Shropshire County Pension Fund

Application to FRC for signatory Status to UK Stewardship Code 2020

2024 Submission covering the period 1st January 2023 to 31st March 2024

Administered by Shropshire Council

Contents

Foreword

1.1 Responsible investment (RI) is a core part of the fund's stewardship and has been a key part of our Investment Strategy Statement for many years.

1.2 The fund's Investment Strategy Statement ("ISS") states that the fund's primary long-term investment objective is to achieve and maintain a funding level at, or close to, 100% of the fund's estimated liabilities; and within this, to endeavour to maintain low and stable employers' contribution rates. The fund's investment beliefs include that a long-term approach to investment will deliver better returns and that responsible investment ("RI") can enhance long-term investment performance. As an externally managed fund, much of the day-to-day responsibilities for implementing stewardship is delegated to the fund's investment managers.

1.3 Specifically, the fund recognises that financial markets will be impacted by Environmental Social and Governance (ESG) risks and that all these factors are risks that may materially impact the value of the fund's holdings. The report provides examples of our stewardship approach to these risks. In 2023, we continued to focus on our key engagement themes - climate change, plastic pollution, responsible tax behaviour and human rights, which we established in collaboration with LGPS Central. As part of the tri-annual review we agreed minor changes to the tactical focus of Engagement with LGPS Central. The four priorities now are Climate Change, Human Rights, Biodiversity and Sensitive/Topical issues. This allows us to reflect the increasing issues around biodiversity and allows us to maintain a flexible approach to other topical issues or companies involved in alleged controversies or deemed ESG laggards.

1.4 Risks and opportunities related to climate change are likely to be experienced across the whole of the fund's portfolio. Our current understanding of the potential risks posed by climate change, together with the development of climate-related measurements and disclosures, is still at an early stage: for example, we are aware that there is considerable variability in the quality and comparability of carbon emission estimates and recognise that it will take time for companies to adapt to the changing regulatory and market environment.

1.5 In December 2023 the fund's fourth annual Climate Risk Report was presented to the Pensions Committee, this delivered a view of the climate risk of the fund's entire asset portfolio, accompanied by proposed actions the fund could take to manage and reduce that risk. The results were used in the fund's public-facing Climate related Financial Disclosures

for the fourth year. The fund was particularly pleased to see that our initial focus on transitioning both passive and active equity mandates into sustainable equity funds has resulted in the fund's overall carbon intensity being reduced by 59% since March 2020 with 46% reduction in financed emissions over the same period. These accomplishments are shared with members through newsletters and via our website.

1.6 The fund continues to review its climate stewardship plan as a result of the climate risk report to ensure we can continue to better understand the drivers behind carbon emission data and the progress of the companies in meeting a number of metrics such as the setting of Net Zero Targets, the percentage of CA100+ net zero indicator met and the Transition Pathway Initiative Management Quality rating. These all help give the Fund a direction of travel in respect of the journey to net zero by 2050. As data quality improves the fund will look to develop milestones to monitor this transition.

1.7 The fund recognises all ESG risks, but climate is particularly relevant to our stakeholders with over 90% of our public questions to the Pensions Committee concentrating on this area. The fund Continues to work in developing reporting in this area to meet demand for information and has committed to a new strategy by December 2024 outlining the timescales for transition.

1.8 To support our initiatives and work on strengthening / improving our investment and RI approach, The fund added a new role to our management structure from October 2022. This role is a Pensions Investment and Responsible Investment Manager to create more resource at a senior level to review future changes and ensure continued progress to achieving net zero alongside integration of material ESG risks across all asset classes. This role is now fully embedded and has allowed the fund to concentrate on its ESG reporting to both Committee and wider scheme members.

1.9 We have written this report in alignment with the UK Stewardship Code 2020 and the content reflects guidance received from the FRC on the content of the report for the 15 months from 1st January 2023 to 31st March 2024. This report has been reviewed by the fund's Pensions Committee. The report has also been reviewed by Head of Pensions - LGPS Senior Officer to ensure the accuracy of process descriptions and content. This review and challenge have given us confidence that our reporting is fair, accurate and balanced and most importantly informative in that it imparts critical information on our approach to stewardship to our stakeholders.

Tom Biggins — **Chair**

Justin Bridges — **Head of Pensions – LGPS Senior Officer**

Purpose and governance (Principles 1 to 5)

Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Purpose

2.1 Shropshire Council is the administering authority for the Fund under the LGPS regulations. Shropshire Council delegates responsibility for the administration and management of the fund to the Pensions Committee. The fund has 241 participating employers and 50,523 member records of which 15,119 are pensioners; 18,377 are deferred; and 17,027 actively contributing. As the fund's two largest employers are Unitary Councils, virtually all its participating employers are associated with local government activities, and 6 of the 9 members of its Pensions Committee are Councillors, the fund's ethos is driven by a strong sense of social responsibility.

2.2 The primary purposes of the fund are to:

a) Ensure that sufficient assets are available to meet liabilities as they fall due.

b) To achieve and maintain a funding level at, or close to, 100% of the fund's estimated liabilities; and within this, to endeavour to maintain low and stable employers' contribution rates.

c) Maximise returns from investments within reasonable risk parameters taking into account the above aims.

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 100% funded on an ongoing basis,

taking account of any additional contributions paid by employer bodies to cover any past service deficit over a 16-year time frame.

2.4 The fund achieved a 100% funding level in the March 2022 Actuarial report which took effect from 1st April 2023 demonstrating the effectiveness of the governance in place.

Strategy

2.4 The fund takes its responsibilities as a shareholder seriously. Our stewardship responsibilities extend over all assets of the fund.

2.5 The fund has published policy documents which identify how we meet our Stewardship responsibilities and these include, but are not limited to, our Investment Strategy Statement (ISS) that includes our voting policy and our Governance Policy Statement. These documents cover the following areas:

• Monitoring of manager decisions including ESG integration

• The exercise of voting rights

• Risk measurement and management

• ESG considerations in the tender, selection, retention, and realisation of investments

• Statement of compliance with the Myners principles

• Stock lending

• Strategic asset allocation

2.6 The fund's ISS and Funding Strategy Statement (FSS), the key document setting out how each fund employer's pension liabilities are to be met going forward and which all employers are consulted on prior to any changes, 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. These documents are reviewed every three years following the actuarial valuation. The FSS was agreed in March 2023 following consultation with all employers and the ISS was agreed in June 2023 following significant training to the Pensions Committee from Investment Advisors and our Actuaries.

2.7 The fund provides regular updates to all its employers via a newsletter and updates all its members using a newsletter that in the case of deferred and contributing members accompanies their annual benefit statements. The fund also has a comprehensive and user-friendly website that provides stakeholders with a first port of call for all of their pension information needs including details about the fund's strategies, policies, investment beliefs, climate strategy, etc.

2.8 In addition to these governance policies the fund has also agreed a three-year Business Plan in December 2023 covering 2024-26. This plan provides operational overview of how the Fund is progressing against key targets and projects to all stakeholders and is publicly available on our website.

2.9 In practice the fund's policy is to apply the UK Stewardship Code 2020 (the Code) through:

- Its contractual arrangements with asset managers
- Membership of the Local Authority Pension Fund Forum (LAPFF) whose mission is to proudly protect £300bn of local authority pensions by promoting the highest standards of corporate governance and corporate responsibility
- Being part of the LGPS Central Limited (LGPSC) pool.

2.10 At the inception of LGPSC in April 2018, a Responsible Investment and Engagement Framework was established which builds directly on the investment beliefs of the company's eight partner funds. It is a shared belief across our pool partners that strong investment stewardship increases our ability to protect and grow shareholder value. This document was last updated in March 2023.

2.11 LGPSC has identified four themes that are given particular attention in its ongoing stewardship effort. The four themes are reviewed on a three-year basis (2020-2023) themes included: climate change; plastic pollution; responsible tax behaviour; and human rights The themes for 2024-2027 where updated to cover: Climate Change, natural capital, human rights and sensitive and topical issues. (see further detail below under Principle 4).

2.12 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:

- Regular meeting of the LGPSC RI & Engagement Working Group
- Regular stewardship updates provided to the fund's Pensions Committee
- Quarterly voting disclosures provided to the fund's Pensions Committee
- Monitoring of relevant RI news and LAPFF reports to Committee

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 stepping-stone in the fund's ongoing management of climate risk and a direct way of translating our investment beliefs on climate change into action.

2.14 The fund's ability to invest in a responsible manner is enhanced through LGPSC due to the inherent benefits of scale, collectivism and innovation that results from being part of the pool.

2.15 In order to broaden its stewardship activities, LGPSC appointed EOS at Federated Hermes as its stewardship provider, with the remit of engaging companies on ESG issues, and executing the LGPSC voting principles which are also the principles agreed by the fund as set out in the ISS – 'shareholder voting' (see also Principle 12 exercising rights and responsibilities).

2.16 In addition to engagement with LGPS Central, the fund also engages Columbia Threadneedle Investments (CTI) to provide responsible engagement overlay on the fund's global equity portfolios. CTI enters into constructive discussions with companies on the fund's behalf to propose better management of the negative impacts they might have on the environment and society in general, in order to improve financial returns. (See Principle 11 section 12 for further details)

2.17 The fund seeks to use its position as a shareholder to actively encourage good corporate governance practice in those companies in which it invests.

2.18 All relevant fund managers are signatories to the UN-backed Principles for Responsible Investment (PRI) as evidenced on the PRI website.

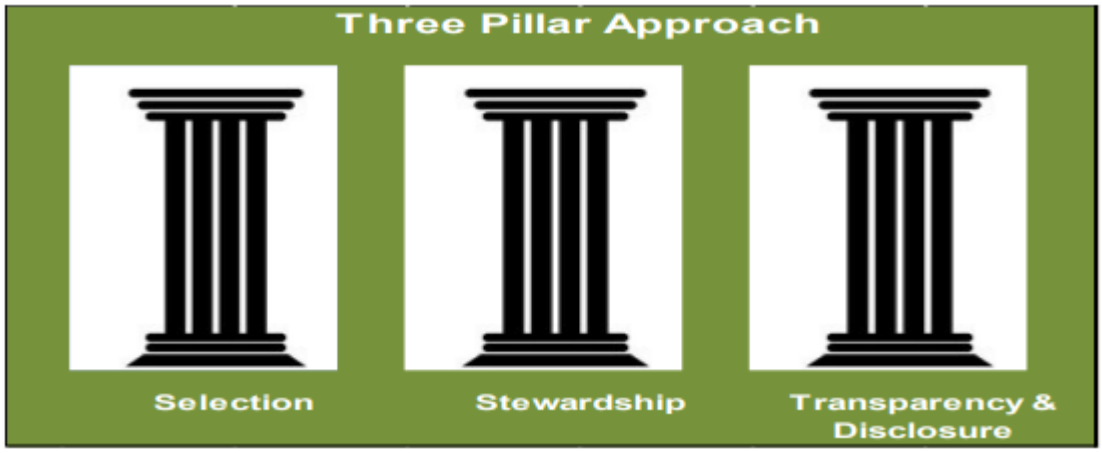
Investment beliefs

2.19 The Fund's investment beliefs are included in its ISS and encompass:

- Financial market beliefs
- Investment strategy / process beliefs
- Organisational beliefs
- RI beliefs

2.20 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:

2.21 The fund's RI Beliefs underpin our management of material ESG risks including climate change, and we take a three pillar approach to climate change as set out below:



2.22 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

2.23 The fund has continued to work with investment managers during the period to ensure ESG is built into to investments from the outset. The fund continues to make new investments through the LGPS Central pool which has actively built ESG considerations into product consideration. This was demonstrated by or concerns over one of the managers in the Investment Grade Credit product being classed as an SFDR 6 investment. Our concerns were taken on board and negotiation with the manager over process has seen the Fund reclassified as SFDR 8.

2.24 Whilst new investments are through LGPS Central the fund continues to work with Legacy managers to ensure that ESG is built into all investment decisions even in some of the harder areas such as Insurance Linked Securities or Hedge Funds. Our continued discussions with Securis have resulted in the company issuing its first ESG policy in 2024 demonstrating the impact asset owners can have on investment managers.

Stewardship

2.25 The fund has continually looked to develop and improve its approach to RI and appointed a Pensions Investment and Responsible Investment Manager in October 2022 to help drive RI reporting and engagement shortly before our first application. This post continues to develop ensuring regular liaison between ESG partners such as LGPS Central and CTI and the Pensions Committee so that all decisions have an ESG focus.

Transparency & disclosure

2.26 Starting in January 2020, the fund has continued to provide training and workshop programme on RI, sustainable, impact and ethical investment, and the spectrum of capital for all its Pensions Board and Pensions Committee members to enable them to make informed decisions going forward. This program is currently being reviewed following a few changes at

Board and Committee level after a period of relative stability. Induction training is provided to all new members so that new members are fully appraised of the fund's position. A workshop was provided to discuss and debate the Fund's investment beliefs in February 2023 as part of the review of the fund's ISS which was issued in June 2023. LGPSC also provides a dedicated annual RI training event to which all members are invited. Participation is increasing and the modular format allows members to attend for specific sessions and pick up recordings of speakers if they are unable to attend on the day. LGPSC have advised that feedback to the training has been positive and that they will continue to evolve the training based on feedback received.

2.27 The fund also invites LGPS Central and CTI to attend Committee meetings during the year and provide feedback against key engagement themes. These meetings are in addition to the quarterly reports that the Pensions Investment and Responsible investment Manager provides every quarter detailing the voting actions across a number of parties including EOS who provide Engagement for LPSS Central, Legal and General Investment Managers (LGIM) who provide engagement on the Funds passive equities as well as CTI who provide a responsible investment overlay and LAPFF who engage with companies on a consolidated basis for the LGPS.

2.28 The Fund has embedded the following operational processes to support RI:

- Measuring climate-related risks and opportunities through triennial economic assessment of the Fund's asset allocation against plausible climate-related scenarios;
- Assessing material climate-related risks and opportunities, alongside the manager's approach to mitigating these risks as part of the selection and due diligence of new funds;
- Providing Committee and Board Members with quarterly reviews of stewardship activities including critical votes as well as overall voting statistics from all of our engagement partners.
- Joining collaborations of like-minded institutional investors to collectively lobby and promote engagement through LGPS Central;
- Actively engaging with LGPS Central to determine Engagement Themes and working with Columbia Threadneedle Investments as the Fund's overlay partner to ensure a complimentary holistic approach to engagement.

2.29 The fund held two ISS training workshops for Pensions Committee and Pensions Board Members in February 2023 and a final workshop in April 2023. These workshops were extended to provide Members all the relevant data to ensure that the ISS reflects the current economic environment and the position as per the latest triannual valuation as at 31st March 2022. The Training Sessions were delivered by AON the fund's Investment Consultant with input from the fund's Actuaries and Independent Advisor.

In addition to these training sessions the Pensions Committee and Board have received training from LGPS Central and Columbia Threadneedle covering the following areas:

The 2023 Climate Risk Reports/Carbon footprint analysis (new features and what they mean)

- Taskforce for the Climate related Financial Disclosures (TCFD) Report
- Climate Stewardship Plan
- Stewardship Code
- What does "Net Zero" mean
- LGPS Central Limited's Net Zero strategy
- How climate risk is assessed
- Review of carbon metrics that are being used to assess progress
- Responsible Investment and Engagement

2.30 LGPSC and the fund reviewed LGPSC's approach to monitoring and assess of the effectiveness of our stewardship efforts. Whilst there is full transparency on engagements it was determined that additional clarity could be added for stakeholders on the outcome of engagements. From 2024, KPIs and expected outcomes are allocated to each engagement. Engagements are biannually assessed and progress on outcomes is reported back to partner funds and LGPSC governance committees. We also report on the outcomes of our stewardship activities in our public reports. The table at 6.6 page 31 (Measures of Success) sets out how we will assess effectiveness moving forwards for reporting to stakeholders.

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 Shropshire County Pension Fund. This includes the management of the administration of the benefits and strategic management of fund assets. The Committee comprises of 6 voting members being 6 Councillors, 2 employee representatives and a pensioner representative.

3.2 The Committee's activities are overseen by the Pensions Board which was set up as a result of two reviews by the Scheme Advisory Board (SAB) and the Pension Regulator looking at how to strengthen governance. The Board's role is ensuring the effective and efficient governance and administration of the Fund. This includes securing compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS.

3.3 The Board is made up of three member representatives and three employer representatives.

Stewardship Resourcing

3.4 The fund has an appointed investment advisors from AON who attend 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 the Pensions Committee. AON are independent to the fund and play a crucial role in advising the fund on its investment opportunities.

3.5 The fund also appointed Phillip Hebson as an independent advisor to support the committee and provide independent strategic advice without portfolio management.

3.6 The fund's day-to-day duties are delegated to the Head of Pensions – LGPS Senior Officer who is supported by a Pensions Administration Team (30 FTE's) and a Pensions Investment Team (3 FTE's) who have many years of knowledge and experience in this area.

3.7 The fund's purpose is to deliver superior investment returns to our beneficiaries, therefore the fund's culture of inclusiveness, exemplified in The Shropshire Plan, is critical to our success. This enables to attract and retain talents in the pension industry. The Shropshire Plan has four pillars:

- Healthy People
- Healthy Economy

- Healthy Environment
- Healthy Organisation

The healthy organisation principle is built across five key principles.

- Enabling a skilled, happy, healthy, diverse, inclusive, empowered and proud workforce.
- Continuously develop our ability to absorb shock, adapt and make positive changes.
- Improved Communication.
- Ensuring correct resources and data to deliver priorities.
- Ensuring Councillors are supported in their roles.

The fund has adopted these principles and looks to keep its workforce and Committee/Board members well informed of how it integrates stewardship and investment decision-making via meetings/training sessions and presentations.

