Lancashire County Pension Fund (LCPF) Responsible Investment Report – Q4 2022

This report has been prepared by LPPI for Lancashire County Pension Fund (LCPF) as a professional client.

1. Introduction

This report on Responsible Investment (RI) is a companion to the LPPI RI Dashboard (Appendix B) and the Quarterly Active Ownership Report (available from the online Pensions Library).

It covers stewardship in the period 1st October - 31st December 2022 plus insights on current and emerging issues for client pension funds.

[R] This symbol indicates a term explained in the reference section at the end of this report.

Key takeaways for the period:

- In Q4 2022 LPPI voted on 98% of company proposals, supporting 77% of these.
- Investments in Brown sectors (extraction, transportation, storage, supply, and generation of energy from fossil fuels) are 2.72% of the portfolio.
- Investments in Green sectors (renewable energy generation, clean technology, and decarbonising activities) are 4.60% of the portfolio.
- LPPI has applied to join the Net Zero Engagement Initiative (NZEI), a new engagement programme from the Institutional Investor Group on Climate Change (IIGCC[R]). It seeks to support collaborative engagement with carbon intensive companies that sit outside the top 166 largest emitters in the Climate Action 100+[R] universe.
- The PRI[R] recently released the results for the 2020/21 reporting cycle, with LPPI achieving over 70% in each module and scoring significantly higher than the peer group average.
- LPPI has recently released its Net Zero Roadmap, which follows our formal submission to the IIGCC's Net Zero Asset Managers Initiative[R] in October.

2. RI Dashboard – Portfolio Characteristics

This section of the report shares key takeaways from the RI Dashboard at Appendix B.

Asset class metrics (*Dashboard pages 1 & 2*) offer insights on the composition of the portfolio and its general characteristics. See the summary for Q4 2022 outlined below.

The Real-World Outcomes section of the dashboard features examples of socially positive investments and this quarter the focus is on Listed Equities. Pages 6-8 share information on a selection of investments within the LCPF portfolio which are developing solutions in large, small and mid-cap companies.

Listed Equities (Dashboard p1)

Sector Breakdown

Categorised by GICS[R] the largest sectoral exposures for the GEF are Information Tech. (26%), Consumer Staples (15%), and Financials (14%).

Comparing the GEF with its benchmark (MSCI ACWI)[R] gives insight into how sector exposures for the fund differ from a global market index. The length of each horizontal bar indicates by how much exposures differ in total (+ or –) compared with the benchmark, which is the outcome of active managers making stock selection decisions rather than passively buying an index.

Top 10 Positions

The top 10 companies (10 largest positions) make up 22% of the total LPPI GEF.

In Q4 2022 Nestle moved up 1 position and is now the largest holding in the GEF. Visa and Microsoft remain in the top three, although Visa is now up 1 position and Microsoft is down 2 positions. Alphabet and Diageo have moved down 1 and 4 positions respectively, whereas, Accenture and Starbucks have moved up 1 and 4 positions respectively. Pepsico remained the same, whilst Intuit and Apple were replaced by LVMH and Colgate, which makes up the last positions in the top 10.

Portfolio ESG Score

The GEF's Portfolio ESG score has increased from 5.74 to 5.76 between Q3 and Q4 (dashboard chart is rounded). In the same period the equivalent score for the benchmark had not changed at 5.5.

Transition Pathway Initiative (TPI)

Monitoring against TPI[R] Management Quality ratings confirms the GEF continues its relatively low exposure to highly carbon intensive activities with minimal changes in ratings since Q3. By value, the coverage of the GEF represented within the globally high emitting companies under TPI assessment remained the same at 11%, between Q3 and Q4.

The number of GEF companies in scope of TPI scoring has increased by 1 since Q3 2022, changing from 30 to 31. This increase is a result of the new external manager Ballie Gifford, bringing 2 new companies from the TPI universe into scope, whilst elsewhere one in-scope company has left the portfolio.

Of the 31 companies in TPI scope:

- 92% (by value) are rated TPI 3 and above – demonstrably integrating climate change into their operational planning (TPI3) and into their strategic planning (TPI 4). This is down from 94% in Q3 2022, which is a general reflection of the additional companies bringing down the ratio.
- 8 companies are scored below TPI 3 and are under monitoring.

Governance Insights

These metrics provide insights on governance issues for the GEF using data from ISS DataDesk (Institutional Shareholder Services) our provider of shareholder voting services.

Women on the board: A measure of gender diversity confirming the average proportion of female board members for companies in the GEF (where data is available).

