS has identified three primary potential conflicts of interest; Corporate issuers who are clients of ISS Corporate Solutions (ICS), Corporate issuers who are clients of ISS, and ISS' ownership structure.

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 full 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, the Fund has commissioned equity protection arrangements for all our passive market cap equity funds which provided protection against appropriate falls in market valuations whilst capturing as much of the upside as possible.

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.

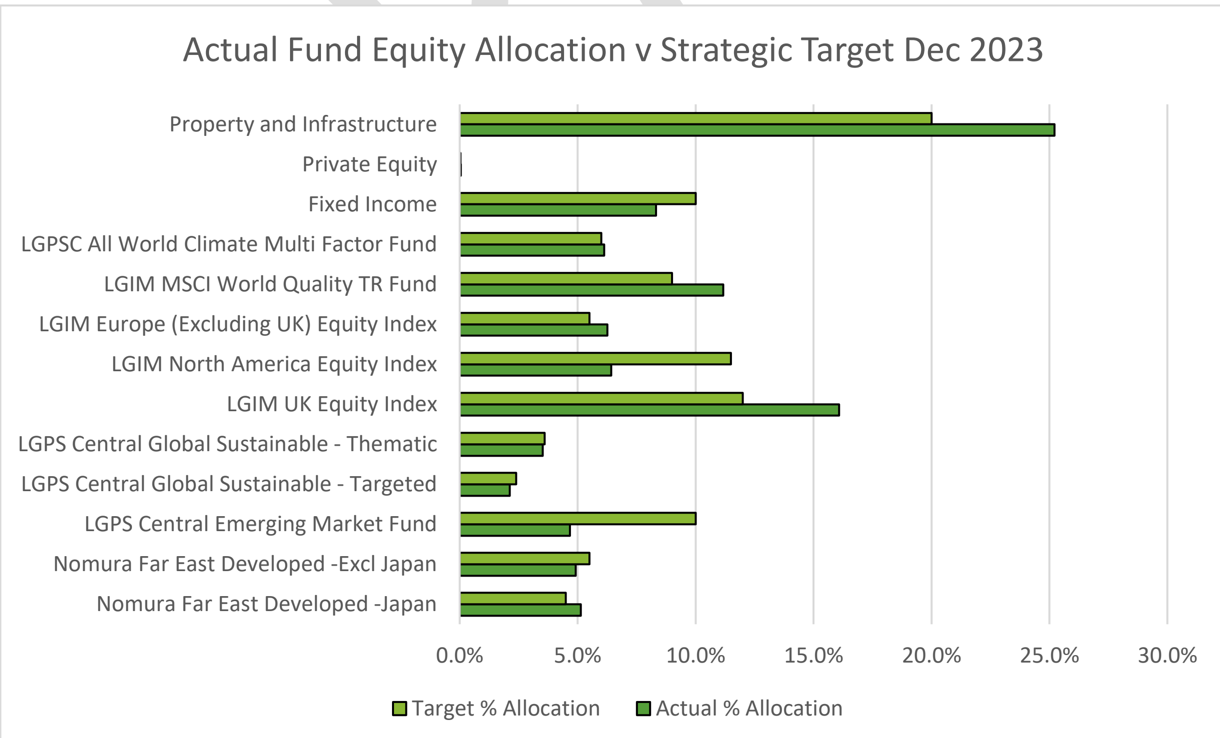
5.8 We continue to liaise with all our investment managers in response to the ongoing market volatility resulting from current geopolitical conflicts and the prolonged inflationary environment. The Fund's diversified portfolio, equity protection policy and sound investment decisions have helped mitigate the impact of these challenges. At its last triennial valuation in 2022, funding was at 101%. 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.



Systemic risks 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:

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

- **Manager underperformance risks** 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.

- **Responsible investment (RI) risks**, including climate-related risks, that are not given due consideration by the Fund or its investment managers. The Fund actively addresses ESG risks through implementation of its RI beliefs. It also reviews this as part of the quarterly performance meetings with its fund managers and regular dialogue and support through the LGPSC RI and Engagement team.

The Fund's existing ESG audit and climate risk assessment 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 2023, 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 conduct stewardship activities beyond the scope of LGPSC-led stewardship activities. In 2023, EOS engaged with 172 companies within the Fund's investment portfolio on 1,023 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.

Organisation	Remit
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 2023, LAPFF engaged on a global basis with 563 companies sent over 609 correspondences, attended 84 meetings and 7 AGMs across a spectrum of material ESG issues.

Core Stewardship Themes

5.11 In partnership with Partner Funds, LGPSC reviews its stewardship priorities every three years. In 2023, the LGPSC's four core Stewardship Themes were climate change, plastic pollution, responsible tax behaviour and human rights. 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 6.1, we provide information on the annual review of stewardship themes that was carried out during 2023.

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.

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 its fourth iteration, the Climate Risk Monitoring Service underwent significant changes in 2023. These changes were made to ensure that Partner Funds are ready to meet the upcoming governance and reporting of climate change risks requirements by DLUHC. To facilitate disclosure in line with the TCFD, the Climate Risk Report is deliberately structured to align with the four TCFD disclosure pillars. On top of assessing Partner Funds' readiness to meet the requirements, LGPSC also enhanced the carbon footprint metrics used in the reports to promote transparency and understanding of the topic.

5.16 The Fund has used the findings of its Climate Risk Management Report (CRMR) to develop its own individual climate strategy covering governance, beliefs, objectives, strategic actions and reviews in relation to their climate-related risk. Aside from strategy setting, the Climate Risk Monitoring Service have also been used to facilitate TCFD disclosure; formulate Climate Stewardship Plans; conduct training sessions on climate change; initiate governance and policy reviews; and for exploring potential investments in sustainable asset classes. LGPSC will continue to develop areas of convergence and commonality across each of the eight bespoke CRMRs to facilitate collective action as a pool.

5.17 From 2023, LGPSC are equipped to support Partner Funds in producing their TCFD reports when requested as well as we are publishing our first TCFD report complaint with the FCA guidelines in May 2024.

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

5.18 LGPSC is an active participant in the debate on good corporate and investor practice. Collaboration with peer investors and industry initiatives is a critical component to engagement, giving a stronger voice and more leverage. Industry initiative participation can serve several purposes: access to data, research, and tools available to members; influence further development of these initiatives; encourage market uptake of new standards/benchmarks as appropriate.

5.19 Appendix 1 provides an overview of initiatives that LGSPC is an active member of, which includes a brief assessment of the efficiency of the initiative and outcomes during 2023.

Policy engagements and consultation responses:

5.20 LGPSC has actively participated in policy dialogue on behalf of Partner Funds across various themes and regulations including on ethnicity pay reporting, tax transparency, modern slavery, climate change and sustainability reporting requirements.

5.21 LGPSC have participated in a collaborative engagement that won the Environmental Finance Sustainable Investment Award for **'ESG engagement initiative of the year, EMEA'** in 2023. The engagement focused on preventing marine microfibre pollution. Alongside 30 institutional investors, LGPSC engaged with manufacturers and policymakers to introduce technological solutions to prevent synthetic microfibres from entering the marine environment. Microfibre pollution pose a significant threat to biodiversity and human health. Companies who do not effectively manage microfibre pollution will face reputational and litigation risks. Consequently, LGPSC co-signed a letter to the ministers at DEFRA supporting recommendations to mandate the installation of microfibre filters in new washing machines by 2025.

5.22 LGPSC responded to the consultation from the Financial Conduct Authority (FCA) on the proposed listing rules CP23/10. They provided feedback to some proposals, for example by commenting on the removal of shareholder vote for Related Party Transaction and extension of sunset provisions to 10 years.

5.23 LGPSC co-signed a letter supporting an amendment to the Financial Services and Markets Bill. They advocated the introduction of a mandatory due diligence system for financial institutions to undertake to prevent the financing of deforestation. The Bill is set to be debated in the House of Lords.

5.24 LGPSC co-signed a letter addressed to the UK Prime Minister, alongside investment managers, banks, asset owners and other financial institutions managing £1.5 trillion in assets under management. The letter expressed concern at the government's recent public statements and policy signals which undermine the UK's leadership in the clarity, certainty, and confidence of policymaking toward meeting the UK's commitment to net zero. The reforms to the UK's carbon market, energy efficiency standards for the private rented sector, and plans to issue new oil and gas licences in the North Sea all cast uncertainty on the government's commitment to the UK's near and longer-term climate targets. The letter urges the UK to remain at the forefront of the global transition to net zero and to take full advantage of the short- and long-term economic benefits that this will bring.

5.25 The Financial Reporting Council (FRC) consulted LGPSC on the revised Corporate Governance Code. They responded with the majority of the revisions being welcomed whilst a few amendments were recommended to align with best practices.

5.26 The Vote Reporting Group consultation proposes a voluntary, standardied, and comprehensive 'vote reporting template' for asset managers to communicate to asset owner clients on their voting activities. LGPSC responded to the consultation in support of additional disclosures whilst giving feedback to enhance the proposed template.

6. Principle 5

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

6.1 In partnership with the Fund, LGPSC reviews its stewardship priorities every three years. A deep dive review of the stewardship priorities was undertaken in 2023. The table below provides a summary of those reviews.

Description of themes in light of discussions with Partner Funds

Theme	Discussions and review during 2023
Climate Change	Climate change poses systemic 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 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 ecosystem services. Tropical forests play an important role in tackling climate change and protecting biodiversity. Forests alone absorb one-third of the CO2 released from burning fossil fuels every year. Financial institutions, including LGPSC, have committed to engage with a view to eliminating commodity-driven deforestation by 2025 through engagement at policy and corporate levels.
Plastics	Plastic pollution is a global problem that is continually growing. As well as the negative effects on the planet, companies that purchase, use, or produce significant amounts of plastic could face regulatory tightening, plastic taxes, and reputational damage. The International Legally Binding Instrument to end plastic pollution provide an opportunity to establish clear policy mandate with regard to eliminating plastic pollution. 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.
Technology & disruptive industries risk **replaced by Human Rights**	The Technology and disruptive risk theme was adjusted to include a greater focus on Human Rights. We take as a starting point the UN Guiding Principles for Business and Human Rights, which also apply to investors. Ongoing engagements on modern slavery, child labour, human rights in conflict zones, labour rights, living wage and health & safety in the workplace are captured under this theme.

Theme	Discussions and review during 2023
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 provided 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 proposal setting a minimum 15% corporate tax, which adds to the expectations for responsible tax behaviour.

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 continues to review 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. PfP, the Fund's independent investment advisor and LGPSC have provided external assurance on the review.

6.5 The Fund has also continued holding dedicated ESG review workshops aimed at reviewing recommendations from the Pensions Committee as well as looking ahead at any further specific actions needed over the next 12 months.

6.6 LGPSC, and PfP have provided external assurance on the Fund's Climate Change Risk Strategy and Climate Related Financial Disclosures.

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.