3.8 LGPSC's Responsible Investment & Engagement (RI&E) function supports the fund's stewardship activities and reports regularly to the partner funds RI&E working Group (The fund is a representative). Their contribution has included work on: ESG integration, engagement, voting, the RI&E framework, the Climate Risk strategy, the Climate Risk 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 the RI&E team is composed of an Investment Director, a Head of Stewardship, an ESG Integration Manager and a Net Zero Manager, a Senior Stewardship Analyst and two RI analysts. The team structure enables LGPSC to satisfy the increased demands placed upon the team and to manage key person risk. LGPSC RI&E team members come from diverse academic backgrounds and specialisms including economics, investment management, politics, sustainability, and have followed a number of career pathways before arriving at responsible investment such as compliance, international affairs, risk management, fund management, credit analysis, sustainability and consultancy. We consider this diversity of skills, knowledge and experience to be a strength, and welcome this

diversity and breadth of perspectives. The team leverages a strong network among peer investors both in the UK and globally, as well as investee companies, industry associations, relevant regulatory bodies, and civil society.

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. EOS employs an engagement team of 45 people, which comprises of regional, experienced engagement teams, voting and engagement support, senior advisors, and a dedicated client team.

3.12 Due to the size of our asset under management, we are assisted by an external Stewardship Provider, EOS at Federated Hermes, for stewardship activities beyond the scope of the LGPSC-led stewardship activities. Following a comprehensive due diligence process, EOS was selected as their beliefs align well with both LGPSC and our partner funds. We share a view that dialogue with companies on ESG factors is essential to build a global financial system that delivers improved long-term returns for investors, as well as more sustainable outcomes for society. EOS reports on voting and engagement activities across relevant ACS funds on a quarterly and annual basis. Outside of reporting, we regularly interact with EOS both one-to-one, for instance, through voting season on contentious votes, and together with other EOS clients at the Client Advisory Council hosted twice a year. Through this regular dialogue, we can ensure that our values remain aligned (see Section 4 below for a detailed review of EOS' services during the period). EOS also engages with regulators, industry bodies, and other standard setters on our behalf to shape capital markets and the environment in which companies and investors can operate more sustainably.

3.13 LGPSC provides quarterly reporting for all funds managed by LGPSC, detailing how votes have been cast in different markets and a publicly available vote-by-vote disclosure for full transparency. Our quarterly engagement, voting reports and policy / strategy statements are a standing item on the Pensions Committee agendas and are available to the public as part of the supporting committee papers.

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 Pensions Board.

3.15 To support our initiatives and work on strengthening / improving our investment and RI approach, a new role to our management structure was added in October 2022. This role

is a Pensions Investment and Responsible Investment Manager to create more resource at a senior level to review future changes and ensure continued progress to achieving net zero alongside integration of material ESG risks across all asset classes.

3.16 In order to support good decision-making, the Fund applies the Myners principles. Disclosure against the Myners principles is made annually (see Appendix A of the Fund's ISS). These principles cover the arrangements for effective investment management decision-making, setting and monitoring clear investment objectives, focussing on asset allocation, arrangements to receive appropriate expert advice, explicit manager mandates, shareholder activism, use of appropriate investment benchmarks, measurement of performance, transparency in investment management arrangements and regular reporting.

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

Principle 3

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

4.1 The fund manages and mitigates conflicts of interest by:

- Having clear governance material to refer to, including a Funding Strategy Statement, Pension Administration Strategy, Investment Strategy Statement, Climate Change Risk Strategy, Governance Policy Statement and Training Policy & Programme, which are all publicly available on the Fund's website.
- Keeping the fund's budget separate to Shropshire Council's and operating a separate bank account.
- Ensuring actual and potential conflicts of interest are considered during procurement processes.
- Requiring all Board and Committee members to declare any interests which may cause a conflict and reaffirming this declaration at each meeting.
- Requiring staff to complete declarations of interest and providing appropriate training as part of induction processes.

Shropshire County Pension Fund Staff are not renumerated through bonus scheme which is a key mitigant in avoiding potential conflicts of interest.

In the event of a conflict the fund may take the following options:

- Asking the individual concerned to abstain from discussion, decision-making or providing advice relating to the relevant issue.
- Excluding the individual from the meeting(s) and any related correspondence or material in connection with the relevant issue (for example, a report for a Pensions Committee meeting).
- Advising an individual to resign due to a conflict of interest or requesting the appointing body to reconsider their appointment.

4.2 The fund expects all its asset managers to have effective policies in place to address potential conflicts of interest. The fund reviews asset managers internal control statements annually and these are subject to independent review by the fund's internal auditors.

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 is 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 at the respective Council from which they are appointed.

4.6 Pensions Committee 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 members are made aware of and reminded at least annually of Shropshire 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 and regulations around conflicts management and requirements under MIFID II, the policy is also designed to ensure fair outcomes for clients and to ensure that LGPSC fulfils its stewardship responsibilities to its clients in terms of how their assets are managed.

4.10 LGPSC operates a one for eight RI service model. This ensures that LGPSC delivers a consistent level of service to all eight partner funds ensuring that no conflicts arise in terms of the level of support they get from the Responsible Investment Team. As an example, LGPSC provided Climate Risk Reports to all eight partner funds in the course of 2023. For the 2024 provision of the same service, LGPSC will follow the same delivery order as last year. This is to ensure consistency and fairness among partner funds and timely delivery of reports.

4.11 The policy was signed off by the LGPSC Investment Committee, Executive Committee and Board when implemented. The policy is reviewed annually and changes to the policy are approved through the same governance process.

4.12 LGPSC employees, including senior management and members of the executive committee, are required to complete conflicts management training on an annual basis and confirm their adherence to its standards. This training includes guidance on what constitutes a conflict of interest. The conflicts policy is also contained within the LGPSC Compliance Manual. It is readily available to all staff whether working from home or office based.

4.13 When LGPSC appoints external managers, a thorough due diligence process is undertaken. This includes consideration of the external managers process and procedures around the Management of Conflicts of Interest. LGPSC expects their managers to have

robust controls and procedures in place around conflict management and to demonstrate commitment to managing conflicts fairly.

4.14 LGPSC only manages client assets, and all of their active portfolios are managed externally. LGPSC staff are not remunerated through a bonus scheme. These two factors are key mitigants in terms of conflict risk.

Examples of addressing possible conflicts of interest

Appointment of New Emerging Markets Investment Manager

4.15 All colleagues involved in the appointment process were required to complete a conflicts of interest declaration. The declaration asked colleagues to provide details of any conflicts with any of the potential transition managers for assessment of the compliance team. The approach taken is that conflicts will inevitably arise particularly in the form of existing business relationships and previous periods of employment with the investment managers on the shortlist. As long as these conflicts are declared and recorded, they can be managed. On this occasion no conflicts arose.

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. The Investment Committee at LGPS Central annually approves the due diligence undertaken on EOS by the RI&E team to ensure good governance and alignment with the LGPSC RI&E Framework and legal obligations as an FCA entity.

4.18 EOS at Federated Hermes has a publicly available Stewardship Conflicts of Interest Policy. The policy details several potential conflict areas including:

- Potential conflicts arising from Federated Hermes Limited's ownership of EOS
- Potential conflicts between Federated Hermes Limited's and EOS' clients

- Personal relationship between engagers and senior staff members in engaged companies
- Potential stock lending and short selling positions at Federated Hermes Limited

How these conflicts are managed and monitored, the review process, and examples of how the issues are approached in practice are discussed in EOS's conflicts policy document.

EOS conflicts are maintained in a Federated Hermes group conflicts of interest policy and conflicts of interest register. As part of the policy, employees 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.

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 is still open for the main scheme employers, the fund is able to take a long-term view of investment risks and opportunities, including those in relation to environmental, social and governance factors. However, we also recognise the importance of risk budgeting and monitoring, scanning widely for emerging financial regulatory and operational changes on which short to medium term action will aid supporting and enhancing the longer-term value of our assets. The age profile of the fund is shown at 7.1.

5.2 The fund believes that having the best understanding of the world around us will allow us to review, prioritise, scrutinise and adapt accordingly effectively. Our risk management processes support us in achieving this goal and are subject to annual challenge through the internal audit programme set up by the fund. In addition, we review our engagement priorities on a triannual basis with LGPS Central and on an annual basis with CTI as our engagement overlay providers.

5.3 We manage risk by setting investment beliefs, funding, and investment objectives in our Investment Strategy Statement that are incorporated into our strategic asset allocation benchmark (SAAB) bands and benchmarks.

5.4 To mitigate and respond to risk, we regularly review our ISS, monitor the investment performance of our appointed managers, have a diversified portfolio, and review our qualified

advisors' objectives regularly. Strategic asset allocation is reviewed quarterly by the Pension Committee. We have various equity protection arrangements in place maturing between June 2025 and December 2025 for approximately 50% of our passive market equity funds which provides protection against a fall of up to 30% in market valuations whilst capturing as much of the upside as possible.

5.5 The fund is exposed to investment, operational, governance and funding risks. These risks are identified, measured, monitored, and then managed using a Risk Register. The Risk register is a living document and can be updated at any time. Formally the register is updated twice a year with full review by the Councils Risk Management section and Executive Directors.

5.6 A summary of the risk register is publicly available within the fund's Annual Report (Page 9/10).

5.7 The fund has open line communications with Investment Advisors AON and Philip Hebson so that we can discuss market volatility in a timely manner. This was particularly important in the current year due to market impact of both political instability and macro economic events. A revised governance process was agreed March 2024 in respect of equity protection to allow LGIM the Funds provider to process decisions quicker, subject to continued oversight by the Head of the Pensions Committee, Officers and Advisors.

5.8 The principal risks affecting the fund can be broken down into three main areas, Funding risks, Operational risks and Responsible Investment risks:

Funding Risks 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) in consultation with the fund's Investment advisors. 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 current strategic asset allocation was set at the Pensions Committee in June 2023 as follows:

Asset Class	Allocation	Control Range
Total Equities (Global, Sustainable and Passive)	55%	50%-60%
Absolute Return	7.5%	5%-10%
Investment Grade Corporate Bonds	10%	7.5% -12.5%
Property	5%	2.5%-7.5%
Illiquid Growth (Infrastructure & Private Equity)	15%	12.5%-17.5%
Illiquid Credit	7.5%	5%-10%

The fund's investment performance report is reviewed by the fund's investment advisor and reported quarterly to the Pensions Committee. The strategic benchmark is reviewed as part of the ISS and as a minimum is reviewed every three years as part of the triennial valuation.

A transition report covering the movement from the previous allocations agreed in March 21 to the latest allocations agreed in June 2023 is received by the Pensions Committee each quarter setting out actions taken and timeline of expected assets changes moving forward.

Some examples of risks covered in performance reports are:

Manager underperformance when the fund managers fail to achieve the rate of investment return, performance targets, tracking errors, etc assumed in setting their mandates. This is managed by having robust financial planning and clear operating procedures for all significant activities including regular review and monitoring manager performance against their mandate and investment process. Continued underperformance by any single investment manager would be discussed with the fund's Independent advisors to establish a recommended course of action, which may include divestment.

Systematic risk, 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.

Operational Risks include transition of assets risk, risk of a serious operational failure, custody risk of losing economic rights to fund assets, risk of unanticipated events such as a

pandemic, credit default and cashflow management. Some examples of how we are managing some of these risks are as follows:

Transition risk of incurring unexpected costs in relation to the transition of assets amongst managers. When carrying out significant transitions, the fund takes professional advice and appoints a specialist transition manager to mitigate this risk when it is cost effective to do so.

Risk of a serious operational failure by asset managers and/or LGPSC. These risks are managed by having robust governance arrangements with LGPSC and by quarterly monitoring of asset managers. Monthly meetings are held with LGPSC to ensure that the company is functioning as it should. Key performance indicators and the Risk Register are reviewed at least quarterly.

Cyber Security is an ever-increasing risk not just to data held by the fund, but data held by third parties on behalf of the fund. The fund has for the first time set up a separate cyber security policy to Shropshire Council as the host Authority. The fund will continue to work with suppliers during 24/25 to ensure that it has the appropriate assurance in place in respect of cyber security arrangements and these will be reviewed on an annual basis.

Responsible Investment (RI) Risk

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 receives regular reports from its stewardship partners allowing areas of concern to be raised and improvements monitored over time.

5.9 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 the reporting period (1 January 2023 - 31 March 2024), LGPS Central has conducted 860 engagements. A selection of engagement cases is provided under principles 9-11.
Federated Hermes	EOS at Federated Hermes is contracted by LGPSC to expand the scope of the engagement programme, especially to reach non-UK companies. EOS takes a holistic approach to engagement and typically engage with companies on more than one topic simultaneously.
COLUMBIA THREADNEEDLE INVESTMENTS	Columbia Threadneedle Investments (CTI) are contracted directly by the Fund for engagement in respect of Equity holdings. CTI had four themes in 2023 covering climate change, Environmental Stewardship, Human Rights and Corporate Governance and 11 projects across these themes. In 2023 they had 813 engagements with 477 companies and achieved 135 milestones. Themes are reviewed annually with the Fund.

	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. across a spectrum of material ESG issues on both individual and collaborative basis.

Stewardship themes

5.10 In close collaboration with Shropshire County Pension Fund and the other partner funds, LGPSC has identified four core stewardship themes that guide the pool's engagement and voting efforts in 2023. These are climate change and biodiversity loss, plastic pollution, Fair Tax Payment and Tax Transparency and Human Rights risks. These themes have been chosen based on the following parameters:

- Economic relevance
- Ability to leverage collaboration
- Stakeholder attention

These themes were updated for 2024 following a triannual review as described at 1.3.

5.11 Identifying core themes that are material to the partner funds' investment objectives and time horizon, that are likely to have broader market impact, and that are perceived to be of relevance to stakeholders, helps us prioritise and direct engagement. We fully acknowledge that the spectrum of ESG risks is broad and constantly evolving. However, and in agreement with our LGPSC pool partners, we consider it appropriate to pursue these themes over a three-year horizon, at a minimum, while conducting annual reviews to allow for necessary adjustments or changes. This helps us build strong knowledge on each theme, seek or build collaborations with like-minded investors, identify and express consistent expectations to companies on theme, relevant risks and opportunities, and to measure the progress of engagements. Furthermore, we take the view that engagement on a theme needs to happen at multiple levels in parallel: company-level, industry-level, and policy-level. With our long-term investment horizon, we take a whole-of-market outlook and changing the "rules of the game" through industry and policy dialogue is as important, if not more important, than individual company behaviour. In Section 6.6, we provide information on the

annual review of stewardship themes that was carried out during 2023 to determine the themes for 2024. In Appendix 2, we give examples of engagement activity for each 2023 stewardship theme.

5.12 Themes for CTI are established on an annual basis following consultation with funds. They run a number of projects across a variety of themes. In 2023 there were seven themes Climate Change, Environmental Stewardship, Business Conduct Human Rights, Labour Standards, Public Health and Corporate Governance. In 2024 this was updated to five themes with covering 10 projects as listed below. This service complements the LGPSC/EOS approach and allows the fund to take a balanced perspective. The engagement process and examples are covered in Section 10, 11 and 12 (Articles 9-11).

Theme	Project
Climate Change	Coal phase out
	Deforestation
Environmental Stewardship	Emissions and plastic waste
	Sustainable supply and demand of critical minerals
	Responsible Water Stewardship
Human Rights	Responsible governance of Artificial Intelligence
Public Health	Diversity in clinical trials
	Sustainable Food Systems
Corporate Governance	Improving board gender diversity in Asia
	Independent Board Evaluation

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 suffer catastrophic environmental impacts together with 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. Both the fund and LGPSC have announced commitments to achieve Net Zero across assets under stewardship by 2050. Our climate risk monitoring is a key building block in ongoing work toward this goal.

d) the fund have committed to updating their climate strategy by December 2024 to include timelines for decarbonisation on the path to Net Zero.

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 of Governance, Strategy, Risk Management and Metrics and Targets.

5.15 In 2023, LGPSC provided our fourth year of Climate Risk Reporting and made several enhancements to the service to ensure it remained aligned to the latest industry developments and therefore the best assessment on climate-related risk LGPSC could provide to us and partner funds. LGPSC particularly wanted to emphasise progress made against the findings of the first report to give Funds a view on their direction of travel. The executive summary provides a summary of the methods we use to assess financially material climate-related risks and opportunities.

5.16 The 2023 reports include:

- A disclosure maturity map against each of the four pillars together with recommendations. The fund have reviewed these and are working through the requirements and concentrating on an updated Climate Strategy in 2024.
- New additions to the suite of carbon risk metrics, reflecting data quality and Paris Alignment Score assist the Fund in understanding the specifics of its portfolio.

We are committed to alongside LGPS Central producing both public and private market figures by 2026.

5.17 We have used the findings of their CRRs to develop our Climate Stewardship Plan and are building these into our revised Climate Strategy that will be made public in December 2024 well as our Climate Strategy covering governance, beliefs, objectives, strategic actions and reviews in relation to their climate-related risk and targets on the timeline to net zero. In addition to strategy setting, the CRRs have also been used to facilitate our TCFD disclosure; conduct training sessions on climate change; initiate governance and policy reviews; and for exploring potential investments in sustainable asset classes.

5.18 In addition to the specific individual reports, LGPSC also holds an annual Responsible Investment Summit looking at a range of ESG related topics such as climate transition, biodiversity loss and human rights, with industry experts in attendance. The 2023 event was attended by both Officers and Committee Members.