In Q4 2022, an average of 29% of board members were female in the GEF, which is unchanged from Q3. There was a coverage of 84% data availability (up from 83% in Q3), which was a result of several companies not being in scope of the ISS database.

Board independence: The average proportion of board members identified by ISS as independent. Please note independence expectations vary across markets with LPPI generally favouring greater independence as a route to an appropriate breadth of ideas, skills and experiences being drawn upon.

In Q4 2022, on average 68% of board members were independent in the GEF, which is down from 69% in Q3. There was a coverage of 84% data availability (unchanged from Q3), which was a result of several companies not being in scope of the ISS database.

Say-on-pay: The average level of investor support for the most recent say-on-pay vote at a company meeting. Please note not all markets require say-on-pay votes. A vote of greater than 20% against (support < 80%) is generally considered significant.

In Q4 2022, an average of 88% were in support for say on pay (unchanged from Q3), which indicates a high proportion of investors were supportive of the pay policies of investee companies. There was a coverage of 69% data availability (down from 72% in Q3), which was a result of several companies not being in scope of the ISS database.

Other asset classes (Dashboard p2)

Private Equity

The geographical exposure continued to have a strong United States presence, increasing from 50% in Q3 to 53% in Q4 2022. The largest sectoral exposure continued to be Information Technology, although reducing slightly from 31% in Q3 to 29% in Q4 2022.

Infrastructure

The geographical exposures to UK based infrastructure slightly decreased, moving from 52% exposure in Q3 to 48% in Q4. The largest sectoral exposure remained in Traditional Energy, Renewable Energy, Waste, which makes up 40% of the portfolio.

Real Estate

The geographical exposures continued to be largely deployed in the UK, slightly reducing from 73% in Q3 to 72% in Q4 2022. The largest sectoral exposure continued to be Industrial assets, making up 44% of the portfolio.

Green & Brown Exposures

Calculation of the Fund's exposure to Green and Brown activities focusses specifically on equity assets (Listed Equity, Private Equity, and Infrastructure) plus corporate bonds within Fixed Income. Figures give an indication, rather than a precise measure, as an assistance to reviewing the overall position.

Green activities are those directly contributing to real world decarbonisation, principally through renewable energy generation, but include other activities supporting lower emissions including district heating, and waste management. Brown activities are those directly involved with extracting, transporting, storing, and otherwise supplying fossil fuels, or using them to generate energy.

The dashboard presents information on the trend in Green and Brown exposures (commencing in Q4 2019). Quarterly changes in Green and Brown exposure reflect multiple factors at play including funds reaching maturity, assets being revalued, and investments being made and sold. The total value of the Lancashire County Pension Fund (LCPF) portfolio (as the denominator) also affects Brown and Green % shares quarterly.

Compared with Q3 2022, Brown exposure has increased from 2.52% to 2.72%. The biggest contributor to the increased exposure is from the GEF. This is a reflection of a mark-to-market increase, demonstrating the strong performance of Brown positions held in the GEF due to elevated oil and gas prices. This has increased the GEF's Brown exposure from 0.32% in Q3 to 0.48% of the portfolio in Q4. Other contributing factors have been from the Infrastructure asset class, where there has been a small mark-to-market increase in the performance of Brown positions held in portfolio.

Compared with Q3 2022, Green activities have increased from 4.21% to 4.60% of the portfolio. The biggest contributors to the increased exposure are the Infrastructure and Private Equity assets classes. The Private Equity figures reflect a full re-evaluation based on the current categorisation process, as we have done in other asset classes. This added some further companies within existing funds that have not previously been identified as Green, predominantly in the decarbonising and clean tech fund categories. This change increased Private Equity's Green exposure from 0.02% in Q3 to 0.13% of the portfolio in Q4. Infrastructure's contribution reflects a positive mark-to-market increase, demonstrating the strong performance of Green positions held in the portfolio. This has increased Infrastructure's Green exposure from 4.15% in Q3 to 4.45% of the portfolio in Q4.

Investments in renewable energy generation from wind, solar, hydro, and waste make up 85% of total Green exposure, and 97% of Green exposure is via Infrastructure assets.

3. Core Stewardship

This section of the report gives an overview of stewardship activities in the last quarter. Client pension funds delegate day to day implementation of the Partnership's Responsible Investment approach to Local Pensions Partnership Investments Ltd (LPPI). Ongoing stewardship activities by LPPI include portfolio and manager monitoring and the exercise of ownership responsibilities via shareholder voting, and engagement.

