Lancashire County Pension Fund (LCPF) Responsible Investment Report – Q2 2023

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 April - 30th June 2023 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 Q2 2023 LPPI voted on 97% company proposals, supporting 85% of these.
- Investments in Brown sectors (extraction, transportation, storage, supply, and generation of energy from fossil fuels) are 2.38% of the portfolio.
- Investments in Green sectors (renewable energy generation, clean technology, and decarbonising activities) are 5.34% of the portfolio.
- As part of the investor-led engagement phase of the IIGCC Net Zero Engagement Initiative, LPPI has been selected as part of the engagement group for three companies.
- LPPI is participating in a working group 'on climate risk reporting' convened by the Scheme Advisory Board's Responsible Investment Advisory Group.
- LPPI has made a response to the Financial Conduct Authority's consultation on proposals to make changes to UK Listing Rules.

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 Q2 2023 outlined below.

The Real-World Outcomes section of the dashboard features examples of socially positive investments and this quarter the focus is on Real Estate. Pages 6-9 share information on a selection of investments within the LCPF portfolio which are developing solutions based in the UK and abroad.

<u>Listed equities (Dashboard p1)</u>

Sector Breakdown

Categorised by GICS[R] the largest sectoral exposures for the GEF are Information Tech. (21%), Financials (17%), and Consumer Discretionary (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 23% of the total LPPI GEF.

In Q2 2023 Microsoft remains the largest holding in the GEF. Visa, Nestle, Alphabet, Accenture and LVMH all remain in the top six, and remain stationary. Apple has moved up 3 positions to 7th, and Intuit has moved down 1 position to 8th. Rockwell Auto remains stationary, Adobe replaces Starbucks in 10th position.

Portfolio ESG Score

The GEF's Portfolio ESG score has decreased from 5.7 to 5.6 between Q1 and Q2. In the same period the equivalent score for the benchmark has remained stationary 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 Q1. By value, the coverage of the GEF represented within the globally high emitting companies under TPI assessment has decreased from 11.9% to 11.6%, between Q1 and Q2. This reflects that the number of GEF companies in scope of TPI scoring has decreased by 3 since Q1 2023, changing from 33 to 30 through holdings being disinvested.

Of the 30 companies in TPI scope:

- 91% (by value) are rated TPI 3 and above – demonstrably integrating climate change into their operational planning (TPI3) and into their strategic planning (TPI 4). Even with 3 companies dropping out of scope, this remains the same as Q1 2023, which is a general reflection of the increased value of these assets.
- 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 Q2 2023, an average of 31% of board members were female in the GEF, which is up from 30% in Q1. There was a coverage of 85% data availability (unchanged from Q1), 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 Q2 2023, on average 69% of board members were independent in the GEF, which is unchanged from Q1. There was a coverage of 84% data availability (unchanged from Q1), 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 Q2 2023, an average of 88% were in support for say on pay (unchanged from Q1), which indicates a high proportion of investors were supportive of the pay policies of investee companies. There was a coverage of 69% data availability (up from 62% in Q1), which was a result of several companies not being in scope of the ISS database.

<u>Other asset classes (Dashboard p2)</u>

Private Equity

The geographical exposure continued to have a strong United States presence, remaining stationary at 50% in Q2 2023. The largest sectoral exposure continued to be Information Technology, remaining at 29% in Q2 2023.

Infrastructure

The geographical exposures to UK based infrastructure slightly decreased, moving from 48% exposure in Q4 to 46% in Q1 2023. The largest sectoral exposure remained in Traditional Energy, Renewable Energy, Waste, which makes up 40% of the portfolio.

Real Estate

Sector and geographical exposures remained similar to those reported in Q1 2023. The portfolio continued to be largely deployed in the UK, making up 74% of the portfolio. The largest sectoral exposure continued to be Industrial assets, making up 40% 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 Q1 2023, Brown exposure has decreased from 2.52% to 2.38%. The biggest contribution to the reduced exposure comes from the Infrastructure asset class. The figures reflect a mark-to-market decrease in the value of Brown positions held in portfolio. This has reduced infrastructure's Brown exposure from 2.00% in Q1 to 1.90% of the portfolio in Q2 2023. Other contributions were from the GEF asset class, where there has also been a small mark-to-market decrease in the value of Brown positions held in portfolio.