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

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

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

Policy engagements and consultation responses:

5.21 Since inception of LGPSC in April 2018, it has taken active part in policy dialogue on behalf of partner funds across various themes and regulations including on ethnicity pay reporting, tax transparency, modern slavery, climate change and sustainability reporting requirements. During the period under review, EOS has participated in public consultations and meetings with government officials, financial regulators, stock exchanges, industry

associations, and other key parties to contribute to the development of policy and best practice. During the period, EOS had 73 discussions with relevant regulators worldwide and focussing on regulators based in Developed Asia, North America and the United Kingdom. Examples provided in the document EOS annual report – regional public policy highlights.

5.22 **Collaborative engagement on Microfibre pollution**: LGPSC 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 poses a significant threat to biodiversity and human health. Companies who do not effectively manage microfibre pollution will face reputational risks and litigation risks. Consequently, LGPSC co-signed a letter to DEFRA supporting recommendations to mandate the installation of microfibre filters in new washing machines by 2025.

5.23 **FCA Proposed Listing Rules CP23/10 response**: LGPSC has responded to the consultation from the Financial Conduct Authority (FCA) on the proposed listing rules CP23/10. We provided feedback to some proposals, for instance we commented on the removal of shareholder voting rights for Related Party Transactions and the extension of sunset provisions2 to 10 years.

5.24 **Financial Services and Markets Bill letter**: We co-signed a letter supporting an amendment to the Financial Services and Markets Bill. We advocated for the introduction of a mandatory due diligence system for financial institutions to prevent the financing of deforestation.

5.25 **Letter to UK Government over net zero commitments**: 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. The letter expressed concern at the government's watering down of climate targets including the weakened stance on phasing-out new petrol and diesel cars and gas boilers. The letter urges the UK to provide long-term policy certainty to ensure that the UK can lead the world in sustainable finance, drive capital towards innovative British companies and create jobs and skills across the country.

5.26 **IPDD on deforestation:** The IPDD is an initiative whose goal is to coordinate a public policy dialogue on halting deforestation. We co-signed a letter to Brazilian Senators raising

concerns about Bill Projeto de Lei. The Bill proposes to restrict the demarcation of indigenous territory to land occupied or claimed prior to 1988. In the letter we outline our concerns that this would limit the ability of the Brazilian authorities and indigenous peoples to work together to fight deforestation, and potentially opens up key biomes to damage from mining and agricultural activities. We urged the Senators to vote against the proposed legislation in the Senate.

5.27 **Corporate Governance Code**: We provided feedback on the proposed review of the UK Corporate Governance Code. Our key takeaway was that most of the revisions were welcomed while some amendments were recommended to align with best practices, retain the emphasis on how the Board ensure that companies promote a diverse pipeline for succession and with the aim of promoting the long success of companies.

5.28 **Vote reporting**: The FCA Vote Reporting Group consultation proposed a voluntary, standardized, and comprehensive 'vote reporting template' for asset managers to communicate to asset owner clients on their voting activities. LGPSC responded to the consultation. We are in support of the disclosure of managers' voting. We pointed out that the template should include number of shares on loan voted. This would enable asset owners to ascertain how managers' votes impact the overall company's voting turnout.

5.29 The fund has directly responded to DHLUC consultations on TCFD and Next Steps on Investments in the Local Government Pension Scheme.

Principle 5

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

6.1 Fund Officers review the fund's Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS) on a minimum three yearly basis in line with the triennial valuation. The FSS is subject to formal consultation with employers before approval. The ISS review is open to input from both Pensions Board members and Pensions Committee members before submission to the Pensions Committee for formal approval.

6.2 All of the fund's strategies and Policy statements are publicly available on the fund's website for complete transparency and a timetable is in place to ensure periodic review in line with each policy.

6.3 The fund has an agreement with Shropshire Council to provide internal audit services on an annual basis across all areas of the Funds activities. The fund received substantial assurance for 2023/24 which is the highest assurance available under the audit framework. There were ten minor recommendations raised as a result of the work and these have been addressed during 2023/24 and will be reviewed by the auditors as part of the current years audit. The audits covered the following five areas and provided a review of the fund's cyber security plan.

- Corporate Governance
- Risk Management
- Fund Manager controls
- Pensions Investment Management
- Pensions Administration

6.4 As part of the fund's governance processes quarterly reports are taken to Committee on responsible investment with updates from the fund's stewardship partners. In addition to the active equity portfolios the fund has a significant passive holding with Legal and General Investment Managers and Quarterly ESG reports are provided to the Committee in respect of these investments. Reports are publicly available as part of the fund's Committee public papers. In addition to the public reports the Pensions Committee have also received presentations during the period from both LGPS Central and CTI on engagement. The fund have reintroduced Investment Manager presentations from 2024 for legacy investments that continue to sit outside the pooled structure.

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

6.5 Through our quarterly PAF (Practitioners Advisory Forum) RIWG (Responsible Investment Working Group) 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 reflects our ultimate beneficiaries' ongoing interest in climate change and broader sustainability issues.

6.6 LGPSC undertake an annual review of the effectiveness of the stewardship themes in close collaboration with partner funds. During 2023, LGPSC conducted a review through PAF RIWG discussions which resulted in the following adjustments for 2024:

- Climate change remains the number one theme

- Natural Capital should be reviewed separately to Climate sure to the systematic and macro-economic risks associated.
- The S in ESG should feature more prominently, with a preference for focus on Human Rights.
- A topical and sensitive issues should be introduced to allow greater flexibility to respond in real time to real world events or press allegations that impact the portfolio.

THEMES	Climate Change	Natural Capital	Human Rights	Sensitive / Topical Activities
CHALLENGES	Climate change risks are endemic and span from physical, transitional to market-pricing risks. Its impact is likely to be transgenerational.	The mismanagement of nature-related risks poses potentially serious systemic and macroeconomic risks.	Higher scrutiny is placed on social (S) factors since if mismanaged, they can have the potential to destroy companies' value and they are increasingly perceived as a barometer for a company's culture.	Controversial activities that companies are involved in can have the potential to destroy shareholder value. Companies that have an inadequate approach to the management of ESG risks are more likely to be at risk of controversies.
INVESTMENT RISK AND OPPORTUNITY	Managing climate- change risks and capturing new opportunities can be crucial to protecting investments. A Paris Orderly Transition pathway is preferable for the economy, as it is	Degradation of nature could reduce companies' ability to generate long-term value for shareholders through: i) scarce resources	Businesses and institutional investors have a responsibility to respect human rights as indicated in the UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD Guidelines for	The share values of companies that are involved in systemic ESG scandals are likely to be severely impaired. Companies in severe breach of international norms can be exposed to imminent removal of their license to operate, government intervention, and severe litigations.

	the least disruptive.	ii) regulatory tightening iii) reputational damage new opportunities around nature-based climate solutions.	Multinational enterprises. Litigations and claims can be brought against investors.	Laggard ESG practices can act as a proxy indicator for companies' vulnerability to potential scandals and corporate mismanagement.
NUMBER OF COMPANIES DIRECTLY TARGETED BY LGPSC	13	6	8	6
PARTNER ORGANISATIONS	IIGCC, CA100+, CDP, LAPFF, Share Action	PRI, IPDD, Nature Action 100, AsYouSow	ICCR, PRI, Find it, Fix it and Prevent It, LAPFF	PRI, Investor Forum

The review also included an overhaul of LGPS Central's approach to monitoring and assess of the effectiveness of our stewardship efforts. From 2024, KPIs and expected outcomes are allocated to each engagement. Engagements are biannually assessed and progress on outcomes is reported back to partner funds and LGPSC governance committees. This will help increase transparency and allow stakeholders to clearly see the impacts of engagement.

The table below sets out the revised effectiveness framework.

MEASURES OF SUCCESS	Climate	Natural Capital	Human Rights	Sensitive / Topical activities
LEVEL 3: SUCCESSFUL OUTCOME	Companies demonstrate alignment with LGPSC Net Zero Strategy	To be determined	Company demonstrates full alignment with UNGPs or Modern Slavery Act	Company has disclosed a plan for: Addressing this alleged controversy Improving ESG practices at reasonable level
LEVEL 2: MODERATE PROGRESS	Progress observed in the Climate Action 100+ Benchmark Framework or/and CDP Companies improving on TPI management quality ladder Companies are partly aligned with LGPSC Net Zero Strategy	Evidence of constructive meeting with companies	Partial progress observed by Find it, Fix and Prevent it, Corporate Human Rights Benchmark and LAPFF research	Company has disclosed a plan for: Partially addressing the alleged controversy including acknowledgment of the controversy Improving ESG practices to a reasonable level
LEVEL 1: MINIMUM EXPECTATIONS	Companies disclosing data to facilitate carbon performance assessment where relevant	Evidence of constructive dialogue with companies*	Companies responded to engagement request	Companies responded to engagement request
LEVEL 0: NO IMPROVEMENT	No progress has been made	No progress has been made	No progress has been made	No progress has been made

6.7 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.

Examples of LGPSC Engagement by Theme

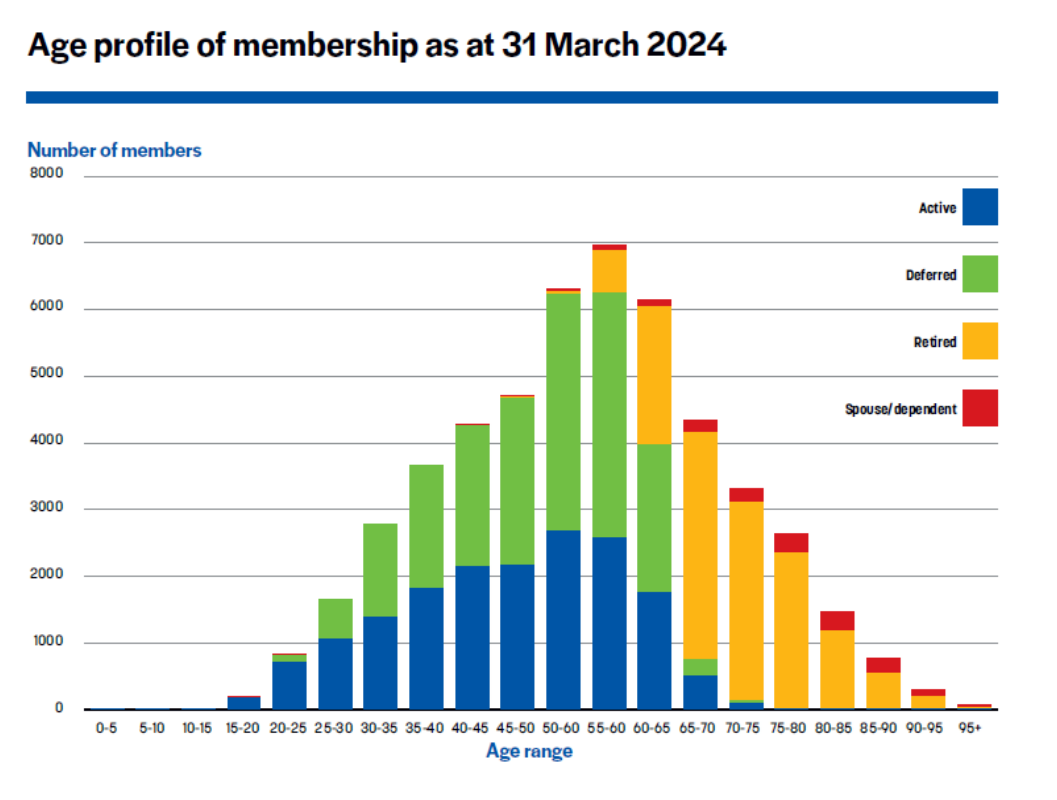
6.8 Examples of LGPSC engagement across the themes in place for the period can be found in Appendix 2 to Principle 9.

INVESTMENT APPROACH (Principles 6 to 8)

Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

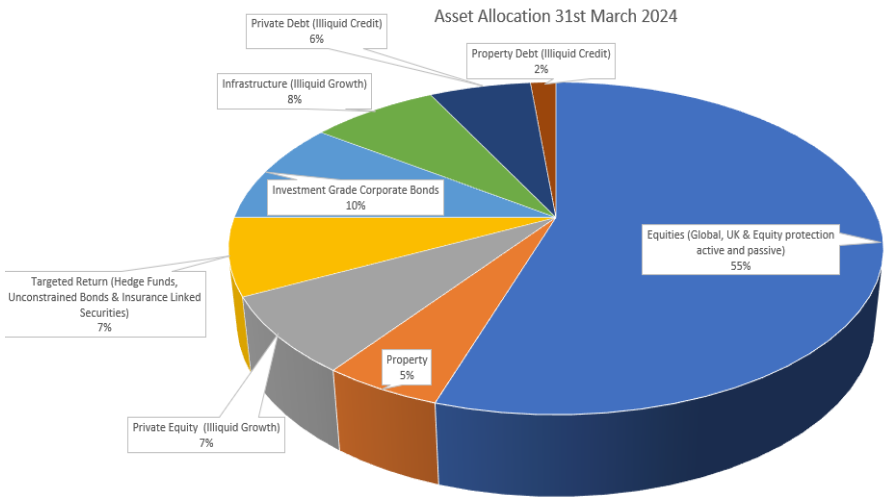
7.1 The fund has been established to pay LGPS defined benefit promises as they become due. The fund has 241 participating employers and 50,523 member records of which 15,119 are pensioners; 18,377 are deferred; and 17,027 actively contributing. The fund is an open fund, and the age profile of the membership is shown below:



7.2 The fund is equally split between equity investments (55%) with (45%) diversification across other asset classes. The covenants of its employers, its net cashflow, the age profile of its members and the fact that it has a steady stream of new members mean that it can take a long-term investment horizon of at least 15 to 20 years taking on board the need of meeting the immediate and future member benefit liabilities.

Cashflow Management	2023/24 £m	2022/23 £m	2021/22 £m	2020/21 £m	2019/20 £m
Contributions Receivable	91.2	85.8	69.5	91.7	68.8
Benefits Payable	104.8	94.4	84.1	96.8	79.4
Other Expenses	21.1	18.8	17.5	17.8	17.7
Surplus/Deficit (-)	-34.7	-27.4	-32.1	-22.9	-28.3
Investment Income	293.9	-67.8	177.4	385.5	-55.6
Net Cashflow	259.2	-95.2	145.3	362.6	-83.9

7.3 The fund's Strategic Asset Allocation Benchmark (SAAB) agreed in June 2023 is as follows:



Asset Class	Value	Control Range
Equity	55%	50% -60%
Active		
LGPS Central Global Sustainable Equity	10%	
LGPS Central Global Equities	15%	
Passive		
L&G Low Carbon Transition Developed Markets	30%	
Investment Grade Credit	10%	7.5% - 12.5%
LGPS Central Investment Grade Corporate Bonds	10%	
Absolute Return	7.5%	5% - 10%
T Rowe Price Dynamic Global Bond Fund	2.25%	
Blackrock Appreciation Strategy Hedge Fund	3.75%	
Securis Non Life Fund	1.5%	
Illiquid Alternatives	27.5%	25% - 30%
HarbourVest – Private Equity	6.0%	
LGPS Central Private Equity	1.5%	
Global Infrastructure Partners	4%	
LGPS Central Core/Value added Infrastructure	3.5%	
LGPS Central – Private Credit	6%	
DRC Savills UK Whole Loan Fund (Property Debt)	1.5%	
Aberdeen UK property	5%	

Total	100%	

7.4 In terms of Geographical asset allocation the majority of the fund's investments are invested on a global basis with managers allowed to actively manage geographical risk as part of the portfolio. The exceptions to this are the Aberdeen property fund and the property debt fund through DRC Savills which are both UK only funds. At 31st March 2024 the fund had 11.7% of assets in the UK.

7.5 The fund takes into account the views of employers through annual employer meetings, employer representatives on the board, issuing regular employer updates and offering employer one to one meetings with the fund's actuary as part of the triannual valuation process.

7.6 The fund provides an annual update to all members together with the Annual report which is available on the fund's website. In addition to this the fund has a number of newsletters that are tailored to either our active, deferred or retired members. Full details of the fund's communication methods are detailed in our Communication Strategy which is available on the fund's Website. Since Covid, the fund has moved more to utilising technology to deliver updates in a blended approach with face-to-face meetings. The following is an example article issued in the Autumn 23 retired Members Newsletter.

Jean talking

Here is your autumn update. I do hope you have managed to enjoy some of the summer despite lots of rain and sometimes too much sunshine. This should, however, have helped the gardeners among you to have a successful harvest and flower display.

Since I last spoke to you in Spring, I've attended two committee meetings and several training sessions. The committee has undertaken a series of investment strategy workshops, before implementing a revised investment strategy in June 2023. This has now started to be carried out and once new private market funds are launched by LGPS Central later this year, or early 2024, the remainder of the strategy will be implemented. The key objectives of LGPS Central are to deliver cost savings and improve risk adjusted investment returns after costs, enabling access to a wider range of asset classes. I am pleased to let you know that Justin Bridges, Head of Pension - LGPS Senior Officer is currently Chair of the Practitioners Advisory Forum (PAF) which supports the Joint Committee and Shareholders Forum. A training session specifically on climate change, achieving net zero, climate risk reporting and changes expected in the next version of the fund's climate risk and TCFD reports was also delivered during September, by LGPS Central's responsible investment team and Aon.

The pension fund has increased in value by £82 million in the last quarter to end of June 23 and continues to perform well over the longer term. Since the end of the quarter, the fund has continued to increase and is now valued just below £2.35 billion. The fund is invested in a range of asset classes to diversify risk and provide stable returns, and this has certainly helped during the difficult period for financial markets in 2022.

Debbie Sharp, Pension Administration Manager and her team have continued to work well, processing all pensions administration related workload, while mainly working from home. Once again, I would like to remind those of you who do not have access to "My Pension Online" that it can be very useful when you have any queries or need to amend details or view details of your pension.