Shareholder Voting - LPPI Global Equities Fund (GEF) *(Dashboard page 3)*

Shareholder voting is overseen centrally by LPPI rather than by individual asset managers. LPPI receives analysis and recommendations from an external provider of proxy voting and governance research. We follow Sustainability Voting Guidelines focussed on material ESG considerations and liaise with providers and asset managers as needed to reach final voting decisions.

Full details of all shareholder voting by LPPI are publicly available from the LPP website within quarterly shareholder voting reports.

The period 1st October – 31st December 2022 encompassed 40 meetings and 321 resolutions voted. LPPI voted at 98% of meetings where GEF shares entitled participation. The shortfall reflects the application of Do Not Vote to one Russian position that was not fully liquidated before trading restrictions were introduced.

Company Proposals

LPPI supported 77% of company proposals in the period.

Voting against management captured:

- the election of directors: 35% of votes against (addressing individual director issues, overall board independence, and over-boarding).
- compensation: 11% of votes against (addressing inadequate disclosure of underlying performance criteria, use of discretion, and the quantum of proposed rewards).

Case Study – Director Related

LPPI voted against 23 director-related resolutions across nine companies. This was 13% of all director-related votes.

LPPI voted against three resolutions across two companies due to a lack of Board independence. Results: 5.7% - 17.8% Against.

LPPI voted against five directors across four companies due to the lack of diversity on the Board. Results (where disclosed): 0.2%-17.8% Against.

Case Study – Compensation

LPPI voted against seven compensation resolutions at seven companies. This was approximately 18% of compensation-related votes.

At Oracle Corporation (USA: Systems Software), LPPI voted against the say on pay. This was driven by poor disclosure, the use of entirely discretionary bonuses for some named executive officers, and modification to in-progress equity awards. Following multiple years of low support for the say on pay, ISS judged shareholder outreach to be insufficient and recommended voting against all incumbent board members as an escalation. LPPI shared concerns around the lack of responsiveness, but thought it was most appropriate to withhold support for members of the Remuneration Committee for this topic. Say on pay result: 33.1% Against. Remuneration Committee member results: 27.3% - 30.5% Against.

At Copart (USA: Diversified Support Services), LPPI voted against the say on pay. This was driven by a combination of poor disclosure, an overreliance on subjective metrics in the annual bonus, and a large front loaded equity award in the long-term incentive plan (LTIP) that was linked to metrics that reward short-term share price peaks. Result: 38.0% against.

At RPM International (USA: Specialty Chemicals), LPPI voted against the say on pay. This was driven by poor disclosure of performance metrics. Result: 33.4% Against.

Shareholder Proposals

LPPI supported 11 out of 14 (79%) shareholder resolutions over the quarter. Eight were management supported and related to routine corporate governance items at Chinese companies.

Microsoft Corporation (USA: Systems Software) faced six shareholder resolutions. LPPI voted against three. All were considered to be of low quality (e.g. requesting a report on the costs of diversity and inclusion initiatives to be published 18 days after the AGM, micro-managing retirement funds available to employees, and seeking disclosure which Microsoft has already produced). Results: 88.8% - 98.7% Against.

LPPI supported two resolutions seeking greater information regarding the risk association of government-related defence contracts. LPPI also supported a resolution seeking tax disclosure in line with the Global Reporting Initiative's Tax Standard. Results: 10.5% - 23.0% For.

Climate Voting (NEW)

This new section will capture climate-related votes arising from the updated Shareholder Voting Guidelines (SHVGs). It will also draw out coverage of any CA100+ linked shareholder resolutions.

During Q4 2022, no voting action on climate relating to the SHVGs or CA100+ linked resolutions occurred.

Case Study – Manager Engagement

In Q4 2022, LPPI's Infrastructure team engaged with an external manager on specific initiatives as part of ongoing portfolio monitoring. The first initiative was a review of their latest UN PRI[R] assessment score and areas for improvement to meet the criteria required for future assessments. This review was a collaborative process to exchange thoughts on key components of ESG processes such as resourcing, asset management and carbon reporting. The second initiative involved a deep-dive review of the same external manager, related to the latest investment in a conventional power asset in the US. This review sought to understand key ESG risks and opportunities of this investment, namely balancing the exposure to fossil fuel (natural gas) against supporting the energy transition of several coal-reliant US states. Further, in Q4 2022 the LPPI Infrastructure team met with the manager's private markets ESG team in person, which provided the opportunity to discuss ESG initiatives such as physical climate risk assessment tools and integration of ESG initiatives in business plans.