Compared with Q1 2023, the value of Green activities has increased from 5.23% to 5.34% of the portfolio. The biggest contributor to the increased exposure is from the Infrastructure asset class. The figures reflect new companies identified as Green being added to existing funds. Infrastructure's contribution also reflects a positive mark-to-market increase, demonstrating a net increase in the value of Green positions held in portfolio. This has increased infrastructure's share of Green exposure from 5.06% in Q1 to 5.14% of the portfolio in Q2.

Investments in renewable energy generation from wind, solar, hydro, and waste make up 85% of total Green exposure, and 96% 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 April – 30th June 2023 encompassed 243 meetings. LPPI voted at 236 (97%) meetings where GEF shares entitled participation, totalling 3205 resolutions voted. LPPI did not vote in seven meetings. The reasons for this were:

- One meeting at a Russia-linked holding where Do Not Vote was cast as the position was not liquidated prior to trading restrictions.
- Two meetings in share blocking markets where Do Not Vote is applied.
- Four meetings were not voted due to issues with Power of Attorney (PoA) documentation at the sub-custodian level. While LPPI raised this with the Custodian in advance of voting season, they were not in place in advance of company meetings. The operations team will raise concerns around implementation speed at the next service review.

Company Proposals

LPPI supported 85% of company proposals in the period.

Voting against management captured:

- the election of directors: 35% of votes against (addressing overall board independence, over-boarding, and company specific issues such as diversity).
- compensation: 22% 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 136 director-related management resolutions across 77 companies. This was 8% of all director-related votes.

LPPI voted against 29 directors across 16 companies in relation to minority shareholder rights. Members of Governance Committees were targeted where problematic governance practices (including the presence of a classified board and multiple share classes with unequal voting rights) existed. For example, at Comcast Corporation (USA: Cable & Satellite), LPPI withheld support for the Chair of the Governance Committee. This was due to the presence of a multi-class share structure that is not subject to a reasonable time-based sunset provision. Result: 24.4% against.

LPPI voted against 34 director-linked votes across 14 companies due to concerns around board independence levels. For example, at Groupe Bruxelles Lambert (Belgium: Multi-Sector Holdings), LPPI voted against three directors because they were non-independent incumbent directors and the board's overall independence level was less than 50% (results: 12.4% - 16.3% against).

LPPI voted against 36 directors across 32 companies due to a lack of board gender diversity. This reflects changes introduced in LPPI's 2022 proxy voting guidelines that introduced a higher threshold across GEF holdings in the FTSE350 and Russell 3000 requiring at least 30% women on the Board. In some instances, LPPI did not cast adverse votes where a company had less than 30% Board gender diversity. This typically occurred where no members of the Nomination Committee were on the ballot for re-election, or when company reporting indicated ambitions to meet the 30% standard.

Case Study – Compensation

LPPI voted against 87 compensation management resolutions at 50 companies. This was approximately 17% of management tabled compensation related votes**.**

At Netflix (USA: Movies & Entertainment), LPPI voted against the say on pay. Pay has been a contentious issue at Netflix for a number of years. Some improvement was made following low support in 2022, for example, the introduction of base salary caps and of an annual bonus scheme for a portion of the base salary paid in cash, however, overall practices remained sub-standard. For example, stock option awards lack performance criteria and meaningful vesting periods, and the company does not disclose a clawback policy. Result: 71.3% Against.

At American Express (USA: Consumer Finance), LPPI voted against the say on pay. This was driven by poor disclosure of targets and their respective weightings and thresholds. In addition, a one-time performance award was introduced that features, among other things, a total shareholder return based component that can be met with short term (20 day) price spike. Result: 45.8% Against.

At Unilever (UK: Personal Care Products), LPPI voted against the say on pay. The incoming CEO's salary was set higher than his predecessors at a level significantly higher than UK market peers. The Company did not provide compelling justification for this remuneration package. Result: 58.0% against.