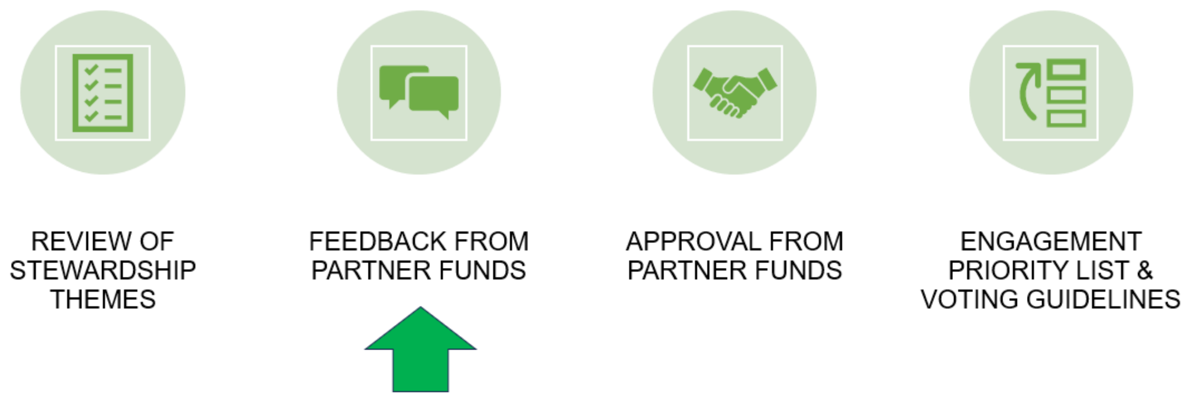
6.9 The Fund has a significant passive equity portfolio though LGIM and the

LGIM quarterly ESG impact report is available on the Fund's website. LGIM was assessed as part of the Fund's 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 dedicated pages covering 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 is currently reviewing the four stewardship themes in close collaboration with the Fund. The diagram below illustrates the process being undertaken:



The themes currently being discussed for 2024-2027 are as follows:

Climate	Natural Capital	Human Rights	Controversial Activities
Net Zero Alignment (Direct, CA100+, CDP)	Advocacy (PRI, IPDD)	Corporate Index Benchmark (ICCR)	Laggards in ACS (Direct, Investor Forum, EOS)
Audit Accounts (IIGCC)	Nature Action 100	Advance (PRI)	Egregious controversies in ACS (Direct, Investor Forum, EOS)
Just Transition (LAPFF)	Plastic pollution (AsYouSow)	Modern Slavery (Find it, Fix it, Prevent it), OPT (Direct, LAPFF)	Fair Tax (PRI)
Banks (ShareAction)			

Each of the four themes has specific objectives, a strategy for meeting those objectives and criteria for measuring success. An example relating to climate change is as follows:

Climate Change Stewardship Theme:

Stewardship Objectives

1. Corporate Objectives
- Alignment with LGPSC net zero strategy
- Strong climate governance
- Targets, strategies and actions to reduce emissions in line with the Paris Agreement and International Energy Agency's 1.5C scenario

2. Policy Objectives
- Consistent, progressive, pragmatic investor voice on climate policy advocacy

3. Understanding
- Improved investor understanding of NZ pathways at sector levels

Stewardship Strategy

1. Engagement
- Continued engagement via Climate Action 100+
- Engagement with CDP/Science Based Target
- Direct dialogue with companies with the assistance of managers or EOS

2. Voting
- TPI-linked (or alternative) voting rule
- Co-filing and/or supporting shareholder resolutions

3. Advocacy
- Active involvement in IIGCC, Investment Association and TPI

4. Understanding
- Membership of IIGCC Corporate Programme Advisory Group to shape CA100+ going forward
- Membership of CDP Working Group.
- Inclusion of TPI Board.

Measures of Success

Level 3: Successful Outcome
- Company demonstrate alignment with LGPSC net zero strategy

Level 2: Moderate progress
- Progress observed in the Climate Action 100+ Benchmark Framework, CDP
- Companies improving on TPI management quality ladder
- Companies are partly aligned with LGPSC net zero strategy

Level 1: Minimum Expectations
- Companies disclosing data to facilitate carbon performance assessment if relevant

Level 0: No improvement
- No progress has been made

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 The Fund uses the output from ESG Audits and its third 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 an ongoing stewardship plan for the Fund which consists of:

- Challenging 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.
- Prioritising the most material / strategic exposure for dialogue on climate risk.
- Asking managers to:
  - Report on the portfolio's alignment to the Fund's agreed targeted SDG's and carbon risk metrics.
  - Present their TCFD reports.
  - Provide evidence of a strong investment thesis where the Fund may have concerns.

6.14 As a result, managers are asked to discuss ESG updates during quarterly investment update reviews. In addition, a selection of managers are invited to present their ESG updates at the Fund's dedicated ESG workshops.

6.15 The Fund continues to look to invest further in sustainable equities and low carbon factor funds. The Fund took significant actions taken during 2022 to:

- Consolidate circa £120m into the "Quality" portfolio with LGIM.
- Transition £200m of assets into LGPSC sustainable equities.

During 2023, the Fund enhanced its ESG investment credentials with a £25m allocation to UK forestry & biodiversity funds.

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

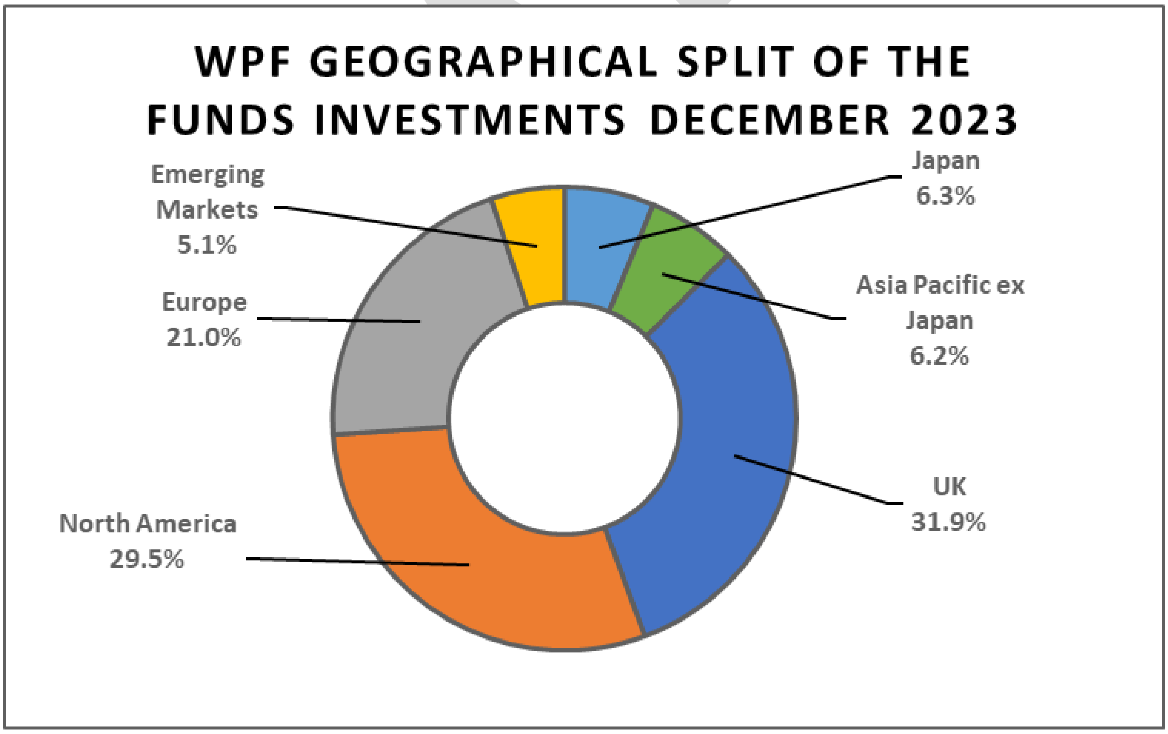
7.1 The Fund has been established to pay LGPS defined benefit promises as they become due.

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. The Fund's historical net cashflow over the last six years is as follows:

Cashflow Management	2023-24 £'M	2022-23 £'M	2021-22 £'M	2020-21 £'M	2019-20 £'M	2018-19 £'M
Contributions receivable	151.3	91.5	83.8	191.2	87.7	81.8
Benefits Payable	-124.2	-112.3	-116.3	-114.0	-111.5	-106.3
Surplus / Deficit (-)	**27.1**	**-20.9**	**-32.5**	**77.2**	**-23.8**	**-24.5**
Investment income	42.5	43.4	50.0	44.0	48.3	51.7
Net Cashflow	**53.1**	**22.5**	**17.5**	**121.2**	**24.5**	**27.2**

7.3 The Fund's Strategic Asset Allocation Benchmark (SAAB) and Ranges can be found at appendix A in the Investment Strategy Statement.

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. The Fund conducts a periodical stewardship survey with its pensioners. Some examples of the questions asked 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 both a hard copy and a downloadable annual newsletter to all its members that includes information about the Fund and its investment / stewardship activities.

About the 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.

Going forward we will aim to reduce further the carbon footprint of the Fund's listed equity portfolio; set an internal decarbonisation reduction target up to 2025 at which point it will be further reviewed; continue to invest a proportion of the Fund's portfolio in low carbon & sustainable investments; and use the Climate Scenario Analysis to track and better understand the portfolio's capacity to transition into a low carbon economy.

Our member records reached an all-time high of 67,000 on 31 March 2023 when the Fund's value was £3,553m, with an asset allocation of:

- 24% Actively managed equities
- 28% Passively managed equities
- 16% Alternatives
- 8% Fixed income
- 9% Property
- 15% Infrastructure

Given our scale and level of activity, we have a robust governance structure in place, and you can find out more about this in the *About us area* of our website. Our latest decisions are summarised in the *Pensions Committee area* of our website.

The 2023 newsletter illustrates the Fund's approach to RI & ESG.

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. The Fund has recently implemented an LGPS online learning academy in collaboration with its actuary, Hymans Robertson LLP which allows members to directly access training content in a proactive manner without requiring officer origination.

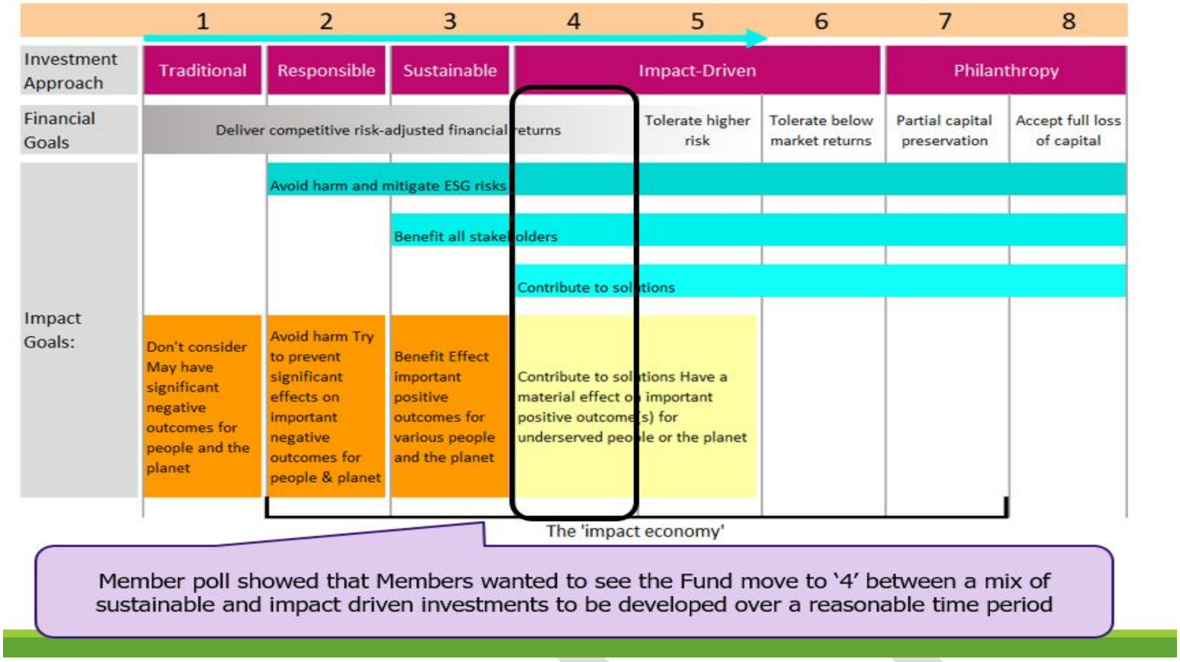
7.11 Our Annual Report and Financial Statements are available from our website and our website also provides up to date information about our governance, funding, investments, finances, and operations including a bespoke Funding and investments area.