4. Robeco Summary

Engagement (Public Markets): Robeco *(Dashboard page 4)*

This section of the dashboard outlines the engagement activities undertaken by Robeco in the public markets by topic, sector, method, and region (indicating the number of companies engaged / geographical distribution). Robeco currently engages with 32 companies in the GEF, accounting for 24.6% of the total GEF portfolio.

Engagement (Public Markets): Robeco *(Dashboard page 5)*

Engagement progress by theme, also shown on page 2 in the Robeco Active Ownership report, summarises their engagement activity for our portfolio over the quarter and breaks them down into sub-sectors, where they are rated on success/progress (shown as a %). The data outlined in our dashboard is specifically related to the companies in LPPI's portfolio and the engagements Robeco undertake on our behalf.

Robeco's New Themes

Each year in Q4, Robeco clients submit engagement priorities to inform new themes to be created for the year ahead. These suggestions are aggregated and presented at the annual client panel for further discussion. The three new engagement themes selected for 2023 are below and will be rolled out across the year. Modern slavery and tax were LPPI-identified priorities which we were pleased to see incorporated. In addition to the new themes, Robeco confirmed that they will also expand coverage of the climate change and biodiversity themes given the long-term, systemic nature of these topics.

Forced Labour and Modern Slavery

Background
Over 50 million people globally are trapped in modern slavery. Roughly 28 million people are victims of forced labour, and half of those are in the Asia-Pacific region. Governments and regulators are paying growing attention to modern slavery risks, and investors have a responsibility to respect human rights, as outlined in the UN Guiding Principles on Business and Human Rights.

Engagement focus
Robeco's engagement will focus on companies predominantly linked to the Asia-Pacific region operating in sectors highly exposed to forced labour risks, such as Consumer Discretionary, Consumer Staples, Technology and Healthcare.

Just Transition

Background
The 'Just Transition' as a concept is about greening the economy in a way that is as fair and inclusive as possible to everyone impacted. Robeco believe that emerging markets are where the battle against climate change will be won or lost, as issues of transition are most acute across Africa and Asia.

Engagement focus
The engagement will focus on companies in emerging markets that are enabling and/or contributing to the just energy transition.

Tackling Tax Transparency

Background
Taxation is increasingly a topic for debate for regulators and progressively seen as a key ESG topic. Due to recent regulatory developments, Robeco believe that 2023 is a good time to start engaging on this topic.

Engagement focus
This theme will focus on improving the transparency of companies over their tax status, and what they actually pay to the governments of the countries in which they operate.

Robeco Active Ownership Report: Content Overview

The below information is a summary of Robeco Active Ownership report, from page 3 onwards, which covers case study insights from across the workload that they have chosen to give an update on this quarter. All information represents Robeco's findings for their entire assets under engagement. Although it is still relevant to LPPI, it is not specific to the companies that are under engagement for LPPI. These insights can refer to companies inside and outside our portfolio, depending on our specific exposure to the given theme being highlighted.

Social Impact of Artificial Intelligence

As Robeco close their Social Impact of Artificial Intelligence (AI) engagement theme, they reflect on some of the key trends, opportunities and challenges around this technology. From 2019 to 2022, Robeco engaged with 10 companies on behalf of all clients from across the Information and Communication Technology (ICT) sector with the aim of promoting best practices in the development and responsible use of AI.

Robeco concluded their Social Impact of AI engagement program and successfully closed 40% of engagement cases across all assets under engagement. They learned that companies are gradually aligning internal practices to principles of responsible AI, and many address topics like inclusiveness, fairness, and transparency. However, ethical principles on their own do not ensure the responsible development and deployment of AI. Businesses require robust governance mechanisms to effectively implement their principles. Robeco observed that transparency around AI governance and implementation remained low, as most companies' public disclosures lacked clarity about how such principles translate into practice.

The alignment of AI technologies with ethical values and principles will be critical to promote and protect human rights in society. Even though much work has been done in this area, the implementation of AI principles and management of AI risks remains a critical area for improvement.

Social Impact of Gaming

In Q1 2021 Robeco started engaging the global video gaming industry on its social impact. They selected six of the largest listed gaming companies located in the US, South Korea and China, with objectives that address the social impacts felt both behind and in front of the screen. For the consumers playing the games, companies are expected to develop strategies that prevent harassment occurring between players. Each studio has developed and integrated preventative tools on a game-by-game basis, though Robeco have encouraged companies to learn from each other and create a more general application of harassment-prevention tools.