Finally, I am sure you will all want to join me in wishing Debbie Sharp all the best in her new role as Assistant Director – Pensions at South Yorkshire Pension Authority. She will be a great loss to Shropshire County Pension Fund, but she has trained an excellent team, who will continue to work hard for us all. Her replacement is due to start on the 19th December 2023. Take care and have a Happy Christmas.

Jean Smith
Pensioner Representative
Pensions Committee

The newsletters contain a wide variety of updates including comments from the Pensions Investment and Responsible Investment Manager and are available to each member class via our website. Corresponding with the Funds 50,000 members by defined status is cost effective and allows us to tailor information to the relevant group as demonstrated by the views of the Pensioner Representative in the Pensioner newsletter shown above.

7.7 The fund delivers periodic updates to employers on any changes that may impact them and has a separate section on the website for employer information including a full section on the website dedicated to “McCloud”. The fund issued 7 specific updates to employers between January 2023 and March 2024 in addition to general operational updates. These covered various topics from changes in regulations on annual allowance and lifetime allowances, to updates on McCloud. All updates are retained on the website for employer reference.

7.8 The fund consults with its employers on its Funding Strategy Statement as part of each triennial actuarial valuation, taking on board employers’ views before agreeing any changes to the strategy at Pensions Committee. It will also consult on any proposed changes due to legislation or policy in between valuations, for example on new employer flexibilities like deferred debt arrangements.

7.9 The fund’s employer and member stakeholders are represented on the fund’s Pensions Committee and Pension Board as detailed in the fund’s Policy Statement on Communications. The Pensions Committee includes the Telford and Wrekin cabinet member for climate change.

7.10 Our training programme for members of our Pensions Committee and Pensions Board ensures that members can challenge and contribute meaningfully on stewardship issues. All Members are invited to our Investment Strategy reviews to provide input before any strategy is taken to Committee for agreement. Strategy workshops were held in in February and April 2023 with a new ISS going to Committee in June 2023 following review after the 2022 triannual valuation.

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. In addition, we also now have a specific section on the website for Investment and we are currently taking feedback from both employers and members on enhancements we can make to this section.

7.12 Review of Investment Management Agreements found no breaches in the reporting period. (Also see comments section 9 – Principal 8).

7.13 The Policies and Strategies of the Fund are all publicly available for scrutiny by stakeholders on the fund’s website and all uphold the funds’ fiduciary duty in respect of our approach to engagement and stewardship activities.

7.13 The fund also replies to all Freedom of Information requests as and when they arise and have responded to all requests in the statutory timescales.

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 following investment beliefs are considered when agreeing an asset allocation policy:

- A long-term approach to investment will deliver better returns.
- The long-term nature of the fund's liabilities is well suited to a long-term approach to investment.
- Asset allocation policy is the most important driver of long-term return.
- Risk premiums exist for certain types of assets and taking advantage of these can help to improve investment returns.
- Markets can be inefficient, and sometimes 'mispriced' for long periods of time, and there is a place for both active and passive investment management.
- Diversification across investments with low correlation improves the risk/return profile, but over-diversification is both costly and adds little value.
- The fund should be flexible enough in its asset allocation policy to take advantage of opportunities that arise as a result of market inefficiencies, and flexible enough to protect against identifiable short-term risks when this is both practical and cost effective.
- Responsible investment can enhance long term investment performance and the Fund expects responsible investment integration to be a key part of the selection criteria for appointing new managers.
- Investment management fees are important and should be minimised wherever possible, but it is ultimately the net return to investors (i.e. the return after all fees and costs) that is the most important factor.

8.2 **Social, Environmental and Corporate Governance Considerations**

The Committee believes that acting as a responsible investor of the fund's assets should be fully integrated into investment decision-making. The Committee therefore seeks to ensure

that the fund considers all aspects of responsible investment. This includes investment manager appointments and monitoring, through to discharging the rights and responsibilities of asset ownership, in order to encourage and promote high standards of governance and corporate responsibility, in the underlying companies and assets in which the fund invests. The Committee believes that ultimately, high standards of governance and corporate responsibility creates long-term value for the fund and its beneficiaries. These beliefs under pin the Investment Strategy and the Funding Strategy. In addition, given the risks posed by Climate change and the member interest in this area, the Committee has developed a Climate Change Strategy and Stewardship Plan. The Committee also reports in line with the Task Force on Climate-Related Financial Disclosures (TCFD) on an annual basis, outlining climate related metrics, risks and opportunities and works with our Partners at LGPS Central to ensure that the fund maintains the highest standards of disclosure.

8.3 Climate Change Strategy

The fund's Climate Change Strategy aims to identify, understand and assess climate change risks and opportunities across regions and sectors that are material to the fund. This includes relevant climate-related transition and physical risks and opportunities that are likely to impact the fund's Investment and Funding Strategy. Strategic actions include but are not limited to:

- Measuring climate-related risks and opportunities through triennial economic assessment of the fund's asset allocation against plausible climate-related scenarios;
- Assessing material climate-related risks and opportunities, alongside the manager's approach to mitigating these risks as part of the selection and due diligence of new funds; Reference Investment Strategy Statement Pages: 14-17
- Joining collaborations of like-minded institutional investors to collectively lobby for Paris-aligned climate policies and promote engagement through LGPS Central; This Climate Change Strategy has been established to run for three years from September 2021 to September 2024, but will be reviewed annually.
- The climate strategy will be updated in September 2024 to take account of the increased quality of data that will allow the fund to set targets and timescales to map out it pathway to net zero.

8.4 Climate Stewardship Plan

Whilst the pooling company, LGPS Central, will report to the fund on engagement activity, the fund itself plays an active role in monitoring engagements and engaging with LGPS

Central for further information if needed. As a result, the Committee focuses on identifying specific investee companies and portfolio managers in which stewardship techniques can be leveraged to further understand and manage climate-related risks within the fund. In addition, Columbia Threadneedle Investments (CTI) provides a responsible engagement overlay on the fund's global equity portfolios. CTI enters into constructive discussions with companies on the fund's behalf to propose better management of the negative impacts they might have on the environment and society in general, in order to improve financial returns. Throughout the engagement activities carried out by and on behalf of the fund, coupled with the climate risk analysis as part of TCFD reporting, the fund has identified investment managers to ensure climate-related risk is fully integrated into their investment processes. The fund will engage its managers on the following issues:

Asset Class	Topic
Equities	• Stewardship activities with companies identified in the Climate Risk Report • The influence of climate factors on sector positioning
Fixed Income	• Approach to assessing climate risk in the absence of reported GHG emissions data • Engagement with the most intensive carbon issuers • Extent of investment in green bonds
Real Assets	• Physical risk resilience • GRESB participation

8.5 **Industry Initiatives**

The fund is a member of the Local Authority Pension Fund Forum. This is a special interest group of the Local Government Association that exists to promote the investment interests of local authority pension funds. The Forum aims to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest. The Forum issues research and guidance relating to climate change and employment standards and promotes best investment practice for the Local Government Pension Scheme nationally. The Forum regularly engages directly with

large companies in this regard and has been effective in improving companies understanding of the requirements of investors.

The LAPFF issue a weekly newsletter on engagement activity and a quarterly report.

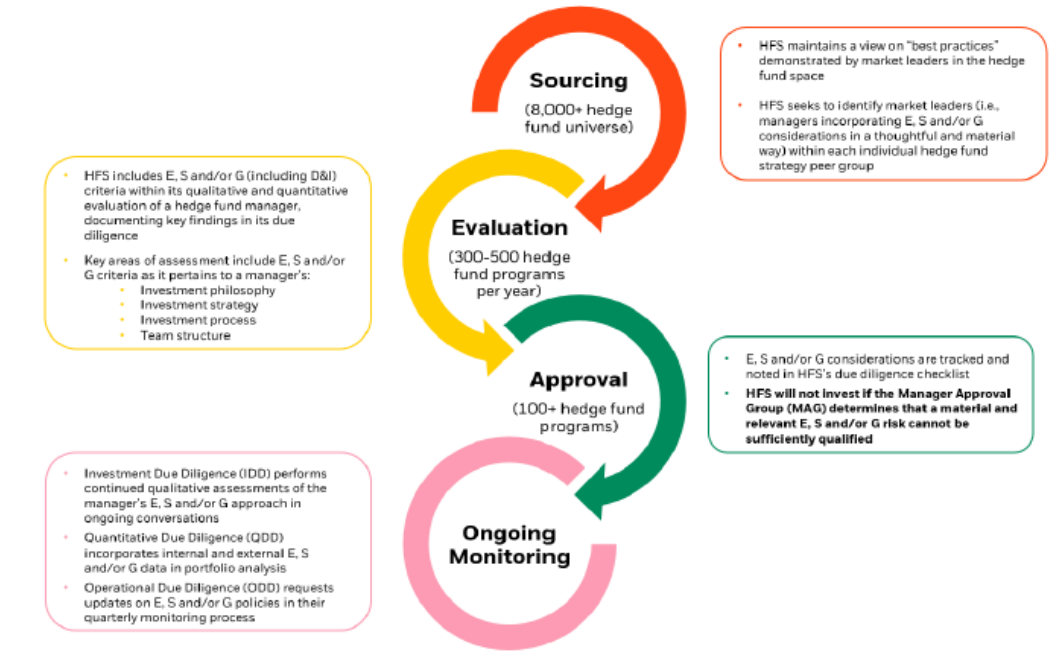
An example of LAPFF Engagement with a company in the fund's Active Equity portfolio is shown under principle 9 at 10.2.

Examples of LGPS Central engagement on the funds behalf in promoting corporate and investor best practices are shown in Appendix 1.

8.6 During the period 2023/24, the fund has transitioned parts of its portfolio to meet the strategy set out in the June 2023 ISS. The liquid elements of the transition have been completed with two absolute bond mangers terminated to fund investments in investment grade corporate bonds and an increase in sustainable equity. Both of these new investments were through LGPS Central and therefore the fund has assurance that ESG considerations were a critical part of manager selection. The il-liquid transition from legacy managers to LGPS Central will take longer as it will be based on asset maturities.

8.7 We therefore continue to ensure that legacy managers continue to operate to the highest standards in private markets. An example of this would be with Blackrock Hedge Funds. In general hedge funds typically do not hold direct equity in companies. Rather, hedge funds often use equity-related securities such as futures or swaps, which do not provide voting rights or means of direct engagement with companies. Furthermore, as a fund of hedge funds, Blackrock's exposure to companies is primarily through the investments into said hedge fund strategies, and as such voting power or means of engagement is limited. Therefore in order to get assurance the fund has to consider how Blackrock build ESG into their investment criteria by examining their Sustainable Investment Statement for Hedge fund solutions. The below is an extract of the type of assurance that the fund can receive from Investment Manager documentation.

Incorporating ESG into HFS's Investment Process:



Effective as of March 2024. For illustrative purposes only.
Current investment process is subject to change and based on market conditions, managers' opinions and other factors.

The chart sets out how ESG considerations are weaved into each stage of the investment process before making an investment and post-investment with each manager. Engagement with managers is a core pillar of Blackrock's ESG integration efforts and they have a standard process to engage with each manager. The same process and rigour is applied to new managers. Managers are asked to complete a questionnaire at the outset and on a quarterly basis (with very few exceptions) on an ongoing basis.

8.8 LGPSC's RI Integrated Status tool

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.

8.9 By requiring co-sponsoring of the RIIS documents, LGPSC ensures that RI&E is an integrated process, not a siloed affair. The RIIS proposal will be approved by the Investment

Committee if and only if the committee is satisfied that the combination of processes, techniques, activities, and reporting achieve, in a manner suitable to the asset class, product, or mandate in question, the Company's agreed responsible investment aims. These are: (1) primarily, to support investment objectives; (2) secondarily, to be an exemplar for RI within the financial services industry. Promote collaboration and raise standards across the marketplace. RIIS criteria to be met will typically include:

- RI beliefs relevant to the asset class or mandate in question
- Relevant RI related documentation that supports the decision to invest, e.g., policies and procedures at external managers or co-investors • Fund managers factor RI and ESG into their selection of portfolio assets
- RI reviews are carried out by the fund managers at regular intervals (usually quarterly)
- Stewardship responsibilities are carried out thoroughly (engaging with companies, shareholder voting, manager monitoring, industry participation)
- Fund managers are transparent in their reporting to clients and the wider public

8.10 **Manager Selection**

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.

8.11 **Case Study: Infrastructure Debt Portfolio**

The transition agreed in 2023 involved a number of new commitments to LGPS Central private markets so we have provided an example of the process they used to ensure ESG was integrated into the private markets arena. The RI&E team worked closely with the Private Markets team during the selection of five new Private Equity managers during 2023.

During an initial screening of potential managers, the Private Markets team will consider a range of factors including ESG integration and stewardship. 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 PMIC submission for consideration.

8.12 **Active Equities**

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

8.13 The RI&E team attend quarterly monitoring meetings with external managers. The purposes of RI&E monitoring are to analyse the level of ESG risk and climate risk in the portfolio, determine whether the manager is successfully applying the ESG process that was pitched, and assess whether that ESG process is proving successful. Monitoring is achieved through a combination of our own internal portfolio analysis, inspection of the manager's responses to quarterly data requests, and via dialogue at the quarterly meetings.

8.14 LGPSC has developed a Red, Amber, Yellow, Green (RAYG) rating for manager monitoring, of which RI&E is a core component. These ratings get updated each quarter based on the discussion at the manager meetings. The RAYG rating is split into four possible ratings: red (manager fails to convince, warrants formal review with potential manager exit),

amber (manager warrants closer scrutiny with potential for going on “watch”), yellow (manager is fulfilling role but with minor areas of concern) and green (manager shows clear strengths tailored to requirement). We score managers on four components of their RI&E approach:

1) philosophy, people and process

2) evidence of integration

3) engagement with portfolio companies

4) climate risk management.

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

8.15 **Cross-team interaction in development of new LGPSC Funds**

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.

8.16 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.

8.17 **Integration of climate change risk through Climate Risk Monitoring project**

During the course of 2020, LGPSC conducted in-depth climate risk assessments for Shropshire County Pension Fund and the other LGPSC partner funds and provided a Climate Risk Report (CRR) bespoke to each of them. This process created a base year for ongoing monitoring of changes. This process has continued and developed with our fourth CRR being received in November 2023.

8.18 The CRR is designed to allow each partner fund a view of the climate risk held through their entire asset portfolio accompanied by proposed actions each could take to manage and reduce that risk. In the analysis, LGPSC uses two approaches, bottom up &

top-down analysis. The top-down work is at the asset-allocation level and considers the financial consequences to the individual partner fund given plausible climate change scenarios. The bottom-up analysis is at the company/asset level and considers carbon risk metrics such as portfolio carbon foot printing, exposure to fossil fuel reserves, carbon risk management, Financed Emissions and investments in clean technology. In each type of analysis, LGPSC is not addressing the impact of the partner fund on the climate, but rather the impact of a changing climate, and changing climate policies, on the Fund.

8.19 To facilitate TCFD disclosure, the CRR is deliberately structured to align with the four disclosure pillars. Below is a summary of the methods used to assess financially material climate-related risks and opportunities:

Section	Analysis
Governance	The purpose of this section is to identify areas in which the fund's governance and policies can further embed and normalise the management of climate risk. We provide a review of the fund's documentation from the perspective of climate strategy setting and issue recommendations on how the fund could improve its governance of climate-related risk.
Strategy	Using the services of Mercer, LGPSC assesses the extent to which the fund's risk and return characteristics could come to be affected by a set of plausible climate scenarios. This includes an estimation of the annual climate-related impact on returns (at fund and asset class level), and climate stress tests (to explore the potential impact of a sudden climate-related price movement).
Risk Management	Based on the report findings LGPSC provides a Climate Stewardship Plan which identifies the areas in which stewardship techniques could be leveraged to further understand and manage climate-related risks within the

	portfolio. The Plan includes plans to engage both individual companies and fund managers.
Metrics and Targets	LGPSC conducts a bottom-up carbon risk metrics analysis at the company and portfolio level. For the most part, five types of carbon risk metric are utilised: portfolio carbon footprint, financed emissions, fossil fuel exposure, weight in clean technology and climate risk management (via the Transition Pathway Initiative).

8.20 As per our reporting against Principle 1, we consider this Climate Risk Monitoring project a critical stepping-stone in the fund's ongoing management of climate risk and a direct way of translating our investment beliefs on climate change into action.

8.21 LGPSC have provided the fund a bespoke CRRs on an annual basis for the past three years. Future iterations of the report will show progress against the baseline of data collected in 2020. The 2023 report explored 1) how the results have changed since the baseline 2) What recommendations have been achieved and 3) How our partner funds can continue to develop in this space.

8.22 The following are examples of the how ESG is integrated across the portfolio by asset class.

Equity (Active and Passive)

8.23 The fund has two Equity Managers LGPS Central for active Equities and LGIM for passive equities. Together Equities make up 55% of the fund benchmark as set out under principle 6. Examples of Engagement activities by LGIM are shown under Principle 8 at 9.19 Examples of Engagement by LGPS Central are shown in Appendix 2 and under articles 9,10 and 11.