Shareholder Proposals

LPPI voted against management in 95 out of the 177 shareholder resolutions filed in Q2 (54%). The breakdown of votes against management is below:

Compensation	2
Director Related	12
Social	61
Environmental	14
Corporate Governance	6
Grand Total	**95**

At Walmart (USA: Consumer Staples Merchandise Retail), LPPI supported a shareholder resolution which requested enhanced disclosure of Walmart’s human rights due diligence processes regarding actual and potential adverse human rights impacts in its domestic and foreign operations and supply chains. The resolution was co-filed by Robeco, who capture Walmart under the “Labour Rights in their Post Covid-19 World” theme and filed the resolution as an escalation following difficulties in engaging. The resolution only received 5.7% support (noting the Walton’s family’s c.46% ownership stake), however, asks by Robeco in conversations following co-filing, such as reference to labour rights risk areas within their operations, have been captured in updated reporting.

At Amazon (USA: Broadline Retail) and Brookfield Corporation (Canada: Asset Management & Custody Banks), LPPI supported shareholder resolutions seeking enhanced reporting on corporate tax transparency. Specifically, they requested alignment with the Global Reporting Initiative's (GRI) Tax Standard on country-by-country reporting. The resolutions received support of 17.6% and 26.9% respectively.

At Wells Fargo (USA: Diversified Banks), LPPI supported a shareholder resolution requesting the bank oversee the preparation of an annual public report describing and quantifying the effectiveness and outcomes of company efforts to prevent harassment and discrimination. This follows a number of controversies relating to discrimination in company hiring practices. The resolution passed with 52.3% support.

Climate Voting

In Q2, 23 companies in LPPI's climate voting watchlist held meetings. Votes against management were cast in eight instances. These were typically cast against the Chair of the Audit Committee, which is the role frequently identified as having oversight for climate-related risks. However, LPPI also supported relevant shareholder resolutions and votes against reports and accounts. Adverse votes occurred due to poor disclosure against the Net Zero Investment Framework pillars or, where a company is in coverage, the CA100+ [R] benchmark.

Companies typically avoided votes against management where disclosure has improved or there is evidence of adequate progress prior to reporting (e.g. as ascertained through engagement calls).

Nine companies in the CA100+ [R] universe held AGMs during Q2. Of these, three faced votes flagged by the CA100+ [R] voting database:

- At Engie (France: Multi-Utilities), LPPI supported a shareholder resolution which sought to amend company bylaws to enhance disclosure on climate-related risks. While there are some reservations over the use of a by-law amendment to pursue this goal, the non-binding nature of the resolution and the French state's c.24% ownership meant the threshold of comfort was met to support the spirit of this resolution. Result: 24.4% For.
- At CRH (Ireland: Construction Materials), Sarasin & Partners led a campaign seeking enhanced disclosure regarding critical accounting assumptions in company accounts and how these are consistent with the company's climate targets. LPPI aligned with these efforts, voting against the Auditor and Financial Statements, while abstaining for the vote on the Chair of the Audit Committee. Results: 0.7% - 3.2% Against.
- At Berkshire Hathaway (USA: Multi-Sector Holdings), LPPI supported two climate-related shareholder resolutions flagged by the CA100+ [R]. One, co-filed by Robeco, sought disclosure of the mechanisms through which the Board has oversight of climate-related risks. The second requested reporting on the management of physical and transition risk. Results: 18.3% and 27.1% For. LPPI also voted against the Chair of Berkshire Hathaway's Audit Committee, in line with the LPPI Shareholder Voting Guidelines. This aligned with the CA100+ [R]. Unlike the CA100+ [R], LPPI did not vote against all Audit Committee nominees, saving this for future escalation. Result: 13.8% Against.

LAPFF Voting Alerts

LAPFF issued voting alerts for eight companies held in the GEF over Q2, covering 50 individual resolutions. LPPI voted in the same direction as LAPFF recommendations for 39 votes (78%). In the majority of cases where LPPI took an opposing view to LAPFF, resolution quality was considered poor.