Research into disruptive player behaviour has also been conducted by the industry, but has yet to be leveraged in game design. This integration will be encouraged by Robeco in the coming months. Other elements of player behaviour that warrant attention are the money and time spent within games. At least half of the companies have implemented a ban on spending abilities for accounts below an early-teen age group, however, age restrictions and time restraints are largely implemented through the consoles and must be set by parents.

Depictions of violence within games has had less attention from the industry but is acknowledged as material by the companies. However, Robeco have yet to see examples of clear policies that guide what imagery is appropriate outside of regulation, and it is widely seen to be a creative rather than a risk-aligned decision. In-game diversity has had attention in the US-based studios but has had less traction in other markets. Companies have highlighted extended character appearance options that allow for diverse avatars, however, this is considered a creative decision that is determined by project teams and is influenced by the diversity levels of the teams themselves.

Since the launch of the engagement, the issue of diversity and inclusion on the work floor has only continued to rise in prominence within the gaming sector. Allegations of toxic workplace cultures, enabling sexual harassment and discrimination, continued into 2021, triggering legal and employee action. Western companies have appointed leads for diversity, installing training and development programs, while remaining defensive of the view that allegations are the result of systemic issues. Companies in other regions however approach diversity primarily from the gender perspective, and are less responsive to the issue overall.

All companies under engagement now publish annual ESG reports, when at the beginning of the engagement, three had yet to do so. The reports highlight initiatives that relate to many of Robeco's objectives, and largely conform to frameworks that include metrics that they deem important for transparency, in particular those that are related to the workforce.

Biodiversity

Nature is critical to meeting the UN Sustainable Development Goals (SDGs) and limiting global warming to 1.5 degrees. In an active effort to live up to thier clients' environmental and social responsibilities, in 2020 Robeco set up an integrated and multi-layered engagement approach to address biodiversity loss.

Addressing biodiversity loss requires urgent action from both governments and companies. Investor action on biodiversity has been limited, with data barriers and capacity limitations keeping them from integrating biodiversity into their investments, engagement and voting decisions at scale. Robeco has set out to create a holistic, multi-layered and scalable engagement approach towards biodiversity. As such, they are not only engaging the various relevant stakeholders, but also exploring how stewardship efforts can be scaled through collaborative engagements. Robeco's engagement initially started off with a focus on biodiversity loss linked to deforestation among companies exposed to high-risk commodities. However, as of Q4 2022, it has now expanded to other drivers of biodiversity loss, from pollution to overfishing.

Robeco expect companies to assess their biodiversity impacts and dependencies, and set a biodiversity strategy. They also expect companies to report key impact indicators following recognised reporting frameworks such as Taskforce for Nature-Related Financial Disclosures. The theme will, among others, cover companies engaged as part of the new RobecoSAM Biodiversity Equities Fund, which directs financial flows towards biodiversity solutions providers.

Seeking further collaborative engagement opportunities, Robeco have recently signed the Business for Nature statement calling for mandatory corporate reporting for nature by 2030, as well as joining the letter campaign and ESG data provider engagement by the Finance Sector Deforestation Action. Robeco has also recently been part of the core investor group that launched the Nature Action 100 initiative during the UN Biodiversity Conference in Montreal in December 2022.

Shifting to the sovereign level, Robeco continues to be actively involved in the Investor Policy Dialogue on Deforestation (IPDD) initiative since it was formally set up in July 2020. Currently, the coalition is comprised by 65 institutional investors from 19 countries, with USD 10 trillion in assets under management. Robeco considers sovereign engagement as a necessary and powerful step to encourage governments that are significantly exposed to deforestation risk to implement relevant policies and contribute to a positive change.

Corporate Governance Standards in Asia

Robeco have two broad streams of engagement in Asia. Firstly, focusing on working with regulators and policy stakeholders in Japan, South Korea, and to a lesser extent in China, to ensure an improved and level playing field for ESG issues. Secondly, working constructively with companies in Japan and South Korea to improve their disclosure, communication and financial performance.

Their policy engagement included a virtual meeting with Japan’s Ministry of Economy, Trade and Industry. Raising issues on the disclosure timing of annual reports, and noting the importance to investors that these be released prior to the annual general meetings. They also become co-signatories of a letter to Japan’s Financial Services Agency and the Tokyo Stock Exchange on two pathways to address the low rate of female participation, looking to change the listing rules via Japan’s Corporate Governance Code.