Absolute Return

8.24 As noted under Principle 6 the absolute return section of the portfolio equates to was reduced from 25% to 7.5% as a result of the ISS agreed in June 2023. The Funds remaining investments in this area are held in three areas:

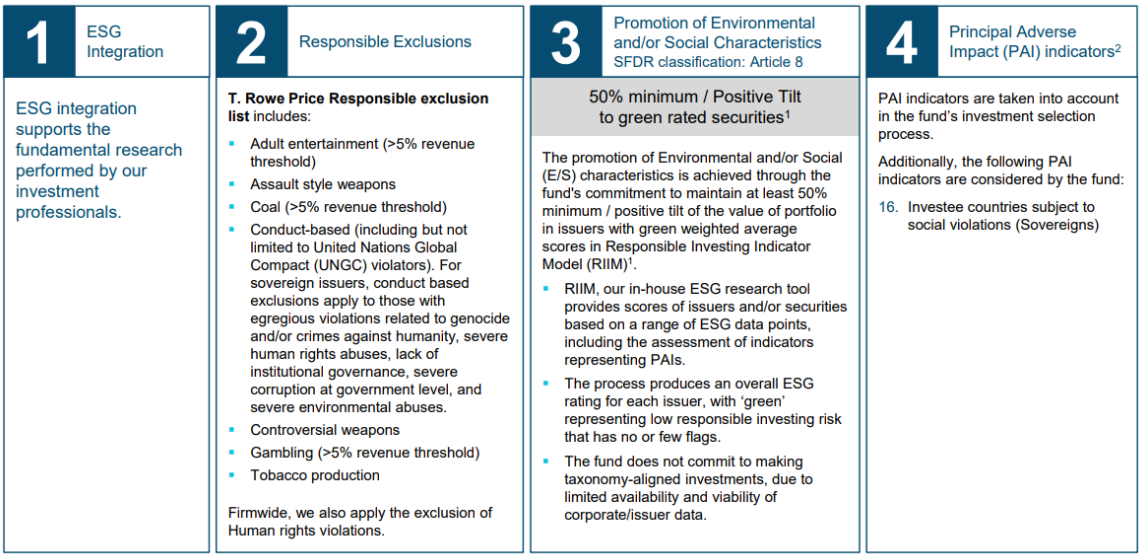
- HedgeFunds – Blackrock Fund of Funds
- Securis – Insurance Linked Securities
- T Rowe Price – Global Dynamic Bonds

Depending upon the nature of the investment there is not always a clear engagement evidence as the investments do not hold direct equity and so have no direct voting rights. However, the fund works closely with Managers to ensure ESG is built into the investment processes. An example of the Blackrock approach was shown at 8.7.

8.25 In respect of Securis, whilst this forms only 1.5% of the fund, the fund has been discussing the position with the Manager for a number of years with Securis joining a peer group to review the position in 2022. Securis have made great progress being recognised as an SFDR article 8 fund in 2024 and issuing their first annual responsible investment report in July 2024 and we will be able to provide engagement examples in our next report.

Dynamic Global Bond Fund

8.26 The ESG process operated by T Rowe price in selection of investments is shown below. There are no voting rights associated with this investment. The fund receives quarterly engagement updates from this manager.



8.27 An example of a recent engagement with HDFC Bank (private Bank in India)

Objective: We engaged with the bank to discuss its financial inclusion initiatives.

Activity: On the topic of financial inclusion, the bank walked through Parivartan, its main corporate social responsibility (CSR) initiative which provides support across five areas (rural development, promotion of education, skill development, health care, and financial literacy) and has impacted 99.31 million people to date. Regulation requires companies distribute 2% of profits into CSR efforts and HDFC Bank's CSR budget is among the largest in India, given the profitability of the bank. The bank is also mandated to complete a social impact assessment on every project, which makes it easier to measure the target population and associated impact key performance indicators (KPIs). We discussed the feasibility for HDFC Bank to set forward looking targets on its financial inclusion initiatives (e.g. number of lives impacted) but the bank is prioritizing branch openings in rural/semi-rural areas in the short/medium term. It is looking to reach 13,000 14,000 branches, up from 8,000 today, and expect most of the new branches to be in rural and semi-rural areas as this is where it sees the largest growth in customers.

Outcome: In terms of integration of ESG risks into lending criteria, the bank revised its ESG lending framework in FY23, requiring all loans above Rs (rupees) 0.5 billion (previously Rs 1 billion) to undertake an environmental and social assessment, alongside a new dedicated climate assessment. The bank explained that it has integrated these assessments into its credit appetite framework, and we recommended the bank provide additional disclosure on how these assessments impact the bank's willingness to lend to a client.

On the area of sustainable finance, the bank received approval for its sustainable financing framework in October 2023 and expects to publish its framework in the first quarter of 2024 ahead of an inaugural ESG bond. We offered to provide investor feedback and share best practice guidance on the framework ahead of publication. The bank indicated that its social asset portfolio remains much larger than its green portfolio and we expect the bank may come to market initially with a social bond, targeting lending to small and medium sized enterprises (SMEs) and access to finance.

Investment Grade Corporate Bonds

8.28 The fund Transitioned 10% of Assets Under Management (AUM) into Investment Grade Corporate Bonds during the period in line with the ISS agreed in June 2023.This was a new investment for the fund but through our pooling company LGPS Central so we had full transparency of their responsible investment practices. The fund was an existing investment within the pool and already utilised by other pool members, so no new manager appointments were required as a result of this change.

8.29 An example of Engagement is shown below for – 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: EnBW pulled 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. EnBW is re-training its workforce and reallocating employees to other parts of the business to minimize and manage job losses. Overall, Fidelity's engagements with EnBW over the last few years have significantly and positively impacted its internal view on the company. Fidelity will continue to engage with EnBW regularly on their ESG strategy and commitment to reduce carbon emissions.

Illiquid Alternatives

8.30 As noted under Principle 6 the Illiquid Alternatives section of the portfolio equates to 27.5% of the portfolio in benchmarking terms under the ISS agreed in June 2023. Depending upon the nature of the investment there is not always a clear engagement evidence as the investments do not hold direct equity and so have no direct voting rights. We have set out examples of Managers approach to ESG and engagement examples as applicable:

Private Equity

8.31 The fund has a mixture of investments in this area through HarbourVest and through LGPS Central.

8.32 In respect of HarbourVest the manager's main objective regarding stewardship is to use its influence to foster General Partner adoption and support of ESG principles, thereby increasing awareness of ESG risks and opportunities to maximize the overall value to its investors and beneficiaries such as the Fund. In general, the manager seeks to accomplish this from three angles:

1. GP (General partner) engagement

As an indirect investor in private markets, the manager's primary engagement approach is to use its influence to engage with GPs and lead deal sponsors when relevant and appropriate to (i) drive progress more broadly and demonstrate their value-add as a partner, and (ii)

address issues at portfolio level more specifically for their own and their LPs' (Limited Partners) assurances.

2. Company engagement

For certain direct co-investments, the manager may hold a company board or observer seat, and it seeks to increase discussion around ESG topics and monitoring where relevant or material.

3. Industry engagement

Industry engagement is complementary to GP and company-level engagements by promoting structural industry progress and coalescence around common ESG approaches, which in turn supports better ESG practices and accountability.

8.33 **GP & Industry Engagement**

The following section describes how the manager provides feedback to GPs and offers GPs best-practice sharing opportunities to improve practices at the GP level.

The manager utilises a proprietary ESG Manager Scorecard to evaluate a GP's approach and capabilities on ESG. The evaluation criteria are aligned with industry standards; the resulting assessment is generated by proprietary weightings and provides an overall ESG rating for the GP, and individual scores for efforts on climate change and diversity and inclusion. The manager's Scorecard serves as a mechanism for both researching and engaging with GPs on ESG issues.

8.34 **ESG Data Convergence Initiative (EDCI)**

The manager has recently been focused on encouraging its GPs to support EDCI, collect standardized KPIs across portfolio companies, and report the data to the EDCI and their investors. During each of the past two years, the manager has leveraged its support of the EDCI as an LP member to request ESG metrics at the asset/portfolio company level from its GPs. This initiative has made a significant difference as comparable, consistent ESG metrics were previously unavailable in the private equity industry.

In 2023, the manager reached out to nearly 60 GPs that were publicly signed up to the EDCI to request portfolio company-level data and received responses from approximately 75% of GPs. As part of this inaugural exercise, the manager held calls with several GPs to discuss

peer practices on sharing EDCI data and subsequently engaged with the EDCI Steering Committee to request further clarification for GPs disclosing data to LPs. In 2024, the manager conducted its second annual EDCI outreach exercise and made two enhancements to its data collection process. Firstly, the manager expanded its outreach to include GPs that are not EDCI members. This included its largest GP exposures and several co-investment / private credit sponsors outside of the original list. The manager believed this was an important engagement step to express support of the EDCI and increase GP awareness of the initiative. In total, this more than tripled the manager's outreach to over 200 GPs. As of August 2024, the manager has received data from over 120 GPs and is still accepting submissions.

8.35 **Private Markets Decarbonisation Roadmap (PMDR)**

The manager has also been engaging with GPs regarding awareness and adoption of the PMDR, an initiative launched in 2023 by the Initiative Climat International (iCI) with the support of Bain & Company. The PMDR provides a common language for GPs to assess and communicate progress of assets on their decarbonization journey. By gathering industry traction behind a common framework, the objective is to gain insight on portfolio alignment with the low carbon transition and to support effective progress. The manager was a co-developer of the framework through its engagement roles in the iCI and the CEO Taskforce of the Sustainable Markets Initiative. An April 2024 survey of the iCI membership by Bain & Company found "although a large majority of investors (95%) have begun to collect decarbonization data from their portfolio companies, only 65% say they are driving action with portfolio companies (and 58% with deal teams)". The manager recognizes the importance of consistent, comparable information, and has used its influence with GPs to encourage them to begin using the framework. As part of its outreach effort for the EDCI, the manager asked GPs whether they are aware and open to engagement on the PMDR; are planning to use the PMDR or another framework; or are already using the PMDR. As of August 2024, the manager has held approximately 50 engagement calls with managers regarding the PMDR, and has been advocating for a standard data sharing template through its role with the ICI.

8.36 **Company Engagement**

The following section describes:

i) how the manager identifies and engages on portfolio company risks and incidents using a third-party monitoring software, and ii) how the manager can engage directly with portfolio companies on either ESG risks or opportunities.

8.37 The manager utilises a third-party ESG controversy monitoring tool to proactively scan for negative ESG incidents across their portfolio. ESG and investment team members participate in bi-weekly meetings to discuss reported incidents and determine next steps. When reported incidents are considered to be potentially material, the manager has protocols in place to reach out to the GP for more information and to record the outcome of that engagement.

8.38 **Theme:** Human Rights / Environmental

Reason for Engagement: Through their standard RepRisk incident monitoring process the manager was made aware of an NGO report making allegations against, amongst others, a portfolio company which is a European sustainable agricultural solutions provider. The report claimed the portfolio company owns a plot of land near, and therefore is potentially infringing upon, large areas of indigenous territory in South American rainforests. The manager reached out to the GP to understand more about these allegations and the GP's view on the portfolio company's potential link to adverse human rights and environmental impacts.

Outcome: Upon the manager's engagement, the company's internal Audit and Risk team conducted a thorough investigation, supported by external advice. The investigation concluded that the allegations are misleading and that there is no evidence of wrongdoing or land infringement by the portfolio company. The GP confirmed that the plot of land in question is not in fact owned by the portfolio company but has instead been kept by former shareholders of an acquired subsidiary. Furthermore, the investigation confirmed that the plot of land is close to two indigenous reserves, but that the land is duly licensed and authorized by public bodies, is not subject to any agricultural exploitation, and is 8 km away from the area declared of interest by a Brazilian governmental protection agency for the rights of indigenous people. The manager appreciated the detailed investigation conducted by the GP and portfolio company, and accepted the conclusions of the investigation that there is no evidence of irregularity, which is also consistent with the initial due diligence performed at the time of the subsidiary acquisition

8.39 **Board-level engagement**

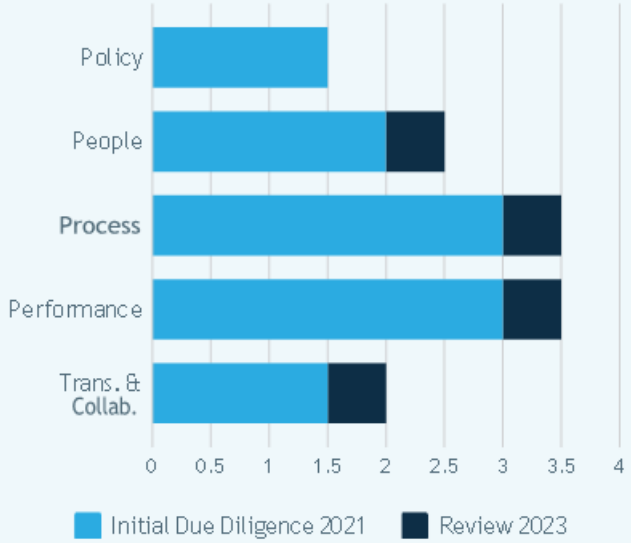
Due to its role as an indirect investor, the manager's engagement activity is centered on the GPs and lead deal sponsors it invests with. Occasionally, and at the invitation of the lead sponsor, the manager will engage directly with underlying assets to discuss how ESG factors are being approached.

8.40 As one example, the manager was approached by a lead sponsor to advise a financial services portfolio company on ESG best practices as part of the investment value creation plan and preparation for IPO. The manager's head of ESG met with the company management team and shared notes on relevant ESG regulation, how to approach GHG accounting for financial services software companies, and provided peer recommendations on ESG data and consultancy services.

8.41 **LGPS Central Private Markets**

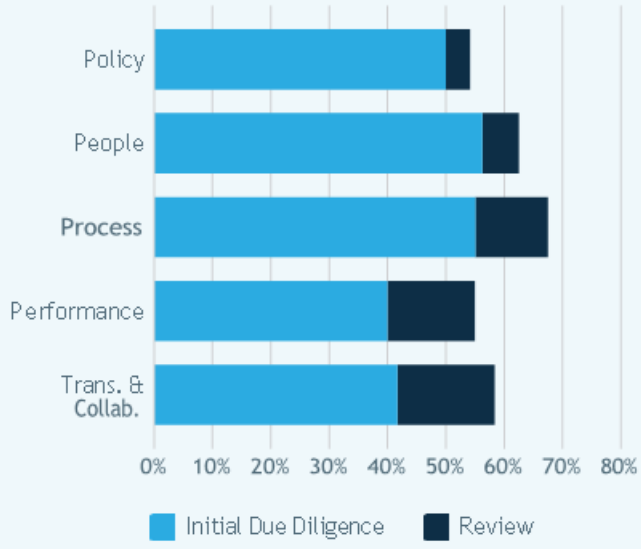
Monitoring of ESG issues within their private market fund investments is integrated into the general monitoring process that is established internally. From time to time, they conduct deep dive reviews of the practices of our fund managers. The frequency of the review is approximately 3 years, or more frequently depending on the risk level. In 2023, LGPSC reviewed one manager within the 2021 infrastructure fund. This manager was found to have improved from the initial due diligence with respect to its performance against our five-pillar scoring framework, Figures 17 and 18 demonstrates the scores achieved during the initial due diligence and the subsequent review.

FIGURE 17: RI&E IMPROVEMENTS BETWEEN THE INITIAL DUE DILIGENCE AND THE MOST RECENT REVIEW OF AN INFRASTRUCTURE MANAGER



Improvements were assessed in the pillars of performance, transparency and collaboration, and people. During the review the manager showcased how ESG was considered in one of the investments made for the fund and the ESG levers identified for value creation. The manager has also improved public disclosures and has joined multiple sustainability-related industry associations since our investment into the fund. Finally, it was noted that the manager has added additional resources and responsibilities were found to be more clearly defined between the different teams and roles.

FIGURE 18: RI&E IMPROVEMENTS BETWEEN THE INITIAL DUE DILIGENCE AND REVIEW OF THE 2018 PRIVATE EQUITY FUND



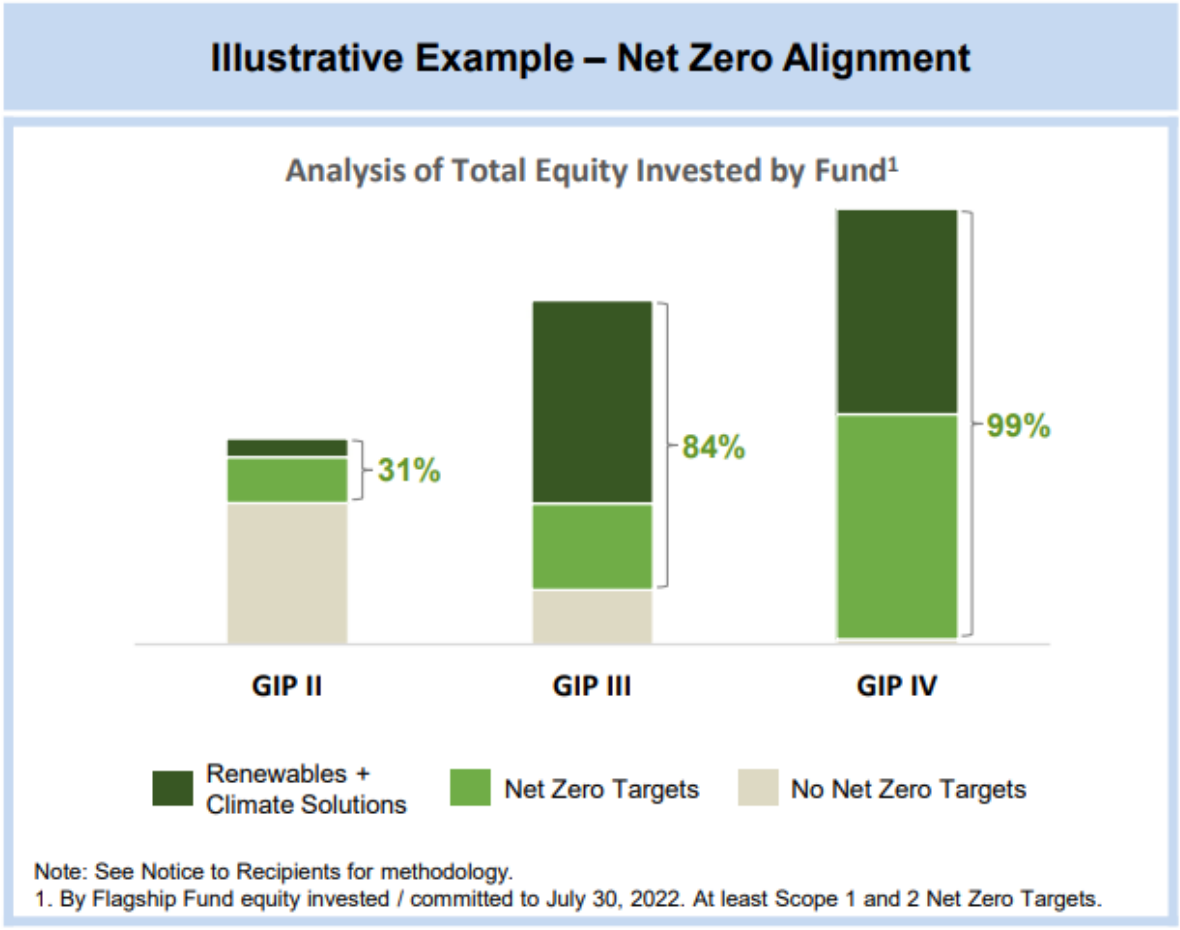
8.42 At a high level, they observed the following trends within our 2021 Private Equity RI&E Reviews. GPs are rapidly expanding their RI&E resource. A number of the managers are hiring dedicated ESG professionals, initiating ESG working groups and utilising external advisors to provide RI training for all staff members. In turn, we've seen an increase in the number of GPs collecting ESG data from their portfolio companies. Transparency has also improved, with more GPs offering annual ESG reports and material incident reporting to LPs. While these trends are positive, private markets continue to lag public markets in several aspects, LGPSC will continue to engage with our private equity managers on these areas. A particular focus point for LGPSC going forward includes pushing for even greater transparency and greater standardisation in the metrics reported across different private equity funds. They will also conduct a review of selected vintages within 2024.