Case Study – Manager Engagement

During Q2, LPPI conducted annual responsible investment focussed meetings with each of the external managers in the GEF. In advance of each discussion, LPPI requested the manager update their response to the LPPI Responsible Investment Due Diligence Questionnaire (RI DDQ) which comprises the following sections: Governance, ESG Integration, Active Ownership, and Reporting. This structure allows LPPI to deep dive into both operational and investment related changes, building on the discussions that occur throughout the year as part of regular portfolio monitoring. Analysis of the RI DDQ response, alongside portfolio specific questions, determined the agenda for each of the meetings. The year in review also captured the roll out of LPPI's net zero enhanced engagement and reporting expectations, which allowed for further conversation on the progress of implementation and firm and portfolio-level thinking on the topic.

Overall, we are pleased with the progress our managers demonstrated. All managers have been able to meet our enhanced engagement and reporting baseline meaning we now receive novel insights regarding their climate-related stewardship. We also value their varying approaches to ESG, allowing us to learn from best practice, while also sharing these insights internally to improve portfolio-wide practices.

4. Robeco Summary

<u>Engagement (Public Markets): Robeco *(Dashboard page 4)*</u>

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 33 companies in the LPPI Global Equities Fund (GEF) and 7 companies in the LPPI Fixed Income Fund (FIF), accounting for 18.4% and 2.1% of the total portfolios respectively.

<u>Engagement (Public Markets): Robeco *(Dashboard page 5)*</u>

Engagement progress by theme, also shown on page 2 in the Robeco Active Ownership report, summarises engagement activity for our portfolio over the quarter and breaks this down into sub-sectors, which are rated on success/progress (shown as a %). For this quarter, one theme has been removed as it has now been concluded - Lifecycle Management of Mining

Also included in the progress chart for this quarter is Robeco's theme *Acceleration to Paris*, which is an enhanced engagement program that addresses the transition towards net-zero carbon emissions in key emitting companies.

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 Active Ownership Report: Content Overview

Biodiversity

In 2020, Robeco initiated an engagement programme focused on one of the key biodiversity loss drivers – deforestation. It focused on some of the highest-risk soft commodities, namely cocoa, pulp and paper, natural rubber, beef and soy. As their engagement efforts of the initial engagement phase come to an end, Robeco reflect on the main achievements and challenges that have been identified across the several sectors covered in the work.

In the last three years, companies have set and accelerated their zero deforestation targets to as early as 2025, and strengthened their monitoring systems to map how their suppliers are exposed to deforestation risks. However, challenges remain around the scope of some of these policies, along with the depth and credibility of monitoring efforts.

One way for companies to manage their negative impact on land use change is through ecosystem conservation and restoration efforts. Robeco have seen that most companies have restoration and conservation projects in place. However, these tend to be implemented on an ad-hoc basis without being strategically set to reverse or mitigate the negative impact of their sourcing strategies. They hope the integration of the new Taskforce for Nature-related Financial Disclosures (TNFD) framework will help companies carry out their biodiversity impact assessments.

The livelihood and well-being of local communities has shown to be directly linked to deforestation rates. Recognising that farmers often cannot earn a living income by selling their produce, some companies have integrated a premium into the commodity price as a way to fill this gap. This aims to drive systemic change by improving living conditions and meeting the basic needs of farmers. However, pressure from buyers to keep commodity prices at competitive levels still remains, hindering the applicability of this instrument.

Increased momentum on the topic of mitigating biodiversity loss in the next decade is undeniable. Hence, Robeco's corporate engagement efforts around minimising biodiversity loss will continue, despite the closure of the engagement dialogues related to deforestation. In the coming months, they will be involved in the launch of Nature Action 100, targeting engagement efforts on those companies and sectors with the highest negative impact on nature loss, beyond deforestation.

Human Rights Due Diligence for Conflict-Affected and High-Risk Areas

Robeco launched their dedicated human rights engagement programme in the fourth quarter of 2021 and are now at the midway point of the three-year theme. To begin, they selected 10 companies from eight different sectors with significant exposure to Conflict-Affected and High-Risk Areas (CAHRA), with a focus on the Occupied Palestinian Territories (OPT), Myanmar and China/Xinjiang.

The progress of the engagement has varied among the companies. Overall, they have been open to Robeco's engagement, with only one company failing to respond despite multiple attempts. It remains challenging for most companies to close the gap between their commitments and implementation, as demonstrated by some cases where positive commitments did not translate into tangible processes. Robeco's engagement going forward will increase their focus on companies' implementation efforts.