The markets of Japan and South Korea have large valuation discounts compared to other developed markets in Europe and the US. These discounts have widened in the year to date with the strong relative appreciation of the US dollar. The companies under engagement were also trading at valuation discounts compared to their global industry peers, which Robeco attribute partly to broad governance issues in Japan and South Korea, but also to the lack of robust financial strategies and inefficient balance sheets.

Robeco believe in two key principles for good corporate governance: transparency and accountability. They ask companies to improve transparency by publishing narrative reporting on their corporate strategy and having a distinct financial strategy. There is much to celebrate given the increased emphasis on reporting on material environmental and social (E&S) issues, including setting targets on greenhouse gas emissions reductions. However, there are still significant opportunities for companies to improve reporting of their financial strategy and to give robust explanations on specific targets that would support their business strategy.

5. Collaborations and Partnerships

LPPI participates in a range of investor groups and partnerships which provide opportunities for shared learning and a platform for collective action. The following are headlines for Q4 2022.

IIGCC's Net Zero Engagement Initiative

LPPI applied to join the Net Zero Engagement Initiative (NZEI), a new engagement programme from the Institutional Investor Group on Climate Change (IIGCC[R]). It seeks to support collaborative engagement with carbon intensive companies that sit outside the top 166 largest emitters in the Climate Action 100+[R] universe. The NZEI seeks to capture smaller companies which represent the long tail of greenhouse gas emissions with the view of supporting investors in meeting their Net Zero Investment Framework engagement targets (used by LPPI). Further information and the commencement of engagement is scheduled for Q1 2023.

Principles for Responsible Investment (PRI) Consultation

As a PRI[R] signatory, LPPI participated in a dialogue and submitted a response to a formal consultation on the future direction of PRI which closed on 27th Jan 2023.

The consultation, PRI in a Changing World, was issued on the conclusion of a programme of signatory workshops in key markets which explored the context, started the conversation, and introduced key themes. LPPI’s Head of Responsible Investment attended the UK event at PRI Head Office in London in November 2022.

The consultation posed questions in the following seven areas:

1. What does responsible investment mean today?
2. Expectations about signatory progression
3. The role of responsible investors in the financial system, and in influencing policy change; and barriers to signatory action on sustainability outcomes.
4. The PRI's response to signatory needs – globally and locally – and the challenges signatories face
5. The PRI's strategy setting approach and governance
6. The PRI's mission statement
7. Signatories' engagement and satisfaction with the PRI

The questions reflect that in the period since PRI launched in 2006 there has been a significant shift in market practice and expectations. These need acknowledging and reflecting in the PRI's strategy, planning, and resourcing and in requirements placed on signatories going forward.

LPPI's response to the consultation (by confidential online questionnaire) communicated the value we place on a robust external good practice standard for stewardship incorporating ESG integration. We voiced support for a clearer set of signatory requirements that builds-in an expectation of progression over time and a focus on disclosure being proportionate and useful rather than exhaustive. Increasing pressure is arising from the expansion of stewardship-focussed reporting introduced by regulation which extends compulsory disclosures without co-ordination with other reporting regimes. Disclosure standards are similar but not aligned, reporting periods and deadlines overlap, and there is insufficient dispensation for equivalency despite the same activities being the subject of multiple disclosure requirements. The consultation will provide direct insights which can tighten the PRI's focus on how to accommodate the asset owner and asset manager context in planning how to support signatories achieving stewardship good practice and demonstrating this to their stakeholders.

Asset Owner Diversity Charter (AODC)

As a signatory to the AODC, LPPI has committed to encouraging our managers to fill in the AODC questionnaire once a year. To make this process more efficient, the AODC have begun an initiative with CAMRADATA, a data analysis firm, to provide a centralised database where each manager can submit their responses once, which all signatories to the Charter can then access. LPPI identified 18 of our largest managers across the portfolio to target in a first round of requests. Together with CAMRADATA we sent out the latest version of the questionnaire, requesting each manager to complete it. So far, we have received responses from all but one of our managers and all but 4 of these used the new CAMRADATA platform and template. Outside of this priority group, 6 of our managers have already completed the questionnaire on the database. Our response rates were shared with the AODC team who are working on compiling these and other insights from the data itself into a 'year in review' progress report for the initiative. The report will include case studies to support ongoing engagement on this important topic and be published in the coming months.