8.43 LGPSC also held ad-hoc discussions with several private debt managers during the year. They have identified private debt as an asset class to focus on, due to the challenges associated with integrating ESG considerations in that asset class. During these meetings, we discussed how our managers utilise the ESG Integrated Disclosure Project's (IDP) template. The ESG IDP is an industry initiative with a goal to promote greater harmonisation and consistency of disclosure of key ESG indicators by borrowers in private credit and syndicated loan transactions. We also introduced some managers to Net Zero Zeal Analysis. A research and analysis tool we have been using to analyse the net zero commitments of investee companies across equity, fixed and private market mandates. One of our managers indicated that they will be registering as a B-Corp. LGPSC have implemented a policy requiring all co-investment sponsors to establish ESG-related KPIs for their investee companies. These KPIs should be tailored to the investee companies' specific situation and align with the Company's overall strategy. LGPSC receive progress reports on each companies' performance against their respective KPIs. The majority were on track to meet their KPIs, but relevant sponsors will be required to create an action plan where there was a shortfall. LGPSC will continue to receive annual updates on the dashboard and KPIs, allowing us to track the firm's progress. Additionally, they plan to meet with the GPs on an annual basis to discuss potential areas for future enhancement.

Infrastructure

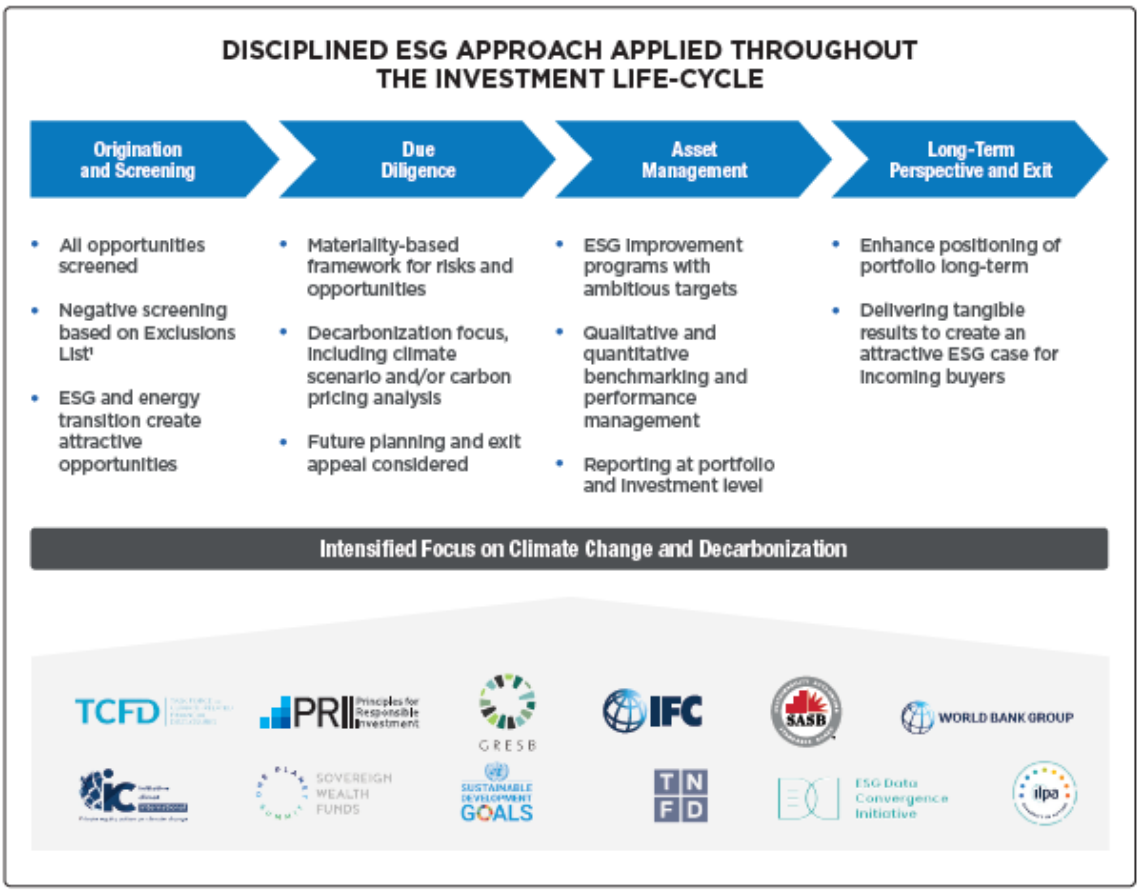
8.44 The fund has two infrastructure investments one with Global Infrastructure Partners (GIP) and one with LGPS Central, these equate to 7.5% of the Fund's benchmark as laid out in the strategic asset allocation under Principle 6.

8.45 GIP was selected as a manager due to it strong ESG focus on infrastructure assets. GIP believes ESG is key to operating businesses in a safe and responsible manner, and that it leads to better investment outcomes. The Manager has demonstrated intensified ESG focus as a result of the strategic opportunities and risks from climate change and changes in wider ESG expectations. This has resulted in much improved Net Zero Alignments as investments have matured as shown below:



Note the fund has nearly exited GIP II with only one investment remaining in this fund.

8.46 The GIP approach is set out in the extract below showing both the process adopted and the bodies that GIP works in partnership with to drive ESG reporting.



8.47 An example of the ESG approach at EnLink Midstream in GIP IV is provided showing clear progress made.

Case Study: EnLink Midstream

Experience in repurposing and decarbonizing assets to create potential value from the energy transition

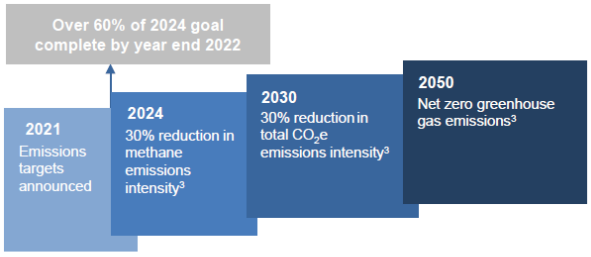
Commitment to Safety and Social Responsibility

- One of five strategic priorities for the company
- Established Board Sustainability Committee
- GoalZERO safety program: zero tolerance approach
- Key focus on people
  - ✓ 27% women / 18% minorities in management, vs. 23% / 15% industry average[1]
  - ✓ Safety and sustainability part of incentive program
  - ✓ Supplier Code of Conduct

2022 WINNER of GPA Midstream's PERFECT RECORD AWARD

CEO ACTION FOR DIVERSITY & INCLUSION

Net Zero Ambition



Energy Transition Value Creation

Strategic Opportunity: Carbon Capture & Storage (CCS)

- Expansive existing footprint (c. 4,000 miles of pipelines) and we believe is well positioned to become a preferred CCS operator in Louisiana, one of the largest CO_2 emitting states in the US[2]
  - Large-scale carbon abatement opportunity: Mississippi River corridor emits ~80 million metric tonnes of CO_2 per annum
- EnLink's footprint currently connects to, or has pipeline within miles of most industrial emitters in the region:
  - Two gas pipeline systems connected to most customers, allowing it to convert one into CO_2 while continuing to deliver natural gas in the other
  - Competitive advantage: minimal newbuild pipelines required
- Strong relationships with key counterparties (see below examples)
- Extensive experience operating transportation and cryogenic assets

Significant, Tangible Progress

- Formed Carbon Solutions Group in 2021
- Formed JV with Talos Energy to provide a complete CCS solution in Louisiana. EnLink provides midstream assets and Talos subsurface assets
- Signed OXY Low Carbon Solutions as first customer
- Announced collaboration with Honeywell to deliver CO_2 capture solution
- In 2022, entered into first of its kind agreement with Exxon for transportation of CO_2 from the Mississippi River corridor to Exxon's 125,000-acre CO_2 storage in Louisiana with available reserve capacity up to 10mm metric tonnes, equivalent to replacing ~2.2mm gasoline cars with EVs
- Also addressing its own emissions; partnered with BKV Corp. on a CCS project in North Texas' Barnett Shale to permanently capture and store carbon from EnLink's Bridgeport gas processing facility

8.48 In addition to specific examples the GIP annual ESG report also provides data across a number of ESG metrics for each investment. These cover:

- Decarbonisation Action
- Resource Management
- Social Employment
- Community Impact
- Governance

8.49 The LGPS Central investment is a relatively new investments and funds are still being drawn down in 2024 with full deployment of capital expected over the next 12 months. The fund involves multiple managers all selected by LGPSC. The integration of ESG principles into manager selection has been covered earlier in this section 8.41-8.43.

Private Credit

8.50 The LGPS Central investment is a relatively new investments and funds are still being drawn down in 2024 with full deployment of capital expected over the next 12 months. The

fund involves multiple managers all selected by LGPSC. The integration of ESG principles into manager selection has been covered earlier in this section at 8.41-8.43.

Property Debt

8.51 The fund's property debt investments are a legacy investment and will be moved into the private debt investment as they mature throughout 2024/25. This fund is about managing UK property debt and the fund manager looks for properties either with strong ESG foundations at the outset or a commitment to improve ESG credentials as a result of investment.

8.52 An example of improved ESG credentials as a result of investment is shown below.

Project London Residential - Maturity April 2025

<u>Loan Overview</u>

- Senior loan to **finance the acquisition** of a newly built block of **120 apartments in Hayes, West London**.
- Sponsor acquired the property vacant from Paradigm Housing Association at Practical Completion of the scheme.
- Business plan was to lease-up the units at the property.
- Property comprises 1, 2 and 3 bed apartments.
- Property is located at the entrance to Hayes and Harlington train station which is on the Crossrail route.
- Sponsor is Meadow Partners, a US private equity firm.

<u>Theme</u>

- New build standing asset with strong ESG credentials.

<u>Objectives</u>

- Finance the acquisition of a newly built asset which has the following ESG credentials:
  - **EPC B** rating for all apartments. This far exceeds of the current minimum EPC E rating required to legally lease a property.
  - **Affordable housing provision** of 8 units of the total 120.
  - **PV solar panels** on the roof.
  - **EWS1 certificates** in place which confirm that building complies with fire regulations.
  - **Bike storage** in the basement.
  - **Gym provision** on the ground floor (not part of the Lender's security).
  - Provision of **good quality, professionally managed** housing into an undersupplied market.

<u>Engagement Activity</u>

- Property benefitted from good ESG credentials at loan closing a hence the Sponsor's business plan was not focused on any major ESG improvements or refurbishments throughout the loan term.
- Loan ensures that the Sponsor provides information on any changes to the property during the loan term.

<u>Outcomes</u>

- No changes to any ESG credentials since the loan closed in August 2020.
- The property is well let and continues to attract occupiers given its strong specification and location.

Property -Abrdn UK Property

8.53 The fund's UK property investments have a 5% benchmark as set out in the Strategic asset allocation under principle 6. This fund is about indirect property investment. An example of how ESG criteria are applied as part of the investment criteria is shown below together with an example of an actual investment.

1. Real Estate Multi-Manager Investment Process

Theme: Responsible allocation, management and oversight of capital with the aim of creating long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society.

Objectives: Annual review of each investment to ensure the portfolio guidelines and restrictions agreed with Shropshire County Pension Fund are being met, and to check the investment satisfies ESG objectives.

Engagement activity: On an annual basis we carry out an assessment of the individual risks associated with each investment in the portfolio. The output of the assessment is used to update our cash flow forecast which measures the investment's forward-looking return. If the return does not compensate for the risks being taken, a sale will be considered. In contrast, if the return is sufficient for the risks involved, we will continue to hold the investment. In addition, we are further developing our ESG approach by incorporating an annual manager ESG survey and assigning a rating (maintain, monitor, engage).

Outcomes: We are working with our Real Assets ESG team to build out the annual survey. If we rate an underlying investment as 'engage', the ESG representative in our team, together with an ESG expert will meet with the underlying manager to advocate for an enhanced ESG approach.

2. Engagement with Managers - Governance: ongoing, constructive, engagement leads to better client outcomes

Theme: Governance: ongoing, constructive, engagement leads to better client outcomes

Objectives:

1. Use abrdn's corporate influence and the real estate multi-manager (REMM) team's reputation to push for transparency and clear communication from all underlying investments, especially those experiencing difficulties.

2. Provide client with ongoing updates via monthly and quarterly reporting, in-person (teams) meetings, and adhoc emails as and when matters arose.

Engagement Activity: Two investments, Lothbury Property Trust and Nuveen UK Property Fund, encountered significant redemption pressure in 2022 resulting in the suspension of dealing for both, and ultimate (still ongoing) liquidation of Lothbury.

During the suspension period the REMM team regularly engaged with both managers, and also spoke with co- investors.

Matters discussed with the managers varied, and included in-depth reviews of proposals being put forward (both funds suggested had mergers). We requested clarity on cost estimates, sought further information on tax implications to ensure merger proposals would not result in taxable gains upon the funds, and details on how the merger would qualify as a bona fide commercial transaction.

This process took a number of months, and during this time the REMM team had concerns that Lothbury's own governance had room for improvement. Concerns were discussed directly with Lothbury and raised at all-investor meetings and recognised as being valid.

Outcomes: Nuveen UK Property Fund's suspension is ongoing and merger discussions are advanced. All investors are supportive of the merger as it is widely believed to be in the best interest for all investors.

Lothbury Property Trust subsequently entered liquidation. Whilst this is not an obvious 'win' it was the best outcome available – and one abrdn's REMM team had been pushing for - as the alternative was for the portfolio to be split and it would not be possible for investors to all be treated fairly.

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 considering 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 based on mandates, 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 both our independent investment advisor, Philip Hebson and our investment Advisors AON, who attend all Pension Committee meetings. Our advisor's objectives were reviewed at the Pension Committee December 2023 and include assisting the Fund in the monitoring of its managers and producing a quarterly performance update for Committee which provides an overview of manager performance and raises any corporate, social or governance issues for consideration by the Committee. The Fund also monitors the performance of its investment advisors in compliance with CMA regulations and reports this to Committee every 12 months.

9.7 Each of the managers meets with officers of the fund on a Quarterly basis and the Pension Committee can call mangers to appear as required. LGPS Central as the fund's Pooling Manager have attended Committee in 2023/24 together with Columbia Threadneedle Investments the Funds Engagement and Overlay Advisors. Going forward the expectation is that where possible all new investments will be placed through the pool and existing assets transferred as appropriate. Due the delay in transitioning private market assets to LGPS Central the Fund has agreed that Legacy Managers will now attend the Pensions Committee on a Quarterly basis by invite to update directly. Performance is also reported publicly annually in the fund's annual report which is published on the fund's website and made widely available to stakeholders.

9.8 ESG factors are built into all our performance updates with managers and as part of the quarterly presentation pack we receive.

9.9 The fund receives Internal Control Reports from managers and our custodian every year and these are reviewed by officers of the fund annually and subject to a second review as part of our internal audit agreement with Shropshire Council. Regular performance meetings are also held with our actuary on a monthly/6 weekly basis.

9.10 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.

9.11 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. An example of LAPFF engagement is provided under principle 9 at 10.2.

9.12 We participate in LGPS Central Limited for our active equity mandates. It is our ESG adviser and its approach is detailed in its Responsible Investment and Engagement Framework.

9.13 LGPS Central Limited does quarterly ESG update reports which can be found on its website, and these are shared directly with the Pensions Committee as part of our quarterly governance updates. We also monitor investments through Columbia Threadneedle's Responsible Engagement Overlay services. These reports together with the reports from our passive Equity Manager LGIM (covered below) are presented to the Pensions Committee every quarter.

9.14 We have appointed Legal & General Investment Management to manage our passive equity mandates. It believes in using its scale and influence to bring about real, positive change to create sustainable investor and produces an LGIM quarterly ESG Impact Report.

9.15 From a Fund perspective ESG strategies are considered as part of the investment process and not solely as a stand-alone.