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.

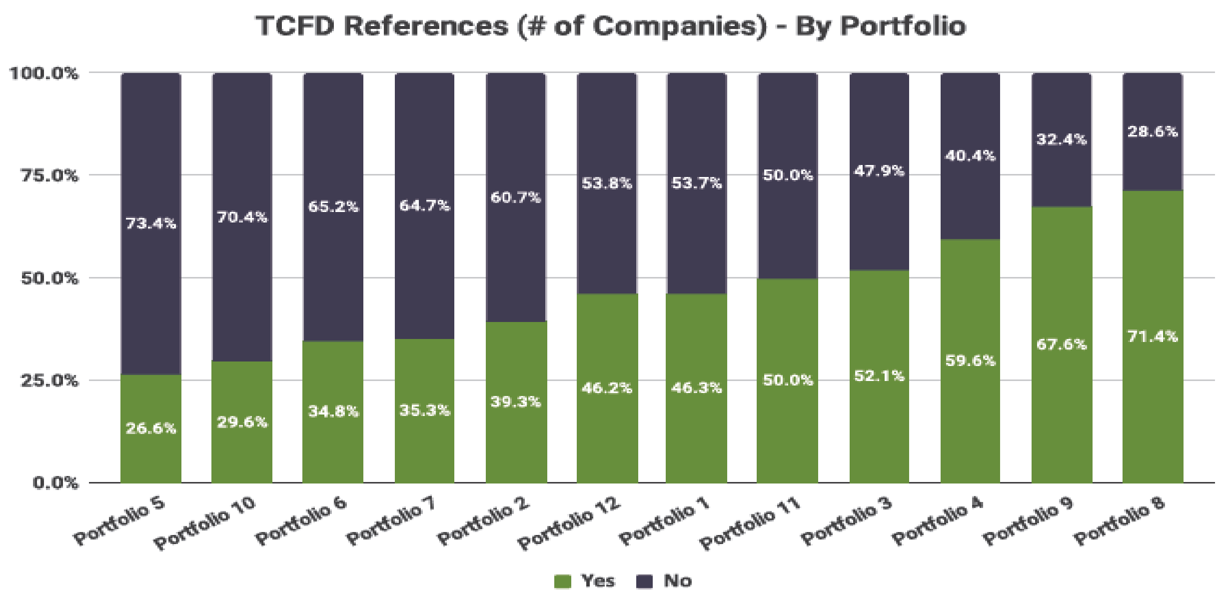
8.7 We use an **evidence-based** long-term investment appraisal to inform **decision-making** in the implementation of RI principles across our investment strategy to make better more informed investment decisions and encourage / influence better corporate practices that lead to value creation and good 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 Fund uses the following guidelines 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 latest 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: Due diligence for a new Emerging Market Active Equiry Manager

8.17 In 2023 LGPSC began the search for a new Active Equity manager for its Emerging Market Multi Manager Fund. RI-related information was required at each stage of the selection process including records of their engagement activity. 20% of the scoring related to the managers' approach to RI&E and 10% related to the manager's stewardship and engagement activities. The RI team was deeply involved in the final stage due diligence of three potential managers. It was given access to all the data provided by each manager, including example portfolios and company reports. A detailed review of these documents aided the team in formulating an agenda for an in-person meeting with the managers. These meetings lasted approximately three hours, with 30 minutes dedicated to RI&E. During these meetings, the Director of the RI Team, supported by the Integration Manager and an Analyst asked detailed questions relating to people, policy, process, performance, and transparency & disclosure. In these meetings, the RI team adopted a "show me" approach, whereby evidence is sought of each element having a tangible impact on the investment process. In this way, the team was able to gain a better understanding of the robustness of ESG integration at each of the managers. Following the meeting, additional questions were sent to managers to ensure nothing was missed from the process. The findings were then summarised in a report and given a final score, which is given equal weighting alongside eight other factors across the LGPSC's overall process.

Active equities and fixed income

8.18 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.

8.19 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.

8.20 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:

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

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

8.21 An example of LGPSC changing the RAYG rating occurred in 2023. In Q4 of 2023, the RI&E team took the decision to downgrade the RAYG rating of one of our external managers to 'Amber'. Despite the manager demonstrating evidence of ESG integration and robust engagements, LGPSC had observed a growing discrepancy between the ESG issue priorities identified by the Sustainability Team and the issues highlighted in the fundamental analysis of the company by the Investment Teams. This disconnect persisted over multiple quarters, leading to the eventual downgrade to 'Amber'. The downgrade was promptly communicated to the Investment Teams at LGPSC and was followed up with a meeting with the manager in question. This meeting provided an opportunity to articulate the reasons behind the downgrade and express our expectations for addressing these concerns. The manager acknowledged our concerns and highlighted that they would aim to demonstrate the alignment between their teams in more detail in future meetings. LGPSC are eager to engage in future review meetings to assess the manager's progress in aligning with its expectations for ESG integration.

Cross-team interaction in development of new LGPSC funds

8.22 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.

8.23 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: Infrastructure debt

8.24 The RI&E team worked closely with the Private Markets team during the selection of five new Private Equity managers throughout 2023. During an initial screening of potential managers, the Private Markets team will consider a range of factors including Responsible Investment & Engagement/ESG. The results of this preliminary RI review will contribute to the overall consideration of the potential manager, with findings provided in the Preliminary Investment Report. The RI&E team are provided with unrestricted access to the data room, containing data, policies and other documentation provided by the manager, allowing for a greater understanding of the ESG credentials of the managers. Following this, the RI&E team conducted an RI focused due diligence meeting with each manager, providing an opportunity for the team to probe deeper into the RI practices of the managers to identify and outline any relevant concerns. From this RI focused due diligence, the RI&E team provided written reports to the Private Markets team, highlighting the findings of the Due Diligence. These reports are ultimately incorporated into the Private Markets Investment Committee submission for consideration.

Case study: Due diligence for a new Emerging Market Active Equity manager

8.25 In 2023 LGPSC began the search for a new Active Equity manager for its Emerging Market Multi Manager Fund. RI-related information was required at each stage of the selection process including records of their engagement activity; 20% of the SQ scoring related to the managers' approach to RI&E and 10% of the RfP scoring related to the manager's Stewardship and Engagement activities. Following these stages, the RI team was deeply involved in the final stage due diligence of three potential managers. During this process the RI team was given access to all the data provided by each manager, including example portfolios and company reports. A detailed review of these documents aided the team in formulating an agenda for an in-person meeting with the managers. These meetings lasted approximately three hours, with 30 minutes dedicated to RI&E. During these meetings, the Director of the RI Team, supported by the Integration Manager and an Analyst asked detailed questions relating to People, Policy, Process, Performance, and Transparency & Disclosure. In these meetings, the RI team adopted a "show me" approach, whereby evidence is sought of each element having a tangible impact on the investment process. In this way, the team was able to gain a better understanding of the robustness of ESG integration at each of the managers. Following the meeting, additional questions were sent to managers to ensure nothing was missed from the process. The findings were then summarised in a report and given a final score, which is given equal weighting alongside eight other factors across the LGPSC's overall process.

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 and also Committee meetings. Our advisor's objectives are reviewed by officers annually. They include assisting the Fund in the regular 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 at least once a year. The Fund holds quarterly meetings with our active equity managers. Additional meetings with managers may also be arranged on an ad-hoc basis according to need and/or market conditions. 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 The Fund has placed a specific focus on ESG as part of the quarterly performance reviews with all of our fund managers for over two years. Irrespective of the type of asset class, they are asked the same questions as follows:

- Please explain your approach to ESG factor integration into the investment process
- Please demonstrate:
    - how your specific ESG factor integration approach informed the investments made; and
    - how they are monitored and managed in the portfolio
        - ***a)*** Please share your current thinking (if any) on the relevance of the UN SDGs to the portfolio.
        - ***b)*** 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?
        - ***c)*** How do you establish some impartial basis for this determination?
        - ***d)*** If you do not use an SDG-informed approach, what challenges and opportunities would you see in adopting an SDG approach to this fund or a future version of it?

9.10 Since its last ESG audit, the Fund has used been guided by the ESG tool below to challenge its fund managers and assess their ESG capabilities across all asset classes as part of the regular performance monitoring meetings.

Table 2: Qualitative Assessment

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

Table Key:

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

B: Portfolio disposition or potential for high ESG achievement.

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

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

E: Participation in and performance in benchmarking and standards.

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

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

9.11 This is currently conducted through discussion at quarterly update meetings and reporting to Committee as necessary. The aim will be to conduct this as a standalone annual process with progress monitoring over time leading to enhanced collaboration with 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 work closely with LGPSC in both active and passive mandates. It is our ESG adviser and its approach is detailed in its Responsible Investment and Engagement Framework.

9.16 Whilst LGPSC provides quarterly ESG update reports which can be found on its website, the Fund monitors its engagement with companies and how the proxy voting of these investments is cast, reporting this to Pensions

Committee.

9.17 In addition to LGPSC passive mandates, the Fund has appointed Legal & General Investment Management to manage its 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 Since the launch of the LGIM Future World fund in 2017, LGIM has designed sustainable investing strategies with ESG objectives in mind. For example, across the LGIM Real Assets portfolio, new fund-level strategies have included setting ambitious carbon-intensity targets and other enhanced ESG criteria. To help LGIM's clients better understand ESG risks and opportunities, it is focused on developing tools to deliver strategies aligned to client outcomes with forward-looking ESG metrics. For example, LGIM established a Climate Solutions team to focus on LGIM Destination@Risk, its proprietary climate model. This is used to link a company's or government's emissions and decarbonisation targets to an implied temperature increase, thus enabling LGIM to assess alignment with net-zero outcomes.

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 2023 has continued to be 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 2023, LGPSC's external managers conducted 623 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 is a case study of an engagement undertaken by their managers.

Meituan, UBS, LGPSC Emerging Markets Equities Active Multi Manager Fund.
Objective:
To address labour rights concerns, lack of diversity at Board level and data privacy & cybersecurity risks identified within the company.
Sector:
Diversified Consumer Services – Restaurants
ESG Topics Addressed:
Labour rights, data privacy & cyber security, and diversity
Issue / Reason for Engagement:
Labor rights concerns, lack of diversity at Board level and data privacy & cybersecurity risks identified.
Scope and Process / Action Taken:
UBS engaged in discussions with the company to address improvements in labour management and other ESG matters. The company confirmed the implementation of new pilot programs and benefits that is applicable to all riders. UBS recommended that the company provide further disclosure on its rider workforce, including turnover rate and accident rate distribution by age and gender.
Regarding data privacy and cybersecurity risks, while there have been advancements in data privacy, the company's cybersecurity disclosures are lacking. UBS encouraged the company to enhance its disclosures in this area.
The company mentioned its search for an independent female board director following the suggestion to diversify its Board. Additionally, UBS proposed that the company consider linking executive remuneration to accident rates and ESG metrics in the future, to which they expressed openness to consider.
Outcomes and Next Steps:
Engagement outcome was achieved through improvements in disclosures and enhancing the rider-friendliness of algorithms. Notably, the company piloted new mechanisms to enhance communication and extended additional benefits to all riders. Additionally, the company appointed its first independent female board director at its 2023 AGM.
Moving forward, UBS plans to follow up with the company to emphasise the significance of diversity, aiming to witness further diversity at the Board and senior management level. UBS will also review progress on other ESG issues previously discussed.