The engagement also revealed regional trends, with better progress observed in the OPT compared to Myanmar and Xinjiang. Since the start of the engagement, two companies decided to stop their operations in high risk regions identified. Going forward, Robeco's engagement will focus on the human rights implications of withdrawing versus staying, as this has to be carefully weighted to ensure a responsible exit.

In light of the Russian-Ukraine war and the increased attention to Xinjiang, another four companies have been included in the engagement program. In addition to company engagement, Robeco will continue to consult relevant stakeholders such as civil society groups, international human rights organisations and experts. Since obtaining information regarding the situation on the ground in CAHRA is challenging, they note the importance of this consultation as being necessary to achieve a positive outcome of the programme.

Good Governance

Robeco note that in 2023, a growing number of civil society organisations have found their way to companies' annual general meetings (AGMs), searching for a platform to voice their concerns. AGMs at many larger listed companies are getting livelier, particularly due to the participation of shareholders that are not part of pre-AGM engagement.

At the AGMs of oil and gas companies, these groups usually ask a higher number of questions than institutional or retail shareholders. During periods of takeovers or restructurings, employees and labour unions also find their way to the AGM to make their voices heard. If non-shareholder stakeholders don't have another channel to effectively raise their concerns, the AGM can become an annual meeting of stakeholders rather than shareholders.

Following the pandemic, participants could again join meetings in-person and made full use of that opportunity. What Robeco note as concerning is instances of the tone of the debate becoming much more hostile or, in some instances, even violent. Such 'debates' are far from being a dialogue, and increasingly the AGM is threatened with becoming a place to make a point or a political statement. This could potentially result in management deciding to hold virtual-only AGMs, which have already been seen at many different US tech companies. Robeco are not in favour of virtual-only AGMs as they provide management with the opportunity to prioritise the questions they are comfortable with, and to limit the opportunity for shareholders to raise concerns.

What changes are necessary to avoid this situation is difficult to say, but pre-AGM engagements (or other forms of effective communication) with a larger set of stakeholders than just institutional investors appears a good way forward. Robeco note that there is also a role for the board as the conductor of the meeting beyond just opening the room for questions and sitting through until all questions are answered.

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 Q2 2023.

IIGCC Net Zero Engagement Initiative Update

During Q2, the IIGCC circulated company responses to the NZEI letter circulated to target companies (which outlined climate transition plan reporting expectations), commencing the investor-led engagement phase of the initiative. LPPI has been selected as part of the engagement group for three companies. Of these, two did not respond to the initial letter, however, LPPI have already separately engaged with one of them on climate-related matters. The remaining company provided a comprehensive response to the IIGCC and LPPI is in discussions with co-leads on next steps.

Climate Risk Report: Guidance for LGPS Funds

LPPI is participating in a working group convened by the Scheme Advisory Board's Responsible Investment Advisory Group. The Working Group (which has already met for the first time) will assemble representatives from each of the pooling companies with secretariat provided by the Local Government Association. The group's shared objective is to review the proposals set out in the DLUHC consultation and develop shared interpretations which support clear and consistent guidance to LGPS pension schemes, supporting their production of annual Climate Risk Reports.

FCA Consultation on UK Listing Rules

LPPI has made a response to the Financial Conduct Authority's consultation on proposals to make changes to UK Listing Rules which closed in June.

Consultation Paper 23/10 – "Primary Markets Effectiveness Review: Feedback to CD22/2 and proposed equity listing rules" proposes that a single listing category should replace the current standard and premium listing regime and outlines what accommodating this change would mean.

LPPI's submission acknowledged the importance of facilitating more companies to list in the UK and the appropriateness of reviewing current barriers to this, but voiced concern at aspects of the proposals which place greater responsibility on shareholders to hold companies to account whilst simultaneously removing important shareholder safeguards. This reflects that some material matters currently requiring a shareholder vote would no longer do so under the revised approach, removing the ability for shareholders to oppose company proposals pre-emptively.

The urgency to act in 2023 before a "far wider package of reforms required to enhance the attractiveness of UK public markets" has been developed is also not sufficiently clear, and

LPPI recommended postponing proposed revisions until measures can be considered within the context of broader changes.