6. Other News and Insights

PRI Results

Module	LPPI Scores	PRI Median Scores
Investment and Stewardship Policy	4* (87%)	3* (60%)
Direct – Listed Equity – Active Fundamental Incorporation	5* (96%)	4* (71%)
Direct – Listed Equity – Active Quantitative – Voting	4* (72%)	3* (54%)
Direct – Listed Equity – Active Quantitative – Voting	4* (72%)	3* (61%)
Indirect – Listed Equity - Active	4* (87%)	4* (67%)
Indirect – Real Estate	5* (91%)	3* (62%)

The PRI[R] recently released the results for the 2020/21 reporting cycle, with LPPI achieving over 70% in each module and scoring significantly higher than the peer group average. With the reporting and scoring framework undergoing a number of changes from the previous reporting cycle, we are pleased to have maintained such high scores across the board. LPPI has scored above the median threshold for all assessed modules against both immediate asset owner (10-50B) and asset manager (10-50B) benchmarks (Europe) and against all PRI signatories (Global).

Since the PRI submission, our philosophy, tools and frameworks around ESG integration have moved on substantially. We continue to improve ESG integration across our asset class teams and will be looking to showcase these improvements in the next PRI submission.

PRI Advance Launch

The PRI has officially launched Advance, the engagement programme which aims to support institutional investors to collaborate and take action on human rights and social issues. At launch, LPPI was one of 220 investors endorsing the initiative, representing $30tn in assets under management.

DLUHC Consultation: LGPS governance and reporting of climate change risk

The Department for Levelling Up, Housing and Communities issued its long-awaited consultation on proposed requirements for climate change governance and reporting by LGPS pension funds on 1st September 2022. This ran until 24th November 2022 and DLUHC are currently analysing responses.

The consultation sought views on proposals to require LGPS administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD[R]). The consultation was comprehensive and sought responses to 12 questions.

LPPI's detailed consultation response incorporated insights on the proposed requirements from the perspective of asset manager and pooled investment provider as well as from the context of our clients as administering authorities. As an assistance to those planning their own submissions, LPPI's consultation response was shared privately with our client funds in early November.

Key points raised in LPPI's response included

- The importance of partnership between administering authorities and their pools in making a decisive start despite incomplete data and imperfect tools
- The ambitious timetable and scope for the first reporting year to be a pilot which surfaces shared learning
- The gap between what is ideal and what can be achieved in practice currently given gaps in data, tools and established approaches for modelling climate-related risks for complex portfolios
- Limitations in what the provider market has developed at this point to support implementation for a diversified portfolio of assets
- The importance of detailed guidance stipulating a specific approach wherever consistency is required for the purposes of comparison or aggregation across pensions funds
- The opportunity for encouraging convergence around strong standards whilst maintaining flexibility to embrace evolving discipline and practice
- The requirement for TCFD reporting periods and disclosure deadlines to reflect dependency and reliance between asset managers, pools and pension funds
- The underestimation of resourcing and implementation costs for pools and funds.

DLUHC are due to issue the guidance which implements applicable requirements by April 2023.

Shareholder Voting Guidelines Update

The latest iteration of LPPI's Shareholder Voting Guidelines (SHVGs) has been published, incorporating material changes to how matters relating to climate change and board gender diversity are captured in the execution of shareholder voting rights for holdings in the Global Equities Fund.

On climate, LPPI has increased the scope of companies to which climate-related voting actions are applicable as well as enhanced the standards to which company management is held. Previously, votes were cast against companies within the Transition Pathway Initiative (TPI) universe with a Management Quality score less than three (indicating they have not publicly set any greenhouse gas emissions reduction targets or disclosed emissions data).

The updated SHVGs expands the universe to cover all companies in sectors identified as high impact in the IIGCC Net Zero Investment Framework, and applies the more rigorous Climate Action 100+ benchmark (where a company is in coverage) or, alternatively, LPPI's internal assessment of net zero alignment using MSCI® and other data sources. LPPI's internal assessment uses the IIGCC's Net Zero Investment Framework categorisation of corporate alignment and was discussed with IIGCC staff during the research phase.

LPPI will vote against management at companies that are assessed to be in the bottom two tiers of "Not Committed" or "Committed to Aligning". This captures companies that have not set a long-term ambition to decarbonise ("Not Committed") and those that have set the ambition but not followed-up with disclosure on carbon footprints or targets ("Committed to Aligning"). Adverse votes will also occur when companies have not met minimum standards in the TPI or CA100+ benchmarks.