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 2023. Throughout the year, LGPSC's external managers conducted 13,563 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 two 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 Western Asset received confirmation that they Vale 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.

EnBW, Fidelity, LGPSC Corporate Bond Fund.
Objective:
EnBW is a German utility company, and one of the most significant emitters of carbon among European utilities. It is considered a key player in Germany's transition to a cleaner energy system. The objective is to support EnBW on its plan for carbon emission reduction and its overall ESG strategy. This will be done through encouraging the setting of these targets and SBTi validation of them.
Sector:
Electric utilities
ESG Topics Addressed:
Climate risk
Issue / Reason for Engagement:
EnBW does not have ambitious scope 3 targets in place and was unable to align existing targets to the 1.5 degree aligned pathway, due to uncertainty around its timeline for coal exit.
Scope and Process / Action Taken:
Fidelity has engaged with EnBW over the past few years concerning ESG-related and fundamental credit topics. In April 2023, a meeting was conducted with EnBW, concentrating on fundamental credit matters and the company's SBTi-aligned targets. The primary focus of the engagement is on how EnBW plans to achieve its scope 3 target. The company intends to decarbonize its gas plants by transitioning them into hydrogen plants.
A follow-up meeting in July 2023 helped Fidelity to gain insight into the company's overall ESG strategy, including its carbon emission reduction initiatives. Additionally, discussions were held regarding the utilisation of carbon offsets within existing SBTi-aligned targets.
Outcomes and next steps:
Engagement outcomes include EnBW pulling forward its coal exit by 7 years to 2028. The company subsequently set scope 3 targets and accelerated its scope 1 and 2 targets to be aligned with the 1.5-degree pathway, in accordance with market best practice. These targets were validated by SBTi. Besides, EnBW is re-training its workforce and reallocate to other parts of the business to minimize and manage job losses.

Future developments to the manager monitoring

9.24 LGPSC continue to undertake three-yearly reviews of active equity and fixed income managers. While they attend regular monitoring meetings, these reviews include a deep dive of the managers RI processes so LGPSC can ensure their ESG integration remains best practice. LGPSC 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. As a result of a 2023 review of the Investment Grade Corporate Bond fund, one of the fund managers, Fidelity Investments, was required to improve their approach to ESG. Engagements with Fidelity continue regarding investments in water utilities and electricity generation.

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, they 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 2023 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 2023.

KPI Area	*KPI Review*
Global engagement	Engaged 172 companies within the Fund's investment portfolio, with a regional and thematic breakdown.
Engagement quality	At least one milestone was moved forward for 53% of current engagement objectives.
Voting coverage	Made voting recommendations at 343 meetings of companies which are part of the Fund's investment portfolio.
Client service	Majority of queries to EOS were dealt with in less than 48 hours.
Complaint handling	No formal complaints escalated during 2023.
Client service meeting	Several meetings held pre, during and post voting season 2023 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 LGPSC.
Reporting quality	Overall good quality.
Team stability	Staff turnover during 2023 was 15% continuing a downward trend from 23% and 32% over the previous two years.

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 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 2023. Below they give further detail and examples to some of these engagements.

10.2 During 2023 LGPSC continued engagement on the four core stewardship themes illustrated in Principle 5 above. **Appendix 2** provides details of the stewardship strategy, measures of success, engagement highlights and case study for each of the four themes.

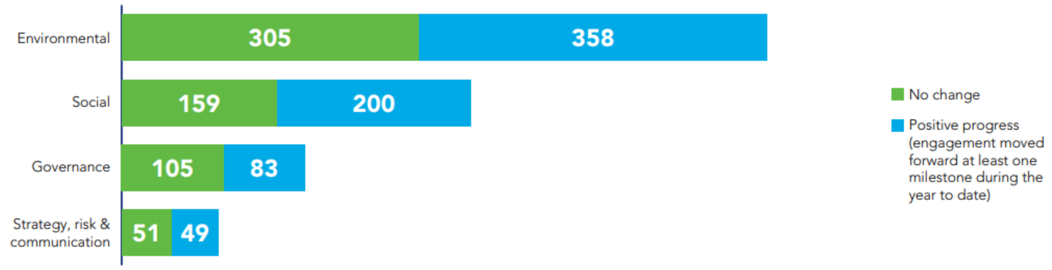
10.3 Most of these engagements were conducted by EOS who engaged with 775 companies within the Fund's portfolio on 3,542 environmental, social, governance, strategy, risk and communication issues and objectives. EOS takes a holistic approach to engagement and typically engage with companies on more than one topic simultaneously. Approximately 26% of engagements centred around governance issues, and close to 34% involved discussions on environmental issues. To measure progress and the achievement of engagement objectives, EOS use a four-stage milestone strategy. When an objective is set at the start of an engagement, they also identify recognisable milestones that need to be achieved. Progress against these objectives is assessed regularly

and evaluated against the original engagement proposal. Those milestones are summarised as follows:

At the end of 2023, approximately 32% of engagements were classified as milestone 3 and 4. 2,949 of the issues and objectives engaged in 2023 were linked to one or more of the UN Sustainable Development Goals (see below).

The chart below illustrates the progress made against each of the engagement objectives during 2023.

Progress against engagement objectives in 202~~2~~3



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 2023, LAPFF engaged over 700 companies, sent over 300 correspondences, across a spectrum of material ESG issues.

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 under an initiative called "The Diversity Project" around flexible working; improving ethnic representation, promoting policies that assist 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 to diversity and inclusion.

10.6 **Modern slavery:** LGPSC published a Modern Slavery Statement, although not legally required to do so. We wish to follow best practice, as a Company and as an investor in this critical area; engaging investee companies and our suppliers. Our procurements follow the Official Journal of the EU (OJEU) process that is adopted by all English public sector entities. We continue to be a part of an investor collaboration engaging FTSE 350 companies on Modern Slavery Act compliance.

11. <u>Principle 10</u>

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 2023. 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. A list of initiatives that LGPSC actively supports and engages with, is included in **Appendix 1**.

11.2 Examples of collaborative initiatives of particular importance to LGPSC's stewardship effort in 2023 are as follows:

Human Rights

Duke Energy Corp

Theme: Human Rights

Objective:
We believe institutional investor have a responsibility to respect human rights which is reflected in our commitment to The UN Guiding Principles on Human Rights (UNGPs) and the OECD Guidelines for Multinational Enterprises. Our Stewardship Provider, EOS, had set an objective to for the company to set out a timebound plan on how to human rights issues will be assessed in operations and supply chain mapping / due diligence processes, along with the provision of remedy.

Engagement:
The company acknowledged the request to set out a timebound plan and the need to disclose its process for enforcing its supply chain worker rights policy. During the PRI Advance collaborative engagement that EOS at Federated Hermes attended, the Company clarified that its due diligence of suppliers involves a desktop audit, sustainability assessments, scoring survey results and providing continuous improvement training. The company said it is in the early stages of supply chain mapping. It has good oversight of its tier one suppliers but not its tier two or three suppliers. We were pleased to hear that in response to forced labour risks in the Xinjiang region, the company had conducted supplier due diligence and took action to reduce its solar supply chain to only two suppliers to more easily monitor for supplier human rights risks. Our expectations for addressing human rights issues include disclosures on types of grievances raised, how companies addressed them, measurement of the effectiveness of remedies, and inclusion of participants concerns and how companies worked with those who are affected to arrive at an effective remedy.

Outcome:
Engagement with Duke Energy Corp to set out a timebound plan on how human rights issues will be assessed in operations and supply chain mapping / due diligence processes, along with the provision of remedy. Future engagement will also focus on the disclosure of its process for enforcing its supply chain workers' rights policy including information about the audit process.

Engagement on deforestation-related risks

Kellogg's[1]

Theme: Deforestation risk

Objective:
We are concerned about the financial impact that deforestation may have on our portfolio and investee companies, by potentially increasing reputational, operational, and regulatory risks. We are active participants in the collaborative engagement that specifically focuses on commodity-driven deforestation, Finance Sector Deforestation Action Group (FSDA).

Engagement:
We co-signed a letter to eliminate commodity driven deforestation by 2025. To make progress against this target we participated in a collaborative engagement call with Senior Management including the Chief Sustainability Officer and Global Sustainability Business Partner for Human Rights to engage in constructive dialogue discuss Kellogg's approach to managing deforestation risk within its supply chain, with a specific focus on the Company's Deforestation Policy.

Outcome:
We were pleased to learn that Kellogg's are generally in favour of deforestation-related regulation, however they did not discuss their deforestation-related lobbying activities. The company outlined that current efforts are focused on making sure that all plantations are RSPO certified and have partnered with an NGO to assess their small and medium suppliers in an effort to improve business practices. Company representatives also outlined the implementation of a grievance mechanism and disclosed that most 3rd party grievances are related to palm oil. Kellogg's disclosed that the Company will spin off into two entities, Kellanova and WK Kellogg Co. A follow up call will be held to better understand how these entities will approach the management of deforestation within its respective supply chains.

Engagement on Climate Change

Société Générale

Theme: Climate Change

Objective:
The impacts of Climate Change pose material impacts to LGPSC's portfolio and the wider economy. We engage with companies to manage climate-related risks and opportunities. We participate in the Share Actions banking sector engagement program and engaged with Société Générale, the 5th largest European provider of financing to 50 of the top oil and gas companies.

[1] In Q4 2023 Kellogg's spun off into Kellanova and WK Kellogg Co. We will refer to the company as Kellogg's in this report, reflecting the time period of our engagement with the company.

Engagement:
In February 2023, LGPSC co-signed a letter to Société Générale's Chief Executive Officer and Chairman of the Board of Directors, requesting that the company commit to stopping direct financing for new Oil & Gas fields. We attended an engagement call with the firm's Chief Sustainability Officer in September 2023 to discuss their firm's updated climate targets.

Outcome:
As responsible investors we were pleased to learn that the company committed to cease financing upstream oil and gas pure players and new green field projects from 1st January 2024. The firm also unveiled its refreshed Oil and Gas policy with several new net zero targets. There is potential to re-engage with the company in H1 2024 to discuss extending the commitment to cease financing new oil and gas fields and its green finance targets.

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. Examples of engagement objectives and achievements can be found in the LAPFF 2023 Annual 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 Where appropriate, the Fund may choose to escalate activity directly, principally through engagement activity by the LAPFF 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 during quarterly investment update meetings with them and included in the Pension

Investment Sub Committee agenda. Where there are specific concerns, the relevant managers will be invited to discuss concerns to the Sub Committee.

12.4 The Fund employs the services of an independent investment advisor, who, along with officers of the Fund, closely monitors the performance and RI position of the Fund's managers. The investment advisor attends Committee meetings and assists the Committee in the questioning of the managers in the subsequent discussions, 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 are reviewed annually and also includes 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 In the past, the Fund has only divested from public equity investments on the grounds of investment performance. Its preferred strategy is to principally use engagement to influence companies through fund managers to influence and escalate activity. However, divestment could be considered in the future if a particular manager or company did not demonstrate any attempt to comply with the Fund's RI beliefs.