Further detail of LGPSC & LGIM monitoring of managers' ESG integration & stewardship.

9.16 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.

9.17 Engagement undertaken by LGPSC's external managers in 2023 has been comprehensive and robust. These managers are all long-term investors with sizeable positions in their highest conviction portfolio holdings, giving them excellent access to company management which they used effectively to drive company change. There were a few occasions where the level of engagement disclosure was unsatisfactory, or where the link between an engagement and subsequent investment decision-making was not clear. In these instances, fund managers were marked down during our RAYG rating (red – amber – yellow – green) review and LGPSC discussed its concerns in the quarterly meetings.

9.18 The RAYG rating is split into four possible ratings: red (manager fails to convince, warrants formal review with potential manager exit), amber (manager warrants closer scrutiny with potential for going on "watch"), yellow (manager is fulfilling role but with minor areas of concern), and green (manager shows clear strengths tailored to requirement).

LGPS Central score managers on four components of their RI&E approach:

1) Philosophy, people, and process

2) Evidence of integration

3) Engagement with portfolio companies

4) Climate risk management

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

9.19 Examples of Engagements by LGPS Central during the year on the active Equity portfolios are shown in Appendix B under the themes of engagement.

Passive Equity

9.20 The fund's passive Equity manager is LGIM. LGIM believe that stewardship encompasses all aspect of E,S and G and that none of the areas are static.

The LGIM mission

1. Companies intergrate Environmental,social and governance (ESG) factors into their culture and everyday thinking.

2. Markets and regulators create an environment in which good management of ESG factors is valued and supported.

9.21 Passive Equity is the largest single investment in the Fund with a benchmark of 30%. The Fund have quarterly engagement with LGIM to review Engagement performance and the review the Fund's equity protection strategy.

9.22 Examples of engagements by LGIM

Example 1 - APA

Sector & Theme Energy -Climate

Issue identified: APA is Australia's largest energy infrastructure business. Under our Climate Impact Pledge campaign, we have been engaging with the company directly since 2022; as one of our selected 'dial mover' companies, we believe it has the scale and influence across its industry and value chain for its actions to have positive reverberations beyond its direct corporate sphere. In our engagements with them, which are guided by our qualitative assessment criteria as set out in our multi-utilities sector guide, in terms of 'red lines' the company was identified as lagging our expectations on climate-related lobbying activities.

Engagement and Escalation: In early 2022, we set out our expectations for management-proposed 'Say on Climate' votes and the criteria we consider in assessing whether to support them. Say on Climate: empowering shareholders to drive positive change (lgim.com). We expect companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5°C. This includes the disclosure of Scope 1, 2 and material Scope 3 GHG emissions and short, medium and long-term GHG emissions reduction targets consistent with the 1.5°C goal. As a consequence, when APA Group brought its climate transition plan to a vote, we were unable to support it: although the plan presented Scope 1 and 2 goals for the medium and long term on a path to achieving net zero emissions by 2050, no Scope 3 targets were included. The company noted that these would be finalised no later than 2025. We initiated engagement with the company after this vote, and met with them for the first time in early 2023 as part of our Climate Impact Pledge engagement, and we have continued to build the relationship, setting out our expectations as

per our net zero guide, and working with the company to understand the hurdles it faces and the challenges to meeting these expectations.

Outcome: We were very pleased that, in our meeting with them in early 2024, APA confirmed that they will include a Scope 3 goal in the 2025 refresh of their Climate Transition Plan, and they outlined their proposed Scope 3 reduction pathway. The company noted that feedback from the 20% of investors, including LGIM, who voted against their proposed Climate Transition Plan in 2022, had solidified their decision to commit to a Scope 3 target. This demonstrates the effect of our engagement strategy, fully aligned with our voting policy, to encourage progress towards decarbonisation. We look forward to continuing our engagement with the company on their decarbonisation pathway and journey to net zero.

Example 2 - Nestle

Sector & Theme Food - Nutrition

Issue: As the largest food company in the world,13 Nestlé sets an example for the rest of the industry in terms of driving positive change and raising market standards. There is a clear link between poor diets and chronic health conditions such as obesity, heart disease and diabetes. These in turn may lead to increased healthcare costs and decreased productivity, both of which will have negative impacts on the economy and, ultimately, on our clients' assets.

Engagement: In the fourth quarter of 2022 we co-signed, with our peers, letters to 12 food and beverage manufacturers, under the leadership of ShareAction's Healthy Markets Initiative. Nestlé was among the companies we wrote to. In the individually tailored letters, we encouraged the companies to do more in several areas. These included, for example, transparency around their nutrition strategy, demonstrating progress on their nutrition strategy, committing to disclosures around the proportion of the company's portfolio and sales associated with healthy food and drinks products (using government endorsed nutrient-profiling models), and setting targets to increase the proportion of these sales. We also praised companies for the positive steps taken so far. Following the letter, together with the Healthy Markets Initiative, we met with Nestlé several times. In late 2022, Nestlé announced that they would report on their global portfolio using the nutrient profiling system Health Star Rating (HSR) – we were pleased to see this development. We continued to meet with Nestlé as part of this collaboration during 2023 to discuss our ongoing concerns, particularly regarding their plans not just to monitor but also actively to increase their sales of healthier

products. In September 2023, Nestlé announced a new nutrition target which we believe is not ambitious enough.

Our main concerns are:

- Nestlé's new target is broadly in line with the company's current overall growth guidance, meaning if sales of unhealthier products increase in line with this guidance, there would be no improvement linked to consumer health and diets
- Some of the products counted as 'nutritious' by Nestlé are outside the scope of government-endorsed nutrient profile models (including commercial baby foods and coffee). By increasing sales of out-of-scope products classified by Nestlé as nutritious, the company could meet its target without having any positive impact on public health.

Outcome: Escalation Reflecting our shared concerns with ShareAction, we agreed in early 2024 to co-file a shareholder resolution at Nestlé's AGM, calling on the company to:

- Set key performance indicators (KPIs) regarding the absolute and proportional sales figures for food and beverage products according to their healthfulness, as defined by a government-endorsed Nutrient Profiling Model.
- Provide a timebound target to increase the proportion of sales derived from these healthier products.

These requests are intended to address our main concerns and strengthen the link between Nestlé's targets and real-world impact by increasing the proportion of healthier food available in consumer markets. We will monitor the company's response and actions and continue our engagement with them on this crucial issue.

Example 3 - Bayer

Sector & Theme Pharmaceuticals – Governance -Litigation risks and Management Changes

Issue: As a leading pharmaceuticals and crop science company, Bayer plays a significant role in global food production and security. However, Bayer faces meaningful reputation risks regarding ongoing glyphosate litigation related to its Roundup herbicide product. Since 2018, following the closure of its acquisition of Monsanto, Bayer has faced over US$16 billion total charges or payments related to glyphosate litigation,17 litigation which remains ongoing and

poses still meaningful risks to Bayer's ability to deleverage its balance sheet while investing for future growth in its pharmaceuticals business. Bayer's recently appointed new CEO has embarked on a programme to revamp and simplify Bayer's internal governance, and he has made clear his comfort with potentially restructuring the business mix of Bayer. How Bayer manages the ongoing litigation and how it implements changes to its business structure have profound implications for its investors. As Bayer potentially faces not only litigation risks but also diminished growth prospects in its core pharmaceuticals business, LGIM has sought to guide Bayer away from a path that eschews, we believe, investing for long-term growth in exchange for short-term equity gains.

Engagement: LGIM's Stewardship and Investment teams have met with members of Bayer's supervisory board (December 2021, January 2024), with its ESG team (January 2023), and its new CEO (May 2023, March 2024). We also met with Bayer multiple times in 2019 and 2020, illustrating our history of engagement with the company. Additionally, we have engaged with Bayer's investor relations and treasury teams via numerous email exchanges. In our meetings, we have sought to ascertain how Bayer will fund and manage ongoing litigation risks. This would include soliciting its views regarding employing controversial legal strategies like the 'Texas Two Step'. We have always made clear that Bayer cannot settle its legal challenges in a manner that creates long-lasting harm to its balance sheet in exchange for potentially short-term gains for its shareholders. Specific to our meetings with the Bayer CEO, we made clear our views that a break-up of Bayer that does not support a growing pharmaceuticals business would make little sense and that the balance sheet should be deleveraged.

Outcome: Escalation LGIM used a recent bond deal marketing call as an opportunity to advocate for a clearer message from Bayer regarding its view of what its 'core' business is. LGIM remains engaged with Bayer, and the company's capital markets day held March 2024 affirmed our expectations that the crop science business and the pharma business should not be broken up.

Example 4 – Nucor Corp

Sector and Themes Manufacturing – Climate

Issue & Engagement: 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. '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.

Outcome: Escalation 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. 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.

ENGAGEMENT (Principles 9 to 11)

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: Columbia Threadneedle Investments (CTI), the Funds responsible Engagement Overlay partner, EOS at Federated Hermes (Stewardship provider to LGPSC) and LAPFF. Through these partnerships, our Fund was able to engage more than 1500 companies on material ESG related issues in the course of 2023.

10.2 An example of LAPFF Engagement with a company in the Fund's active Equity portfolio is shown below:

Electric Vehicle Manufacturers

Theme: Human Rights, and Electric Vehicles (Climate)

Objective: Continuing its engagement with electric vehicle manufacturers to better understand how they are addressing the risks associated with minerals for batteries for their

vehicles, LAPFF wrote to a number of companies seeking further engagement with those it has already engaged on this issue and to meet others for the first time.

Achieved: LAPFF met with Volkswagen (VW) and Volvo Group (trucks and HGVs) this quarter, both for the first time. LAPFF had a detailed discussion with Volkswagen, which published its third iteration of its raw materials report this year. The discussion covered the company's overall human rights programme and more focussed attention on individual minerals. LAPFF also broached questions about the scrutiny VW faced for one of its joint ventures linked to auto manufacturer supply chains allegedly associated with Uyghur forced labour in Xinjiang. VW has publicly announced that it will be undertaking a social audit of this factory, although it has faced scrutiny from various NGOs and labour groups that social audits in China are ineffective based on political pressures. Volvo provided a high-level overview of its human rights programme, which in terms of reporting, appears to be lacking compared to some of its peers, particularly on risk management of human rights in critical mineral and material supply chains. Despite this lack of transparency in reporting, Volvo provided a promising conversation on its aspirations to improve various parts of its human rights work.

In Progress: More and more legislative instruments pertaining to corporate sustainability are being enacted around the world, such as the EU Battery Regulation which came into effect in August 2023. These new regulations impose sustainability, recycling, and safety requirements on all battery manufacturers, importers and distributors in the EU. Responsibility and due diligence requirements are also extended to supply chains for materials like cobalt, lithium and nickel. The EU's Corporate Sustainability Due Diligence Directive, whilst still in development, will require companies to conduct due diligence on, and take responsibility for, human rights abuses and environmental harm throughout their global value chains. Therefore, LAPFF will continue to monitor and engage on how companies are set to meet these requirements, including for minerals and materials being used in the production of electric vehicles, where human rights abuses continue to be a major source of concern.

10.3 During 2023 LGPSC has continued engagement on four, core stewardship themes: climate risk, plastic pollution, fair tax payment and transparency and human rights risks. These have been updated for 2024-2026 as noted ain section 1. See Principle 5 for further detail on how these themes have been identified. Appendix 2 provides details of the

Stewardship Strategy, measures of success, engagement highlights and case study for each of the 4 themes in place in 2023.

Engagement on themes and issues outside of Stewardship Themes by LGPSC

10.4 **Suzano SA**

Theme: Biodiversity

Objective: Our stewardship provider, EOS at Federated Hermes (EOS) scrutinised the company's long-term biodiversity strategy. The company was requested to produce evidence in terms of biodiversity restoration, land use and social impact outcomes in its 2021 to 2023 disclosures. The strategy needs to account for and report against historic problems in biodiversity and land use that the company has faced in previous decades.

Engagement: Following the 2021's Company biodiversity strategy and targets, EOS has engaged with the company on disclosure on the targets and its long-term alignment towards biodiversity restoration and land use. In addition, the Company has previously faced criticism on its approach towards land use and biodiversity.

Outcome: The Company has set up a target on restoring ecological connective corridors in three focus biomes. This will lead to biodiversity restoration across a total of 4 million hectares to be conserved overall. The target covers directly owned lands and expands to joint ventures. As of 2022, around 180 hectares have been planted, about 1% of its restoration goal. Despite initially slow progress, the company is encouraged to remain committed to its long-term partnership and ambition, given the environmental and social materiality of resilient biomes to the company's financial health. The engagement is still ongoing. The company reports the impact the strategy is having in its 2021 ESG disclosures and changes made to improve effectiveness. The company has begun to demonstrate early results of its biodiversity, land use their reporting, but more progress is needed. Our engagement provider, EOS, continues to monitor this.

10.5 **Anglo American PLC**

Theme: Water Catchment

Objective: The objective is for the company to demonstrate leadership in its water catchment management.

Engagement: At the Company's sustainability day, EOS raised concerns that, although the company has demonstrated improvement in its own water use management by demonstrating leadership in helping stakeholder in sites like Los Bronces, more work is yet to be done in streamlining best practice across all operations and managing water risks at the wider catchment level. In the time elapsed since the objective was established, the company has set a long-term goal to operate waterless mines in water-scarce catchments. It has 2020 and 2030 targets for water abstraction reduction (2020: reduce the abstraction of fresh water in water-scarce regions by 20% & increase water recycling levels to 75%; 2030: reduce the abstraction of freshwater in water-scarce regions by 50%). At the sustainability progress update in 2023 we heard water usage has decreased by 26% relative to 2015 mainly due to increase in water reuse and recycling in the Amandelbult and Venetia mines. The company is currently working on commercialising a desalination water solution in Los Bronces as a response to prolonged droughts in Chile. The company acknowledges investor concern that it should demonstrate leadership in water risk management at the catchment level.

Outcome: At the sustainability day the Company outlined that water usage has decreased by 26% relative to 2015 mainly due to increase in water reuse and recycling in the Amandelbult and Venetia mines. The company is currently working on commercialising a desalination water solution in Los Bronces as a response to prolonged droughts in Chile. The company acknowledges investor concern that it should demonstrate leadership in water risk management at the catchment level.

Further example of LGIM engagement

10.6 An example of a recent engagement through LGIM relating to Water is cited below which is part of their Q3 ESG Impact Report 2023.

10.7 **Issue**: Water is a key component within our global stewardship theme of 'Nature'. We believe that water is at the core of resilient, sustainable economic development, and it is linked to a broad spectrum of concerns, from net zero, food and human health, to involuntary migration, and social and political instability. We believe that in its current form, the water system presents a long-term systemic market risk that is financially material for our clients; it is therefore a specific area where we are focusing our activities in the Investment Stewardship team, and within the Global Research and Engagement Groups (GREGs). The water industry in England and Wales, in particular, is facing a number of environmental issues, many of which have received frequent press coverage in recent months. From pollution and monitoring of outflows, water security and infrastructure investment, to high

levels of debt and evolving regulation, there are a number of financially material challenges that we have identified for engagement within the GREGs. As a major lender in the sterling corporate bond market, we believe we have a responsibility to push for positive change at underperforming companies.

Engage and escalate: Within the GREGs, members of our Investment Stewardship and investment teams have been forming a sector-wide engagement strategy, incorporating both corporate engagement and policy dialogue. With regards to engagement, LGIM has joined a collaborative working group that is being led by the Investor Forum focused on short-, medium- and long-term concerns regarding the UK water system. The collaborative engagement is crucially approaching the topic at both a corporate and policy and regulatory level. To date, exploratory meetings have been held with United Utilities*, Severn Trent* and Pennon Group*. Topics discussed with these companies have included UK water infrastructure and investor concerns. We have also met with other large investors in the sector to help us understand broader concerns and formulate expectations. LGIM directly engages when companies are marketing bonds, and also amplifies its voice through its leading role at UK industry body The Investment Association. The outcomes of our engagements will help to form the basis of our expectations for the sector going forward, enabling us to work with industry stakeholders towards solutions and improvements.

10.8 LGIM is also a formal member of Nature Action 100 a global investor initiative co-led by Ceres and the IIGCC (with support from Finance for Biodiversity and Planet Tracker). Focused on corporate engagement, NA100 aims to encourage greater corporate ambition and action on nature and biodiversity loss, by setting a common agenda and clear set of expectations for companies. 190 institutional investor participants – representing US$23.6 trillion in assets under management or advice – have joined NA100 and will be participating in direct engagement with 100 companies through the initiative.

As corporate disclosure and assessments of companies' interactions with nature continue to evolve rapidly, we would hope that LGIM's NA100 membership will provide both resources and insights that will help us develop our expectations and understanding in this area.

Example of Engagement by Columbia Threadneedle investments

10.9 **Example Case Study – Stellantis NV**

Background: Stellantis are one of the largest automakers in the world, with a presence in over 130 countries and over 300,000 employees. Stellantis was formed in 2021 by a merger

between the Italian-American conglomerate Fiat Chrysler Automobiles (FCA) and the French PSA Group. Stellantis has been slow to provide investors with more transparency on its positioning on public policies, and its lobbying on climate related policies directly and through industry associations. Many peers have published lobbying reports, including Volkswagen, General Motors, Ford, Mercedes, BMW, Volvo and Toyota. This lack of transparency is especially concerning given the mixed record that the company has on its lobbying around vehicle emissions standards in the US, UK and EU

Action: We have engaged FCA and PSA bilaterally and through CA100+ on this topic since 2019, and began engaging Stellantis on this topic in 2022. In 2022, together with the other CA100+ co-leads, we spoke to Stellantis' Heads of Public Affairs, Head of CSR and investor relations representatives to discuss the company's approach to climate lobbying. We reiterated that progress on climate lobbying was a priority in a call with investor relations in 2023, and provided the company with further guidance on what we considered to be good practice. In March 2024 we had another collaborative call with Stellantis' head of European public affairs and IR, where we asked for the company to establish and disclose a monitoring and review process to ensure that all of its direct and indirect climate change lobbying activities are consistent with its proclaimed climate targets. Stellantis recognised that it had work to do to on its lobbying disclosures compared to peers, and committed to evaluating the steps that it could take to improve disclosure.