On board gender diversity, LPPI has expanded the scope of companies that are expected to have at least 30% women to include the Russell 3000 index of US companies, in addition to the FTSE 350. LPPI will vote against the Chair of the Nomination Committee where women make up less than 30% of the board, unless the firm has disclosed a plan to meet the 30% standard within a year.

Net Zero Roadmap

LPPI has recently released its Net Zero Roadmap, which follows our formal submission to the IIGCC's Net Zero Asset Managers Initiative[R] in October. LPPI has voluntarily made a public commitment to the goal of aligning our portfolio with Net Zero emissions by 2050. We also aim to have 100% of assets under management in scope of our Net Zero target setting over time. This roadmap outlines our Net Zero approach, and draws out our aims, targets and specific metrics used to measure our progress in reaching our goal.

For Reference

GICS - Global Industry Classification System
The most widely used approach to categorising activities into industry sectors. The main standard in use for public markets with growing use for other asset classes. For more information on GICS and the activities that fall into each sector, please see:
https://www.spglobal.com/marketintelligence/en/documents/112727-gics-mapbook_2018_v3_letter_digitalspreads.pdf

Climate Action 100+
Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

Paris Agreement
The Agreement is a legally binding international treaty to tackle climate change and its negative impacts. The Agreement includes commitments from all countries to reduce their emissions and work together to adapt to the impacts of climate change. It entered into force on 4 November 2016.

The Agreement sets long-term goals to guide all nations to:

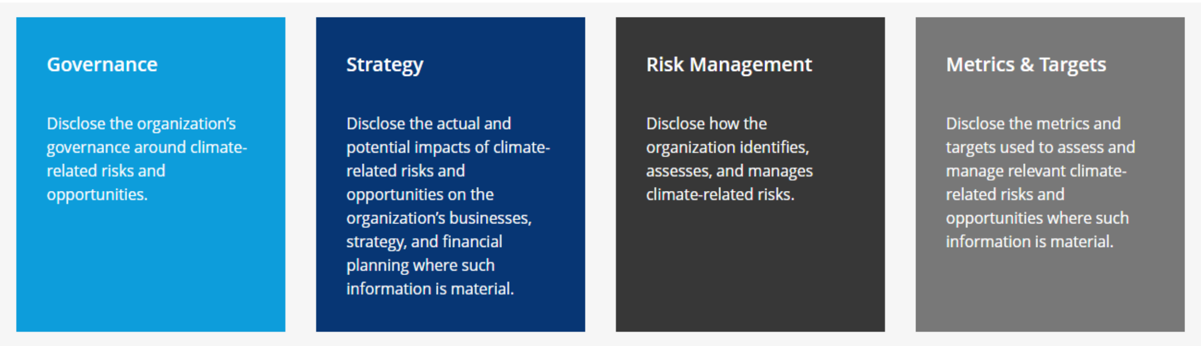
- substantially reduce global greenhouse gas emissions to limit the global temperature increase in this century to 2 degrees Celsius while pursuing efforts to limit the increase even further to 1.5 degrees,
- review countries' commitments every five years,
- provide financing to developing countries to mitigate climate change, strengthen resilience and enhance abilities to adapt to climate impacts.

https://www.un.org/en/climatechange/paris-agreement

MSCI ACWI - MSCI All Country World Index
A stock index designed to track broad global equity-market performance. The LPPI Global Equity Fund's benchmark.

MSCI - **Morgan Stanley Capital International**
A global index provider.

TCFD - Taskforce on Climate Related Financial Disclosure
The Financial Stability Board created the Task Force on Climate-related Financial Disclosure (TCFD) to improve and increase reporting of climate-related financial information by companies and investors.
Recommendations include annual disclosure under 4 pillars:



TPI - **Transition Pathway Initiative** https://www.transitionpathwayinitiative.org/
The TPI assesses the highest emitting companies globally on their preparedness for a transition to a low carbon economy. 368 companies are rated TPI 0-4* for Management Quality based on 19 separate datapoints. TPI Management Quality scores provide an objective external measure of corporate transition readiness.

NZAMI – Net Zero Asset Managers Initiative https://www.netzeroassetmanagers.org/
The Net Zero Asset Managers Initiative launched in December 2020 and aims to galvanise the asset management industry to commit to a goal of net zero emissions.

IIGCC
Institutional Investor Group on Climate Change. LPPI is a member.

PRI - **Principles for Responsible Investment** https://www.unpri.org/
A United Nations-supported international network of financial institutions working together to implement its six aspirational principles, often referenced as "the Principles".