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:

<u>LGIM escalation example</u>

12.8 LGIM's longstanding climate engagement programme, introduced in 2016 and enhanced in 2020, the Climate Impact Pledge, encourages companies to tackle climate change and transition to low-carbon solutions. It is linked to tangible voting and engagement sanctions. During 2023 LGIM engaged with Nucor Corp concerning decarbonisation. The engagement can be summarised as follows.

Case studies
Climate: Nucor Corp* – decarbonisation

Identify and engage

Under our Climate Impact Pledge, we select c.100 'dial-mover' companies for in-depth engagement, using our qualitative framework set out in our sector-specific guides.[18] 'Dial-mover' companies are chosen on their size and potential to galvanise action in their sectors, reflecting our aim of driving market-level improvements.

We were pleased to see that Nucor, one of our 'dial-mover' companies, has announced a net-zero emissions commitment with interim targets and a published decarbonisation plan. Nucor is the largest steel producer in the US and among the top 20 in the world; steel is pivotal to the energy transition, being central to the auto industry and renewable energy infrastructure.[19]

Escalate

This is a significant step: while we recognise that corporate decisions are the product of a range of factors, our engagements under the Climate Impact Pledge are based upon our sector-specific guides and 'red lines', which include a commitment to net-zero operational emissions.[20] We had voted against the Chair of the company in its 2023 AGM for failing to meet this 'red line' at the time, so the announcement of the company's commitment, interim targets and plan are very welcome.

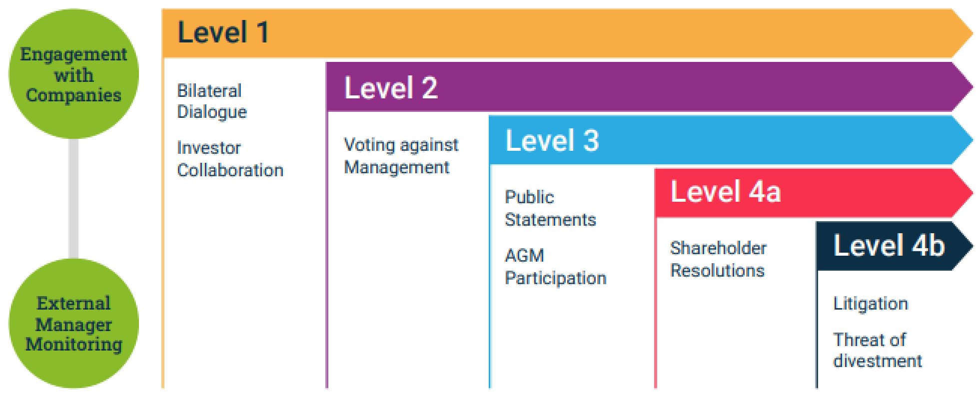
This not the first time that we have seen a commitment from the company after voting against its Chair: in 2021, we voted against the Chair for a lack of emissions reduction targets and the subsequent year, the company set them, meaning they received no sanctions from us in 2022.

12.9 To drive change, LGIM analyses companies in 'climate-critical' sectors against key sustainability indicators, drawing on independent data providers and their own pioneering climate modelling to achive a transparent scoring methodology. Their Climate Impact Pledge score can be accessed here.

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:

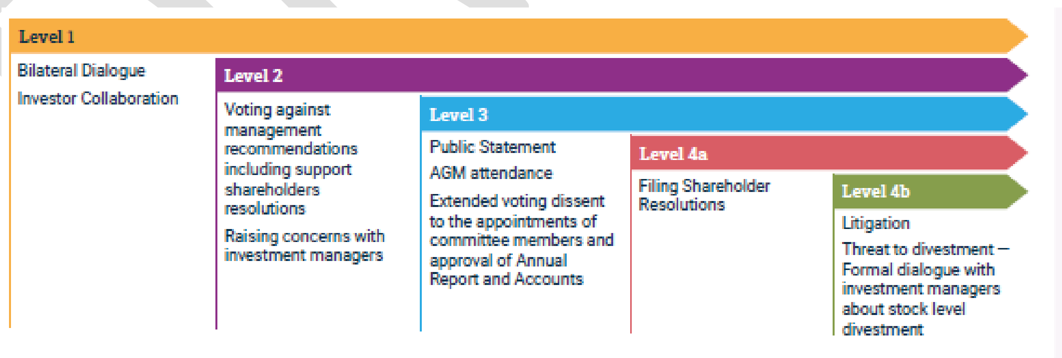
- Additional meetings with the management or the directors of an investee company
- Escalating the dialogue from the executive to the board of directors or from one board member to the Chair and/or a more amenable board member, in line with LGPSC's escalation strategy detailed below:



- 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 In early 2024 LGPSC refreshed the escalation strategy in early 2024 by providing increased granularity about the process, specifically to make explicit:
  - Level 2: raising concerns with investment managers.
  - Level 3: escalating voting concerns.
  - Level 4b: the threat of divestment.

The updated strategy is illustrated below:



12.12 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. In March 2023, CA100+ released an updated benchmark framework to ensure that it continues to effectively support investor engagements with focus companies during this critical decade. The enhancements made intend to embed a stronger focus on emissions reductions, alignment with 1.5°C pathways and the robustness of transition plans.

Examples of escalation of engagement during 2023

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

DuPont De Nemours inc, Union Investment,

Objective: Minimise the impacts of polyfluoroalkyl substances (PFAS) on the environment and human health

Sector: Speciality Chemicals

ESG Topics Addressed: Environmental pollution.

Issue/Reason for Engagement
The objective is for DuPont to understand their financial exposure to PFAS risks, particularly in relation to the cleaning of production sites and environmental liabilities. Union also aimed to assess the adequacy of their provisions for potential financial risks. PFAS have been proven harmful to health and can negatively impact water quality. The engagement aims to minimise these risks.

Scope and Process/Action Taken
The engagement was initiated in April and May 2023, evolving our approach to gather comprehensive information about their PFAS exposure and risk management strategies. Union engagements included two meetings and written communications to deepen their understanding of the company's practices. Union typically engaged with Investor relations, with their chemicals sector analyst leading the engagement.

Outcomes and Next Steps
The engagement with DuPont has successfully achieved the stated objective of understanding and addressing their PFAS risks. DuPont underwent a structural change after the spin-off, divesting their base chemical production facilities and transferring PFAS-related sites to Chemours and Corteva. DuPont now purchases PFAS as a precursor for minimal processing into solids, solely for industrial applications, with no PFAS present in their consumer products. The company's indicated their recognition of the financial risks associated with PFAS and their commitment to managing these risks through appropriate provisions. Additionally, the exclusion of PFAS from consumer products underscores a positive step towards promoting environmental and human health. Going forward, Union will continue to monitor DuPont's progress in this area and engage with the company to ensure ongoing commitment to responsible PFAS management. No portfolio allocation decisions have been made solely based on this engagement.

12.14 Below is an example of LGPSC's engagement with Barclays relating to policy on climate change.

Barclays

Theme: Climate Change

Objective:
The impacts of Climate Change pose material impacts to LGPSC's portfolio and the wider economy. We engage with companies to manage climate-related risks and opportunities. We have a long-standing history of engagement with Barclays. In 2023, through a collaborative engagement organised by Share Action we engaged with the Company on its approach to fossil fuel financing.

Engagement:
In February 2023 we sent a letter to 5 European banks, including Barclays, requesting them to cease financing new oil and gas fields. We escalated our concerns regarding the management of the company's climate-related risks by co-filing a shareholder resolution at Barclays in Q4 2023 requesting the company to disclose the risks associated with stranded assets due to financing oil and gas infrastructure.

Outcome:
Following extensive engagement with Barclay's senior leadership, the shareholder resolution was withdrawn as a result of the positive outcome regarding the climate strategy and commitment to continuing engagement, including an annual meeting for the co-filing group with Barclays CEO. In Q1 2024 Barclays announced they will stop financing new oil and gas fields and restrict lending more broadly to energy companies expanding fossil fuel production. We remain committed to ensure that Barclays follows through with its newly established commitments.

13. Principle 12

Signatories actively exercise their rights and responsibilities

13.1 The Fund continues to make its ESG, and RI beliefs known to its private market investment managers as well as those of its public market investments. 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 the Fund's successful request concerning the constitution of an investment committee during the investment due diligence of a private equity investment undertaken during 2023. In addition, the Fund invited key asset managers to its annual ESG workshop. During the year, the Fund successfully extended this to key property & infrastructure managers on 31 January 2024.

13.2 LGSPC have continued rolling out RI&E reviews to property and infrastructure investments. The Fund has worked with them to improve the quality of data 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. Whilst they do not explicitly require their GPs to join this project, LGPSC encourage participation, or the adoption of similar policies.

13.3 The Fund has been working with LGPSC on its Sustainable Investment Monitoring Service (SIMS) reports which will extend the scope of its portfolio reporting to include Environmental, Social and Governance (ESG) issues and analysis beyond carbon emissions metrics. It is expected that the first draft report will be received during 2024.

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 continues to believe that the advantage of a consistent signal and working collectively through the pool will have a positive influence on company behaviour. LGPSC also provides the Fund with regular updates on our targeted stewardship themes.

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 each quarter. Over the year EOS voted at 343 meetings, on 3,401 resolutions at companies included within the Fund's investment portfolio. 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 and investee. Equally, exercising rights and responsibilities as fixed income holders is of key importance. During 2023, we continued to increase our exposure to private markets. 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:

- Support the long-term economic interests of our stakeholders.
- Ensure boards of directors are accountable to shareholders.
- 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 2023, 14 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.

In 2023 LGPSC co-filed a shareholder resolution at Barclays where they requested a report on the risk of stranded assets in relation to continued financing of oil and gas infrastructure. Following engagement with the company and positive updates to its oil and gas policy the resolution was withdrawn. In addition to that a case study of illustrating further engagement with its external managers follows below.

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 2023
Proportion of shares voted during 2023

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 2023 proxy season saw nuanced investor voting decisions, volatile market dynamics, and stakeholder pressures. A continued influx of environmental and social shareholder proposals drew lower votes and say-on-pay proposals received a boost after years of declining support. Further, incumbent director nominees including committee chairs and board leaders received a higher percentage of votes than recent trends would have suggested. These developments are unfolding at a time when new universal proxy rules have sharpened stakeholder focus on individual director qualifications and whether boards are fit for purpose, and when investors are under scrutiny regarding how far they will go in their stewardship related to corporate sustainability. This complexity can make it more difficult for companies to assess voting outcomes, underscoring the value of shareholder engagement to gain a deeper understanding of their perspectives. To help directors understand the evolving proxy landscape and keep pace with changing stakeholder expectations, LGPSC examined four key takeaways, below, from the 2023 season and actions for boards to consider.

2023 Voting statistics

- Voted at 3,353 meetings.
- Voted on 42,082 resolutions.
- Supported 316 shareholder proposals.
- LGPSC co-filed a shareholder resolution at Barclays, and later withdrawn in Q1 2024.
- EOS attended 3 AGMs: Siemens Energy AG, BMW AG and The Bank of Nova Scotia. One shareholder proposal was filed at Darwin Sanup.

13.19 **Continued momentum for investor engagement and voting on climate change, and more emphasis on natural capital**

- 12 Say-on-climate resolutions asking investors to approve transition plans or providing an annual update on already-approved plans. We note that 24% of the resolutions passed and only one of them was proposed by independent shareholders (i.e. Coterra Energy Inc).
- LGPSC continues to take a robust approach to assess transition plans and voted against a number, which we considered to be not fully aligned to 1.5°C scenario, including plans proposed by Shell, Glencore, Pennon Group, and Incitec Pivot.