6. Other News and Insights

PRI Update

In May 2023, PRI's 2023 reporting framework opened for signatories to report their RI activities. LPPI is now in the middle of this reporting process, with a submission deadline at the beginning of September 2023. Once submitted, PRI will compile all the results and will aim to publish the public transparency reports between November – December of this year.

Vote Reporting Group

The FCA has launched a public consultation on the 'vote reporting template', the reporting framework created by the FCA-convened Vote Reporting Group, in which LPPI was a participant. The aim of the consultation is to build industry consensus on a voluntary vote reporting template for asset managers in the UK. The FCA hopes these proposals will provide asset owners with more consistent, up-to-date and comparable data, allowing them to make timely and accurate decisions while increasing reporting efficiency for asset managers. The consultation closes in September and LPPI is planning to respond.

Boycotts, Divestments, and Sanctions

The Department for Levelling Up, Housing and Communities has introduced primary legislation prohibiting Boycotts Divestments and Sanctions by public bodies.

The Economic Activity of Public Bodies (Overseas Matters) Bill which received its second reading in the House of Commons on July 3rd, 2023, is a proposal for new legislation and is subject to change as it progresses through the House of Commons and House of Lords.

Legislation will fulfil a 2019 manifesto pledge which followed a Supreme Court judgment that the UK Government's guidance to Local Government Pension Schemes ("LGPS") that they may not pursue embargos contrary to UK foreign policy was unlawful as it went beyond existing legislation.

Under the proposals, public bodies will be banned from incorporating political or moral disapproval of a foreign state when making procurement and investment decisions.
LPPI's interpretation of the Bill and explanatory notes are that going forward:

- pension funds may not set policies which independently censure foreign states (i.e. at a strategy level).
- scope remains for reasonable environmental, social, and corporate governance ("ESG") considerations which are appropriate to the decision-making context.
- the measures will provide support/protection to public bodies who are being lobbied (whether internally or externally) to take a specific stance that involves censuring the conduct of a foreign state.

Parliamentary debate on the detail of the Bill recorded concern at the very broad powers it will grant to the Secretary of State and the vagueness of drafting which leaves gaps and questions needing to be addressed. Concerns emerging in relation to the LGPS include insufficient reference to stewardship (incorporating ongoing engagement) as a legitimate fiduciary activity, the use of terminology without adequate definition, and the prospect of pressure groups repetitively triggering judicial review, potentially consuming significant time and resources.

LPPI is continuing to monitor the situation and is liaising with LGPS peers and industry groups to share insights and record concerns, aiming for these to be addressed as part of reshaping and refinement of the Bill as it progresses.

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.

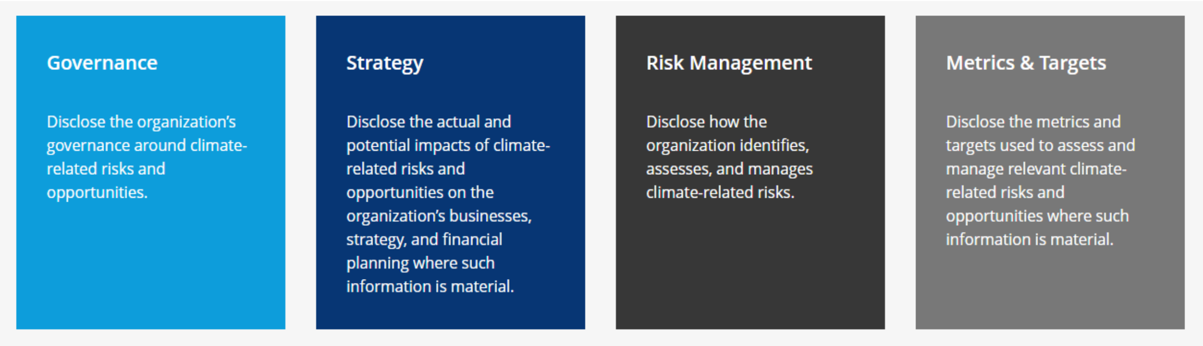
https://www.un.org/en/climatechange/paris-agreement

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"