- 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 Amundi and Ninety One, received our support.
- LGPSC voted against directors or other relevant proposals at 95 companies due to concerns about insufficient management of climate-related risks.
- LGPSC co-filed a shareholder proposal asking Barclays to disclose the risk of stranded assets associated with providing financing for fossil fuel companies. Following extensive engagement the shareholder resolution was withdrawn due to progress being made by the company on its management of climate risk including ceasing directly financing energy client's new oil and gas projects.

13.20 **Social issues proposals on the rise**

- In 2023 there were 152 shareholder proposals, the majority were filed against at US companies, including many on social issues such as human rights, civil rights, racial pay gap, reproductive rights, unionisation, and animal welfare. Only eight of them won majority support, these are Carl Zeiss Meditec, Cenovus Energy, Dollar General Corporation, Expeditors International of Washington, Haier Smart Home Co, Starbucks Corporation, The Kroger Co, and Wells Fargo & Company.
- At Starbucks' AGM, we supported a shareholder proposal to commission a third-party assessment on company's commitment to freedom of association and collective bargaining rights. The proposal asks for an assessment across Starbucks's company-owned and licensed stores. The proposal received 52% support showing that shareholders increasingly view collective bargaining rights as a key driver on long-term value creation.
- At Alphabet, we supported several shareholder resolutions including requests for a report on the risks of doing business in countries with significant human rights concerns, publishing an independent human rights impact assessment of targeted advertising technology, and reporting on alignment of YouTube's policies with online safety regulations.
- More Civil Rights Audit (CRA) and Racial Equity Audit (REA) shareholder proposals were filed, including at Coco-Cola, The Travelers Companies and The Royal Bank of Canada. 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. At Amazon.com, Inc we opposed the re-election of the Lead Director and Member of Nominating and

Corporate Governance Committee due to concerns about insufficient management of human rights risks.

13.21 **Diversity and inclusion**

- LGPSC voted against 586 proposals on diversity and inclusion matters. Along with this, we encouraged greater representation of women and ethnic minorities on boards and leadership positions. 69% of them were supported by LGPSC, and 45% won majority support by shareholders.
- LGPSC also withdrew support from 709 director appointment resolutions due to concerns related to the company's approach to board gender diversity. Unfortunately, these concerns failed to generate significant outcomes as those proposals were carried by shareholder votes. Diversity is a key consideration in LGPSC's Voting Guidelines and a vote against the Nomination Committee's members will be put in place in 2024 when female board representation is below standard practices and there is no recognised plan for improving board's female representation (FTSE 100).

13.22 **Remuneration**

- LGPSC continue to voice concerns over executive pay, they voted against 45% of say-on-pay proposals, of which was composed by resolutions for approving annual executive remuneration reports (74%) and remuneration policy (26%).
- Globally, LGPSC noted that almost half of say on pay proposals are misaligned with their principles. They opposed 35% of remuneration say on pay proposals in the UK and 52% in the USA.
- At retailer The Foschini Group, LGPSC voted against the remuneration policy, alongside around 71% of shareholders who rejected this pay proposal.
- At AstraZeneca LGPSC were not supportive of a remuneration report. Although recognising the strong company performance, they were concerned about the lack of disclosure of the peer group for the LTI's performance targets and LTI award being paid at maximum level for consecutive years.
- LGPSC opposed pay recommendations at ASML Holding, BNP Paribas, Mondi, JPMorgan Chase, and others where quantum was considered to be excessive, without adequate disclosure of additional value for long-term shareholders whilst paying the CEO significantly above the labour market median.

Voting outcomes

13.23 Below is a selection of case studies illustrating significant voting related LGPSC's stewardship themes.

Case Study: Wells Fargo

Theme: Human Rights

Vote decision and rationale
We expect companies to manage human rights risks, within their own operations but also across the wider supply chain. We expect Companies to disclose how they manage their human rights risks as it allows investors to better evaluate ESG risks and opportunities. We supported a shareholder proposal requesting that the Company prepare an annual public report describing and quantifying the effectiveness and outcomes of company efforts to prevent harassment and discrimination against protected classes of employees. The proponents suggested including the following disclosures:

- the total number and aggregate dollar amount of disputes settled by the company related to abuse, harassment or discrimination in the previous three years- the total number of pending harassment or discrimination complaints the company is seeking to resolve through internal processes, arbitration or litigation.
- the number of enforceable contracts which include concealment clauses that restrict discussions of harassment or discrimination.
- the aggregate dollar amount associated with the enforcement of arbitration clauses.
- the aggregate dollar amount associated with agreements which contain concealment clauses.

Wells Fargo has policies in place that prohibit harassment and discrimination and prohibit retaliation against employees that raise concerns. The Company has diversity training for all managers to increase inclusion skills and behaviours and discloses board and workforce diversity statistics. However, the Company has faced multiple allegations of discrimination in its hiring and human capital management practices. Investors could benefit from a report on the effectiveness and outcomes of the company's efforts to prevent discrimination against protected classes of employees.

Outcome
The proposal passed and received 52.3% support. Although the proposal was non-binding, it is expected that Wells Fargo will produce the requested report.

Case Study: Constellation Brands

Theme: Climate Change

Vote decision and rationale
We supported a shareholder proposal requesting a report disclosing how the company intends to reduce the full range of its Scope 1 through 3 greenhouse gas emissions in alignment with the Paris Agreement's 1.5-degree Celsius goal requiring Net Zero emissions by 2050. Most of the firm's emissions fall under Scope 3, which is not covered by its current emissions targets. According to the company's ESG Impact Report 2022, it aims to reduce Scope 1 and Scope 2 greenhouse gas emissions by 15 percent by FY 2025, from a baseline FY 2020 emissions. The firm

is implementing a three-year strategy and operating plans to achieve its targets. However, Constellation Brands can be viewed as a laggard in comparison to other alcoholic beverage companies including Molson Coors, Anheuser-Busch InBev, and Diageo who have all set Paris aligned targets. These targets have been validated by the Science Based Targets initiative for their Scope 1, 2, and 3 emissions. Given the firm's lagging position relative to its peers, we supported this shareholder resolution. We believe that shareholders would benefit from additional information on how the company plans to align its operations with the Paris Agreement goals, manage its greenhouse gas emissions, and address climate risks.

Outcome
The vote received 31.0% support which sends a strong message to the Board that investors would like to see improved greenhouse gas disclosures, in line with peers.

Case Study: Brookfield Corporation

Theme: Responsible tax behaviour and tax transparency

Vote decision and rationale
We supported a shareholder resolution at the 2023 AGM requesting Brookfield's Board of Directors to issue a tax transparency report, at reasonable expense and excluding confidential information, prepared in consideration of the indicators and guidelines set forth in the Global Reporting Initiative's (GRI) Tax Standard. According to the proponents Brookfield topped a list of Canadian companies that avoided paying the largest amount of income tax from 2017 – 2021. Brookfield's limited tax disclosure challenges investors' ability to evaluate the risks of taxation reforms or whether the company is engaged in responsible tax practices that ensure long term value creation for the company. The proposal would bring Brookfield's disclosures in line with leading companies who already report using the Tax Standard. The company already report BEPS Action 13 CvC information with the Canada Revenue Agency privately, so any increased reporting burden is negligible.

Outcome
The proposal failed to pass but received a significant 26.9% support from shareholders. This is a positive result considering that this is the first time that the resolution has been voted on at any Canadian-headquartered company. Brookfield expects to comply with the EU public country-by-country reporting requirements by 2024 or 2025.

Case Study: Amazon.com,Inc

Theme: Plastic Pollution

Vote decision and rationale
LGPSC supported a shareholder proposal requesting Amazon issue a report, at reasonable expense and excluding proprietary information, describing how the Company could reduce its plastics use in alignment with the one-third reduction findings of the Pew Report, or other authoritative sources, to significantly reduce ocean plastic pollution.

The proponent argues that the plastic pollution crisis poses financial, operational and reputational risks to the company. The proponent argues that corporations around the world could face a cost of $100 billion if governments were to require that they pay the waste management costs of the packaging they produce. It cites a Pew Charitable Trusts study called Breaking the Plastic Wave, which concluded that if all current industry and government commitments were met, ocean plastic deposition would be reduced by only 7%. The proponent contends that, despite likely being one of the largest corporate users of non-recyclable plastic packaging, Amazon does not disclose the amount it uses.

While the company discusses the impact in terms of plastic waste reduction, it does not provide an overall baseline amount of plastic used throughout its supply chain and does not provide competing data that allows investors to assess its progress. Several of the company's peers have announced goals specifically around single-use plastic reduction. Concern over the environmental damage caused by plastics is rising and regulations are likely to go into force in a number of jurisdictions that would limit the amount of single-use plastic packaging that can be used. Additional disclosure would help gauge whether the company is appropriately managing risks related to the creation of plastic waste.

Outcome
Whilst the resolution did not pass it encouragingly received 31.8% support. Following the AGM, we sent a letter to Amazon explaining our rationale for supporting the shareholder resolution. We did not receive a response from the Company. However, considering the strong support for the shareholder resolution we expect the company to provide disclosure about how it can reduce its plastic use.

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.

NextEra Energy Inc, Neuberger Berman, LGPSC Global Active Investment Grade Corporate Bond Multi Manager Fund

Objective
To improve disclosure of political donations and lobbying practices to reduce risks of potential illegal activities.

Sector: Utilities

ESG Topics Addressed: Social; conduct, culture, and ethics.

Issue / Reason for Engagement
To lower lobbying risk and encourage NextEra to increase lobbying disclosure.

Scope and Process / Action Taken
Neuberger Berman's (NB) Fixed Income team collaborated with the Equity and ESG investing teams to engage with the issuer on increasing lobbying disclosures. This has been a focus NB have prioritized with the company over several years given the materiality for the Utilities sector.
The issuer had historically been a laggard on political spending disclosure compared to peers in the sector and one of its subsidiaries faced an investigation into campaign spending.
Quarterly discussions were held with the issuer's management team, a special meeting with issuer's ESG team to discuss political activity took place, and periodic discussions with the issuer's Treasury team were held. These engagements were led by the credit analyst covering NextEra.

Outcomes and next steps
The issuer's subsidiary was cleared of wrongdoing by third-party investigations and the local utility commission, although there is still potential to face an investigation by the Federal Election Commission (FEC).
Through NB's engagement they learned that the CEO and the Board determine and have oversight of political spending activities, which NB view as a positive governance practice. NextEra's political spending and lobbying disclosures have improved, along with their third-party CPA Zicklin political disclosure score.
NB will continue to engage with the issuer on increasing transparency of political spending, along with ensuring proper governance of spending and lobbying policies.

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.

El Paso Electric, JP Morgan Infrastructure Investments Fund

Objective
To set emissions reduction goals supported by an action plan.

Sector
Utilities.

Issue / Reason for Engagement
El Paso Electric (EPE) face transition risks in the form of climate-related regulatory and policy changes, technological evolution, and customer demands.

Scope and Process / Action Taken
Through IIF's ownership (100%), asset management and governance structure, the team worked together with management to set specific carbon reduction goals with action plans in place.
As a result, goals have been set and published:

- 80% carbon-free energy by 2035
- 100% pursuit of decarbonization of generation portfolio by 2045

EPE is working directly with its regulators on approval for energy transition and climate adaption projects. In 2023, EPE received regulatory approval to expand its Texas Community Solar Program with an additional 10 MW solar facility. This new solar facility will add to EPE's existing, fully subscribed, Texas Community Solar Program and offer a discounted rate for income-qualified customers. The expansion will bring the program's total capacity to 15 MW of community solar energy. This project will be the second expansion of its community solar program since its initial launch, giving even more customers the option of receiving their energy from a local, renewable energy resource without having to install their own distributed generation system.

Outcomes and Next Steps
EPE plans to meet the 2035 goal through 1) the continued deployment of renewable energy resources, 2) storage solutions, 3) the use of new fuels and technologies and 4) increased efficiency. 5) EPE plans to continuously evaluate alternative energy technologies, fuels, and efficiency strategies as those solutions develop over the next decade
EPE recognizes that climate risks are best addressed through long term resource and portfolio transitions but also identifies and implements nearer term projects and strategies to help mitigate these impacts, including dedicated renewable energy, battery storage and microgrid resources to government and large commercial customers; voluntary renewable energy subscriptions for residential and small commercial customers; transportation electrification plans; and demand response programs. EPE also has a similar community solar program in New Mexico that has been submitted for regulatory approval.

13.26 Our passive pooled products, managed by LGIM are voted according to their voting policies. LGIM believes in using its scale and influence to bring about real, positive change to create sustainable investor and produces a quarterly ESG impact report that includes a regional voting summary. The Pensions Committee is satisfied that LGIM's approach to shareholder voting is sufficiently robust and aids in the delivery of the Fund's RI objectives. LGIM's voting policy is based on a set of corporate governance principles. Previous engagement with an investee company also determines the manner in which voting decisions are made and cast. Voting activity is combined with direct engagement with the investee company to ensure that the investee company fully understands any issues and concerns that LGIM may have and to encourage improvement. LGIM utilises the voting information services of ISS and Institutional Voting Information Services (IVIS) to conduct thorough analysis and research on investee companies. An example of the voting undertaken by LGIM from their 2023 annual Active Ownership report is below.

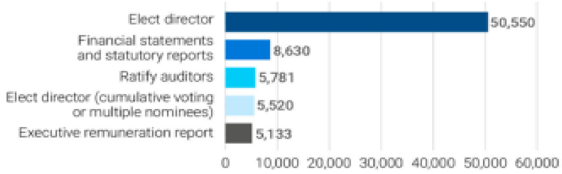
Voting statistics by region

Global

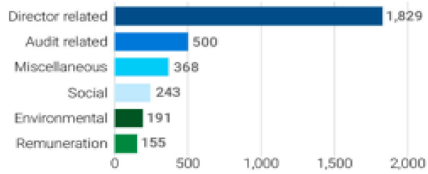
Proposal category	Total for	Total against	Total abstentions	Total
Management - Director related	51815	16894	801	69510
Management - Routine business	26053	3532	119	29704
Management - Compensation	9296	8423	5	17724
Management - Capitalisation	10414	1825	0	12239
Management - Transactions and non-routine business	6972	1627	0	8599
Management - Company articles	3908	1013	0	4921
Management - Social	323	102	0	425
Management - E&S blended	82	0	0	82
Management - Environmental	13	16	0	29
Management - Miscellaneous/No research	697	825	9	1531
Total resolutions - Management	**109573**	**34257**	**934**	**144764**
Shareholder - Director related	1339	464	26	1829
Shareholder - Routine business	22	84	0	106
Shareholder - Compensation	82	72	1	155
Shareholder - Capitalisation	2	0	0	2
Shareholder - Audit related	440	60	0	500
Shareholder - Non-routine business	44	31	0	75
Shareholder - Company articles	30	44	0	74
Shareholder - Social	188	55	0	243
Shareholder - E&S blended	24	39	0	63
Shareholder - Environmental	115	76	0	191
Shareholder - Governance	57	11	0	68
Shareholder - Miscellaneous	244	124	0	368
Total resolutions - Shareholder	**2587**	**1060**	**27**	**3674**
No. resolutions*	148438			
No. AGMs	11224			
No. EGMs	4350			
No. companies voted	11173			
No. companies where voted against management/abstained on at least one resolution	9552			
% companies where at least one vote against management (includes abstentions)	85%			

* Resolutions voted exclude do-not-vote instructions.

Most popular management resolutions



Most popular shareholder resolutions



Appendix 1

Overview of initiatives that LGSPC is an active member of

Organisation/Initiative Name	*About the organisation/initiative*	*Efficiency and outcomes*
PRI	Largest RI-related organisation globally. Helps with research, policy influence and collaborative engagement.	LGPSC has been a member since its inception. We report on LGPSC's active participation in PRI through submission of an annual report. We also participate through membership of PRI Working Groups and collaborative engagements. By working with PRI and other investors we can increase our impact and engage with a broader set of companies on a broader set of issues. In 2023, we received our summary PRI assessment report and were awarded five stars, the maximum score in five out of six pillars.
IIGCC (Institutional Investor Group on Climate Change)	Influential asset owner and asset manager group. Useful for climate change research and policy influence. LGPSC is part of following working groups: UK Policy, Steel, Mining and Proxy Voting Group.	IIGCC's corporate engagement and policy engagement programmes add considerable value to LGPSC's work on climate change. IIGCC engaged broadly with stakeholders in the lead-up to COP28.
Cross-Pool RI Group within LGPS	Collaboration group operating across LGPS pools and funds.	A cross-fund group set up for advising UK local pension schemes on responsible investment and infrastructure.
The Local Government Pension Scheme Advisory Board	LGPSC is a member of an RI Advisory Group to SAB t. Discussions are held on RI relevant policies and standards that will have direct or indirect implications for LGPS funds and pools	Discussions during 2023 have centred around themes such as impact investing, DLUHC's plan to introduce mandatory TFCD reporting and the Economic Activity of Public Bodies (Overseas Matters) Bill.

Organisation/Initiative Name	*About the organisation/initiative*	*Efficiency and outcomes*
Transition Pathway Initiative (TPI)	TPI is a research and data centre focussing on company policies and performances including the collaboration with CA100+ Benchmark Framework. The TPI Centre's analysis considers corporate climate governance and carbon emissions. LGPSC is a member of the TPI and TPI Limited board during 2022.	LGPSC uses TPI dataset directly to inform engagement and voting on behalf of Partner Funds. Waiting for info from
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.	In 2023 we signed up to the CDP's Science-Based Targets (SBTi) Campaign. The SBTi's goal is to accelerate companies across the world to support the global economy to halve emissions before 2030 and achieve net-zero before 2050.
30% Club Investor Group	The 30% Club investor group was initially a UK group . The group have set up a global group to unite efforts to deliver greater diversity and inclusion in the companies they invest in around the world. LGPSC has been a member since its inception.	This forum allows investor to discuss, learn and coordinate engagement among investors. In 2023 the group supported the rollout of the toll spreadhead by the Women in Finance Climate Action Group focusing on gender equity and net zero. In 2023 the representation of women on FTSE 350 Boards has increased beyond the 40% target. At Executive level, there was reasonable progress at both FTSE 100 and FTSE 250 (35.2% representation at FTSE 100, and 33.9% at FTSE 250).
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. The BVCA also organises ESG related roundtables and events.

Organisation/Initiative Name	***About the organisation/initiative***	***Efficiency and outcomes***
LAPFF Local Authority Pension Fund Forum	Engagement with companies in the UK and abroad, assisting LGPS funds with sustainable and ethical investment challenges.	LAPFF conducts engagements that are complimentary to LGPSC's stewardship theme engagements.
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 corporate 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 impactful. The 2021 CA100+ Benchmark Framework, 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 the inception of our Company.	In 2023 LGPSC continued to participate in an Investor Forum coordinated working group focused on Investing in the Defence Industry. LGPS Central and the Investor Forum collaborate for the consultation responses on the review of Corporate Governance Code and FCA Premium Listings.
IGCN	ICGN advances the standards of corporate governance and investor stewardship worldwide in pursuit of long-term value creation, contributing to sustainable economies, societies, and the environment.	ICGN's work programme is delivered around three core activities: Influencing public policy and professional practice on global standards of corporate governance and investor stewardship, convening events to share knowledge, build networks and collaborate across capital markets. • providing guidance on stewardship and corporate governance.

Organisation/Initiative Name	*About the organisation/initiative*	*Efficiency and outcomes*
Nature Action	A global investor engagement initiative focused on driving greater corporate ambition and action to reverse nature and biodiversity loss.	Nature Action 100 is a global investor engagement initiative focused on driving greater corporate ambition and action to reverse nature and biodiversity loss. The initiative engages with companies in key sectors that are systemically important in reversing nature and biodiversity loss by 2030.
Investor Alliance for Human Rights	An initiative focusing on the investor responsibility to respect human rights, corporate engagements that drive responsible business conduct, and standard-setting activities that push for robust business and human rights policies.	In 2023, the initiative continued to work with investors and civil society organizations to mobilize collective and coordinated investor leverage to embed and promote the corporate responsibility to respect human rights.
Investment Association	The Investment Association is a trade body representing UK investment managers.	In 2023, the group continued to work on: supporting the development of climate-related disclosure, improving how firms communicate sustainability matters, supporting Race to Zero and the Net Zero Asset Managers
UKSIF	UKSIF focuses on sustainable finance and supporting the investment community in implementing RI best practices. LGPSC is part of the Policy Committee.	The group has provided stakeholder feedback to the FCA on SDR and the labelling regime. In addition, the group provided feedback on the parliament on the green taxonomy and the ISBB standards.

Appendix 2

The Four Stewardship themes underpinning stewardship strategy, measures of success, engagement highlights and case study for each

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.

At the end of 2023 LGPSC rolled out a Net Zero Strategy. The stewardship related activities will be finalised during 2024.

Engagement highlights during 2023

During 2023 the following engagement highlights were achieved:

- 1879 companies engaged on 2656 climate-related issues and objectives with progress on 266 specific objectives.
- The number of say-on-climate votes fell in comparison to the previous proxy season due to companies opting for triennial votes in addition to a loss of momentum for climate-related initiatives in the uncertain operating environment. Nonetheless, shareholder dissent on say on climate resolutions continued in to increase in 2023. During the 2023 proxy season there was increased opposition to directors who investors view as climate laggards. LGPSC voted against climate-related resolutions at the AGMs for Shell, Total Energies, and Glencore. We followed up the votes at Shell and Total Energies AGM with letters to the respective Chair's of the Board detailing our rationale for the vote.
- We directly engaged with Shell to discuss the company's approach to the setting Scope 3 absolute emissions targets and its refreshed Energy Transition Strategy. In addition, EOS engaged with Shell's CEO to discuss how Shell could demonstrate that capex is consistent with a 1.5C future by using low cost of oil consistent with Shell's own accounting sensitivity analysis.

- We participated in a collaborative engagement with BP to discuss Capex alignment with net zero and low carbon solutions. EOS is also continuing to engage with BP on developing a comprehensive plan to assess, manage and adapt to physical risks.
- LGPSC has joined CDP Science Based Targets engagement programme where most engagements were undertaken.
- LGPSC has provided input into Investment Association (IA)'s consultation on the draft response to the Department for Energy Security and Net Zero (DESNZ). The consultant focused on Scope 3 Emissions in the UK Reporting Landscape. We will participate and contribute to future IA climate working group meetings.
- LGPSC joined the Carbon Disclosure Project on Science-Based Targets. The programme focuses on engaging with companies on science-based targets. Setting up targets enable companies to assess their climate-related risks and opportunities as well as better understand how fast they can decarbonise when aligned with climate science. This initiative aligns with LGPSC's net zero strategy especially regarding engagement targets and our expectations on companies in setting up climate targets and systematically reporting on their emissions.
- At advocacy level, LGPSC endorsed the UKSIF letter to the Prime Minister expressing strong concern at government's public statements (e.g., 2030 phase-out of new petrol and diesel cars and 2035 phase-out of gas boilers) and policy signals, which risks undermining the UK's leadership in clarity, certainty, and confidence of policymaking toward meeting net zero.

Climate Change Case Study

Enel SpA

Theme: Climate change

Objective
The objective is for the company to achieve its 2025 75GW of renewable energy capacity target and maintain its targets to exit coal generation by 2027 and gas generation by 2040. It is expected that the company demonstrate it is on track to deliver its 2030 targets for renewable energy capacity and Scope 1, 2 and 3 emissions reductions.

Engagement
During Q3 2023, EOS, our engagement partner, conducted a meeting with the company to gain insights into the perspectives of the new management regarding the current climate change strategy and any potential adjustments. The company reiterated its dedication to the climate change strategy and expressed its willingness to consider our feedback. Although there is a possibility of not achieving a short-term (2023) target embedded in a sustainability-linked bond, the company provided reassurance regarding its enhanced confidence in achieving longer-term

targets.

Outcome
In Q4 2023, EOS held a meeting with the company subsequent to its strategy update presented at the capital markets day. The company affirmed that the majority of the key elements of its climate change strategy will be retained. However, there has been a slight reduction in the ambition of its renewable energy capacity target, from 75GW by 2025 to 73GW by 2026, with a heightened emphasis on investment in grid infrastructure. EOS intends to seek clarification regarding this adjustment and plans to maintain engagement with the company to support the achievement of its climate change targets.

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 2023 were:

- 63 companies engaged on 69 plastics and circular economy related issues and objectives, with progress on 6 specific objectives.
- Participated in an award winning collaborative engagement on microfibre. The engagement targeted washing machine manufacturers and policy makers to encourage technological solutions to prevent synthetic microfibers from entering the marine environment. As a result of investor influence several manufacturers have implemented or are planning to implement microfibre filters for its machines.
- LGPSC signed a joint statement from the Dutch Association of Investors for Sustainable Development, requesting intensive users of plastic packaging to act more rapidly to address the plastics crisis.
- EOS engaged with 3M CO on becoming a signatory to the global commitment on plastics and commit to eliminate problematic and unnecessary plastics. The company made significant progress to eliminate dependence on virgin fossil fuel plastics and committed to the Global Plastics Treaty.

Plastic Pollution Case Study

Ansell Ltd

Theme: Plastic pollution

Objective
LGPSC seek to engage with companies that are directly or indirectly involved in plastic pollution or with companies that could contribute to the path of a circular economy. The objective is for the company to develop and publish a circular economy strategy with goals that include sourcing, demand, use and disposal.

Engagement
In an engagement held in Q3 2023, the company confirmed to EOS, our engagement partner, plans to launch a new framework to outline the sustainability characteristics of individual products. This initiative is called Ansell Earth and it is expected to be helpful in informing customer choice on sustainability. This supports its target for 80% of products to be designed with a reduced environmental impact by 2026. The company has also undertaken a lifecycle analysis of the environmental impact of multiple products. For its reusable gloves, around 50% of the carbon footprint relates to the yarn, while for its single-use gloves the biggest impacts occur at manufacturing (being addressed) and through end-of life waste generation. The creation of a dedicated team of sustainability specialists that work across innovations underlines the increased importance of sustainability at Ansell. In 2023 it partnered with a French recycling company to trial the processing of gloves, including nitrile gloves, into second life material for use.

Outcome
The engagement will continue until the company has developed and published a robust circular economy strategy as outlined in the engagement objective.
effort should be focused on another part of the plastics value chain.

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 2023 were:
- 27 companies engaged on 32 tax related issues and objectives, with progress on 12 specific objectives.
- EOS engaged with Marathon Oil Corp requesting the company to publish a responsible taxation policy In line with the Global Reporting Initiative.
- LGPSC supported a shareholder resolution at Brookfield requesting the company issue a tax transparency report in line with the Global Reporting Initiative. companies engaged on 13 tax related issues and objectives, with progress on two specific objectives.

<u>Responsible Tax Policy Case study</u>

Exxon Mobil Corp

Theme: Responsible Tax Policy

Objective
We recognise the importance of companies being accountable for and transparent about their tax practices. We expect the company to publish a responsible taxation policy in line with the Global Reporting Initiative Tax Fairness Standard, and disclose itemised payments to governments at the national, state, and local levels. 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 February 2023, our Stewardship Partner, EOS at Federated Hermes, encouraged the company to publish a responsible taxation policy in line with the Global Reporting Initiative Tax Fairness Standard, and disclose itemised payments to governments at the national, state, and local levels. In response, the company said it was prepared to increase disclosure on the topic in line with emerging Dodd Frank regulations - regulation that restricts banks from trading with their own funds, monitors systemic risk, tightens regulation of financial products, and creates new agencies to oversee the process.

Outcome
In Q3 2023, the company outlined that it is prepared to comply with emerging tax regulations that require country-by-country reporting. EOS will continue to engage with the firm on this matter.

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 2023 were:
- 617 companies engaged on a range of 1063 broader human rights risks. Progress was seen in 123 cases against specific objectives.
- LGPSC engaged with an Information Technology company on their approach to conducting human rights due diligence within high conflict regions such as the Occupied Palestinian Territories
- LGPSC have signed up to the Investor Alliance for Human Rights. Which focuses on investor responsibility to respect human rights, corporate engagements that drive responsible business conduct, and standard setting activities that push for robust business and human rights policies. A selection of companies highlighted as laggard in Benchmarking Human Rights Performance were selected as engagement priority company for 2024-2027 engagement plans.
- EOS engaged with Duke Energy Corp to set out a timebound plan on how human rights issues will be assessed in operations and supply chain mapping / due diligence processes, along with the provision of remedy.
- Through the collaborative engagement initiative, PRI Advance, LGPSC engaged with BHP about modern slavery and ongoing compensation in the aftermath Samarco dam disaster.

Human Rights Case study

Duke Energy Corp

Theme: Human Rights

Objective
We believe institutional investor have a responsibility to respect human rights which is reflected in our commitment to The UN Guiding Principles on Human Rights (UNGPs) and the OECD Guidelines for Multinational Enterprises. Our Stewardship Provider, EOS, had set an objective to for the company to set out a timebound plan on how to human rights issues will be assessed in operations and supply chain mapping / due diligence processes, along with the provision of remedy.

Engagement
The company acknowledged the request to set out a timebound plan and the need to disclose its process for enforcing its supply chain worker rights policy. During the PRI Advance collaborative engagement that EOS at Federated Hermes attended, the Company clarified that its due diligence of suppliers involves a desktop audit, sustainability assessments, scoring survey results and providing continuous improvement training. The company said it is in the early stages of supply chain mapping. It has good oversight of its tier one suppliers but not its tier two or three suppliers. We were pleased to hear that in response to forced labour risks in the Xinjiang region, the company had conducted supplier due diligence and took action to reduce its solar supply chain to only two suppliers to more easily monitor for supplier human rights risks. Our expectations for addressing human rights issues include disclosures on types of grievances raised, how companies addressed them, measurement of the effectiveness of remedies, and inclusion of participants concerns and how companies worked with those who are affected to arrive at an effective remedy.

Outcome
Engagement with Duke Energy Corp to set out a timebound plan on how human rights issues will be assessed in operations and supply chain mapping / due diligence processes, along with the provision of remedy. Future engagement will also focus on the disclosure of its process for enforcing its supply chain workers' rights policy including information about the audit process.

Engagement on Human Rights – Modern Slavery

FTSE350 and AIM-listed companies

Objective
FTSE 350 and AIM-listed companies whose modern slavery reporting failed to meet the requirements of s54 of the Modern Slavery Act 2015.

Engagement

LGPSC is a member of Votes Against Slavery initiative led by Rathbones Group. g. Companies are informed about investors' concerns regarding their lack of disclosure on modern slavery via letter and a request for engagement. Companies are also notified that failure to comply could result in a lack of support for their annual report and accounts. As part of the initiative, in Q1 2024 the list of companies whose reporting is behind investors' expectations on modern slavery was updated. Ahead of the AGM season, those companies were notified about investors' expectations. LGPSC co-signed 19 letters notifying companies that their disclosure falls short of the reporting requirements in Section 54 of the Modern Slavery Act 2015 and subsequent reporting guidelines issued by the Home Office. **Outcome** In 2023, the initiative targeted 32 FTSE 350 companies and 126 AIM companies. 81% of FTSE 350 companies (which were part of target list) are now either fully compliant with s54 or committed to make changes to their reporting; 61% of AIM listed are now either fully compliant with s54 or committed to make changes to their reporting.

LGPSC Participation in Collaborative Engagement Initiatives

In 2023 LGPSC continued active involvement in several investor collaborations across numerous ESG issues and covering our Stewardship Themes. LGPSC also supported stewardship theme-related industry standards and benchmarks, which clarify investor expectations of companies and provide a mechanism for measurement of progress.

Examples of collaborative initiatives of particular importance to LGPSC's stewardship effort in 2023:

Engagement on Deforestation

Kellanova

Theme: Deforestation risk

Objective
We are concerned about the financial impact that deforestation may have on our portfolio and investee companies, by potentially increasing reputational, operational, and regulatory risks. We are active participants in the collaborative engagement that specifically focuses on commodity-driven deforestation, Finance Sector Deforestation Action Group (FSDA).

Engagement
We co-signed a letter to eliminate commodity driven deforestation by 2025. To make progress against this target we participated in a collaborative engagement call with Senior Management including the Chief Sustainability Officer and Global Sustainability Business Partner for Human Rights to engage in constructive dialogue discuss Kellogg's approach to managing deforestation risk within its supply chain, with a specific focus on the Company's Deforestation Policy.

Outcome
We were pleased to learn that Kellogg's are generally in favour of deforestation-related

regulation, however they did not discuss their deforestation-related lobbying activities. The company outlined that current efforts are focused on making sure that all plantations are RSPO certified and have partnered with an NGO to assess their small and medium suppliers in an effort to improve business practices. Company representatives also outlined the implementation of a grievance mechanism and disclosed that most 3rd party grievances are related to palm oil. Kellogg's disclosed that the Company will spin off into two entities, Kellanova and WK Kellogg Co. A follow up call will be held to better understand how these entities will approach the management of deforestation within its respective supply chains.

Engagement on fossil fuel financing

Société Générale

Theme: Climate Change

Objective
The impacts of Climate Change pose material impacts to LGPSC's portfolio and the wider economy. We engage with companies to manage climate-related risks and opportunities. We participate in the Share Actions banking sector engagement program and engaged with Société Générale, the 5th largest European provider of financing to 50 of the top oil and gas companies.

Engagement
In February 2023, LGPSC co-signed a letter to Société Générale's Chief Executive Officer and Chairman of the Board of Directors, requesting that the company commit to stopping direct financing for new Oil & Gas fields. We attended an engagement call with the firm's Chief Sustainability Officer in September 2023 to discuss their firm's updated climate targets.

Outcome
As responsible investors we were pleased to learn that the company committed to cease financing upstream oil and gas pure players and new green field projects from 1st January 2024. The firm also unveiled its refreshed Oil and Gas policy with several new net zero targets. There is potential to re-engage with the company in H1 2024 to discuss extending the commitment to cease financing new oil and gas fields and its green finance targets.

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