Verdict: In mid-March the company sent us a letter signed by the CFO in which it committed to provide investors with an initial work plan for its lobbying disclosures by the end of June, with a view to preparing an initial disclosure by the end of 2024. This is a positive step and shows that the company is proactive and open to productive conversations with investors. We will continue to work with the company on its work plan, and to ensure that Stellantis' disclosures align with the best practices outlined in the Global Standard on Responsible Climate Lobbying.

Principle 10

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

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

11.2 LGPSC has continued active involvement in several strong investor collaborations that pursue better corporate standards across ESG issues, including for several Stewardship 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. For a list of initiatives that LGPSC actively supports and engages with, please refer to Appendix 1.

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

Kellenova

Theme: Deforestation risk

Objective: We are concerned about the financial impact that deforestation may have on our portfolio and investee companies as a result of 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.

Engagement: We co-signed a letter asking 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 and to discuss Kellanova'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 Kellanova is supporting 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 size suppliers in an effort to improve business practices. Company representatives also outlined the implementation of a grievance mechanism and disclosed that most third- 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 their respective supply chains.

Societe Generale

Theme: Climate Change

Objective: The impacts of climate change pose material risks to LGPSC's portfolio and the wider economy. We engage with companies to manage climate-related risks and opportunities. We participate in ShareAction's banking sector engagement program and engaged with Société Générale, the 5th largest European provider of financing to 50 upstream oil and gas expanders between 2016 and 2021.12.

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.

Duke Energy Corp

Theme: Human Rights

Objective: We believe that institutional investors have a responsibility to respect human rights which is reflected in our commitment to the UNGPs and the OECD Guidelines for Multinational Enterprises. EOS had set an objective for the company 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.

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 taken action to reduce its solar supply chain to only two suppliers to monitor for supplier human rights risks more easily. 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 affected stakeholders 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. We will monitor how the company discloses the supply chain workers' rights policy including information about the audit process.

Meta Platforms Inc

Theme: Human Rights

Objective: We believe that institutional investors have a responsibility to respect human rights which is reflected in our commitment to the UNGPs and the OECD Guidelines for Multinational Enterprises.

Engagement: We engaged with Meta along with the Swedish Council on Ethics. The call focused on understanding how the company considers human rights' saliency, undertakes human rights due diligence, and addresses mental health risks for young users.

Outcome: The company confirmed that they rely on independent auditors for assessing saliency and human rights due diligence in high- risk countries. In addition, extensive algorithms have been implemented for ensuring teenagers have access to age- appropriate content (full profiles are disabled for minors). The company also runs content moderation

programs and there are procedures for informing carers about critical internet activities from supervised minors.

Other Fund collaboration

11.4 The fund also works closely with its asset managers, engaging with them on a regular basis and with other organisations, such as the Pensions & Lifetime Savings Association (PLSA). All our managers work closely with other organisations as part of their collaborative engagements, advocacy and research activities, details of which are given in their quarterly and annual reports which are reported to Committee.

11.5 Each year, various officers and members of the Pensions Committee attend LAPFF business meetings which include presentations from expert speakers and detailed updates on engagement and policy work.

11.6 Representatives from the fund regularly attend various other pension forums and conferences in order to stay abreast with the latest developments affecting LGPS pensions and investment markets and to use opportunities to network and collaborate with others.

LAPFF collaborative engagement examples

11.8 In addition to the support provided directly via LGPSC there are examples provided through LAPFF of the supported engagement activities undertaken. A few recent examples are detailed below with extracts from LAPFF 2023 fourth quarterly report.

11.9 Investor Alliance for Human Rights – The Home Depot

Objective: As a part of the Investor Alliance for Human Rights' Uyghur Working Group, LAPFF led on an engagement with The Home Depot, which was implicated in allegations of Uyghur forced labour in its luxury vinyl tile (LVT) flooring supply chains, with PVC derived from Xinjiang. LAPFF sought to understand how Home Depot responded to these allegations, and how the company has undertaken work to eliminate forced labour risks and comply with human rights standards.

Achieved: LAPFF, alongside other investors, met with Home Depot for a second time following reports in August that shipments of LVT from Asia were being blocked by US Customs, including those destined for Home Depot. During the call, LAPFF sought answers on what the company was doing to ensure that its company supply chain was free of forced

labour, potential implications of bifurcation of supply chains, and what new methods Home Depot was implementing to have sufficient audit procedures in place.

In Progress: LAPFF will continue to monitor the company's approach to global human rights due diligence and seek further engagement in due course for updates on the issue, with a focus on the company's implementation of enhanced audit procedures.

11.10 Board Diversity Engagements

Objective: It is well-documented at this point, both in academic literature and in the corporate governance world, that board diversity improves corporate performance. Diversity covers a range of areas, including gender, cultural, and economic (for example workers on boards). Consequently, LAPFF engages companies on board diversity and composition as a matter of course to work toward improved financial returns across member portfolios.

Achieved: LAPFF is a long-standing member of the 30% Club Investor Group, which began with a focus on gender diversity and has now expanded its work to include racial diversity on boards. Over time, this group has also expanded from focusing on UK companies to engaging companies in other countries. The latest round of engagements has been with a range of Asian companies, including KKR & Co and Shinhan Financial Group. LAPFF also questioned Glencore on its board composition this quarter. The company has a small board compared to its peers in the mining sector, and LAPFF wondered if its small size allowed for enough diversity of views. Although three of the eight board members are female, LAPFF is also looking, for example, for board members with backgrounds in climate change and human rights who are sufficiently independent to challenge the board on its climate, human rights, and internal controls systems, especially given the corruption challenges the company is continuing to face.

In Progress: Board diversity is a continuing workstream for LAPFF, as it pushes companies to move from merely appointing certain numbers of diverse board members to truly considering and integrating their views into company strategy and practice. This objective relies on cultural change which takes a long time to achieve so is something at which LAPFF chips away each quarter on different fronts. LAPFF has also secured a meeting with KKR & Co for Q1 or 2024 to discuss diversity targets.

Columbia Threadneedle Investments (CTI) Collaborative Engagement example

11.11 Project: Sustainable Critical Mineral Supply Chains

Objective: The energy transition requires substantial amounts of metals such as copper, nickel, cobalt, aluminium, lithium, rare earth elements (REEs) as well as steel with lower embodied carbon. This could result in mismatches between supply and demand for several of these transition metals, with cross value chain collaboration needed to invest in supply, improve efficiency and substitute where possible. There are also substantial social risks associated with the mining and refining of these minerals. In this project we intend to engage both the demand side (automakers and utilities) as well as the supply side (mining) to evaluate the consistency in their identification of minerals that may become supply constrained over different timeframes. On the demand side we intend to explore whether automotive and utilities companies have secured sufficient supply of the metals they need to deliver the energy transition they are targeting. We will also evaluate the ability of companies to substitute or increase the efficiency with which they use minerals that may be supply constrained, and to conduct due diligence of their critical mineral suppliers to minimise social impacts and risks. On the supply side, our aim is to engage mining companies on their plans to expand the production of minerals that will be critical to the energy transition while minimising impacts on local communities and indigenous populations.

Project Summary: Our critical minerals project aims to engage both the demand side (automakers and utilities) as well as the supply side (mining) to evaluate the consistency in their identification of minerals that may become supply constrained over different timeframes. On the demand side we are exploring whether automotive and utilities companies have secured sufficient critical mineral supply to deliver the energy transition, and evaluating their due diligence of their critical mineral suppliers to minimise social impacts and risks. On the supply side, our aim is to engage mining companies on their plans to expand the responsible production of minerals that will be critical to the energy transition. In Q1 we have engaged 11 companies as part of this project - BMW, Mercedes, General Motors, Toyota, Stellantis, Freeport-McMoRan, Barrick Gold, Arcadium Lithium, Albemarle, Glencore and Rio Tinto. There is a divide between the miners and automakers concerning mining sustainability standards. BMW and Mercedes are particularly adamant that they will only enter direct offtake agreements from mines that are certified against the Initiative for Responsible Mining Assurance (IRMA) standard. Miners like Glencore argue that this standard is overly complex and arduous, while Albemarle and Arcadium – both of who's main commodity is lithium (direct supply to battery applications) – are more open to applying a rigorous standard. We are also seeing a divide among the automakers in their eagerness to enter direct mineral offtake agreements. BMW and Mercedes are taking a more cautious approach and have only entered a handful of upstream contracts, while General Motors and Stellantis have entered dozens of agreements including making several direct investments. Companies which are

slower moving could be more exposed to sourcing constraints and fluctuating prices. Particularly notable takeaways from individual company calls were: General Motors informed us it has now locked in its critical mineral needs through 2025 and has about 50% of its supply for 2025-2030 secured. It plans to direct source 75% of minerals by 2030. BMW has relatively low volumes of lithium, nickel and cobalt secured through direct offtake agreements with miners compared to other auto peers (e.g. c9% lithium supply compared to 25-75% for other OEMs).

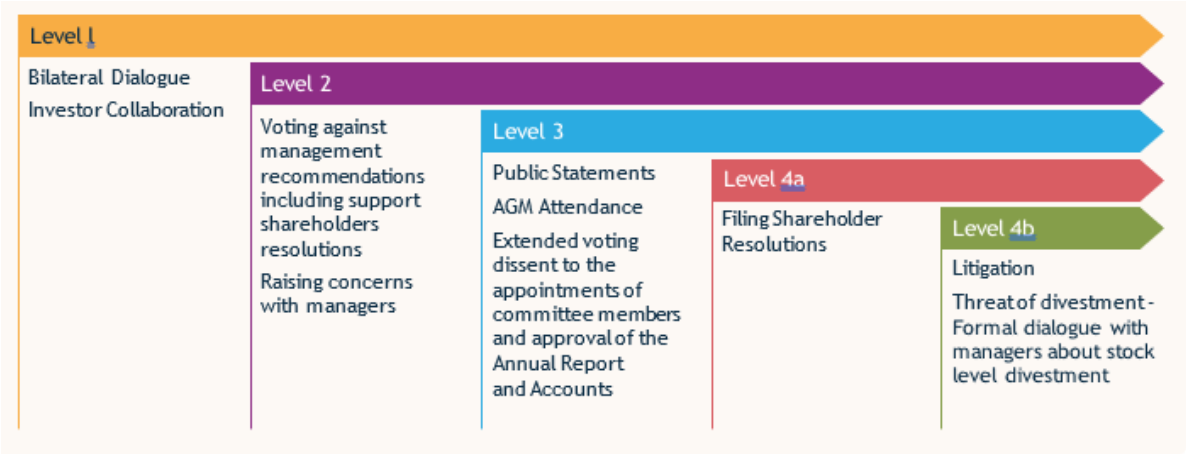
Principle 11

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 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
- Intervening jointly with other institutions – e.g., fund managers have shown support for LAPFF alerts by publishing their voting intention online prior to AGMs
- Public Statement
- Voting against management, e.g., against the annual report, the appointment of directors or the auditors
- Attendance and raising questions at the AGM
- Divestment of shares

12.2 The LGPS Central escalation strategy was updated in 2023 to take effect from 2024.



Examples of LGPS Central Escalation

Telecommunications Company

Theme: Human Rights

Objective: The company operates in countries with disputed territories and concerns around human rights. The company, unlike its peers, does not adopt the UNGPs in its business practices.

Engagement: Since 2023, LGPSC has been engaging with the company on the adoption of the UNGPs across its business operations. Unlike its competitors, the company does not undertake human rights due diligence and its approach to human rights is not integrated into the terms of reference of any of its governance committees. LGPSC initially sent a letter to the company asking for further disclosure on its human rights approach. LGPSC secured a meeting with the company after sending a second letter to the company. LGPSC met with the company's investor relations team and two members of the compliance team. The company and LGPSC agreed to continue a positive dialogue following LGPSC's provision of a detailed review of the company's human rights approach compared with the practices adopted by its competitors.

Outcome: LGPSC was not able to secure a follow-up meeting with the company. The company deems its own human rights approach as satisfactory (although not compliant with the UNGPs). LGPSC has escalated its concerns by informing the company that it is likely that a dissent vote will be cast against the chair of the company at the next AGM due to

inadequate engagement progress. LGPSC will also raise this matter with LGPSC external managers holding the stock on behalf of LGPSC.

Barclays

Theme: Climate Change

Objective: The impacts of climate change pose a material risk 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 ShareAction 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 they 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. This resolution requested the company to disclose the risks associated with stranded assets due associated with 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 between the co-filing group and 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 ensuring that Barclays follows through with its newly established commitments.

12.3 Occasionally, the fund may choose to escalate activity directly, principally through engagement activity by the LAPFF (see escalation example above in Principle 10) or via LGPSC. When this happens the Chairman of the Pensions Committee, in communication Head of Pensions to the Fund will decide whether to participate in the proposed activity.

12.4 The fund employs the services of both AON as investment consultants and an independent investment advisor, who, along with officers of the fund, closely monitors the performance of the Fund's managers. The investment advisors will attend Committee meetings and assist the Committee in the questioning of the managers and in the discussions that follow, helping the Committee by providing any guidance they need to help

them to make the right decisions for the funds interests. Further details are contained within the ISS which is available on the fund's website.

12.5 Our advisor's objectives were reviewed at the Pensions Committee annually see note at 9.6.

12.6 The fund has only divested from shares in the past on the grounds of investment performance and has principally used engagement to influence companies through fund managers to escalate activity. Divestment is not currently the fund's policy, it could be considered in the future if a particular manager or company was not making any attempt to comply with our Fund's stated policies or a particular company was making no effort with engagement partners.

12.7 A large proportion of the fund's assets[1] are invested in passive pooled products managed by Legal & General Investment Management (LGIM) and are voted according to the voting policies of LGIM. An escalation example is detailed below:

LGIM escalation example

12.8 LGIM's longstanding climate engagement programme, the Climate Impact Pledge, is linked to tangible voting and engagement sanctions which were introduced in 2016. Details of LGIM's Climate Impact Pledge can be accessed here. This outlines key areas of focus and a sanction list of companies that have persistently fallen short of our minimum standards or have been included due to a lack of response to our engagement requests.

12.9 LGIM have strengthened their approach by expanding the coverage of their pledge from 80 to 5000 plus companies in climate critical sectors, with exclusions applied 12 companies covering around £158 billion of assets. Their approach also includes a new engagement model – focused on large companies with poor scores relative to their scale – to help raise standards across the market. LGIM disinvested from two companies in 2023 for failure to respond to engagement approaches.

Columbia Threadneedle Investments (CTI) Escalation

12.12 The Responsible Engagement Overlay service (reo®) allows investors to receive market leading corporate engagement on equity and corporate bond holdings, and proxy voting services. CTI engaged with 477 companies across 37 countries in 2023 on the fund's

[1] Passive investment benchmark in 2023 was 30% of Fund assets.

behalf achieving 135 milestones. Targets and milestones are linked to the UN Sustainable Development Goals (SDG's) and an example of the top five by engagement and milestone is shown below:

12.13 CTI directly engage with companies in the SCPF Climate stewardship plan and are an active participant in Climate Action 100+ leading on eight engagements and supporting a further 38.

Case Study - Amazon

Background: Amazon is a leading online retailer and web service provider that offers a range of products and services to customers from electronic devices, media content and on demand technology services. The company is part of our Responsible Governance of Artificial Intelligence (AI) project as it uses AI across its operations from personalised product recommendations, Alexa voice shopping, powered search to optimization in the warehouse. It's encouraging the company has also outlined AI opportunities particularly how it is using AI

to advance its sustainability goals from reducing packaging use to identifying damaged items to prevent waste.

Action: We had an in-person meeting to discuss the company's approach to Responsible AI in further detail. We gained further insight to the Board's oversight and scope of responsibilities with respect to Responsible AI. The whole Board is well aware of the interest in Responsible AI and the Nominating Governance committee has oversight of the topic. It was encouraging to note that a few members of the Board including the Lead Independent Director has policy experience which helps with monitoring policies and regulations around Responsible AI. While there is no specific Responsible AI committee as the company has various different use cases, there is a group of people from different disciplines (including the Legal department) who provide their insight and views on the topic. The company also states that it conducts risk assessments, although it did not elaborate further, stating that nothing is currently publicly disclosed. We encouraged enhanced disclosure in order to support investors in understanding the company's approach more fully. We learnt that these risk assessments or 'vulnerability' mechanisms are not limited to cybersecurity and are designed to cover broader ethical issues, although no specifics were divulged. Amazon has not disclosed any safety issues but asserts that it is an iterative process and the company is conducting a significant amount of testing.

Verdict: Amazon has made progress with its public commitments to Responsible AI such as the White House Voluntary AI commitments signed in 2023. It has a Responsible AI policy and model scorecards that is limited to Amazon Web Services but we are optimistic that there will be more disclosure on the operationalization of Responsible AI principles beyond this division. This is important to enhance wider customer trust and adoption to scale AI. We also encouraged publication of further information on its human rights impact assessment process on Responsible AI, and the consideration of quantitative impact measurements to demonstrate how its use of AI can drive sustainable outcomes. We will continue to monitor progress on its Responsible AI framework and process across all divisions escalating back to the Board as required.

Principle 12

Signatories actively exercise their rights and responsibilities.

13.1 The Pensions Committee has agreed that LGPSC will, via Hermes EOS, vote shares in certain discretionary and all pooled funds on the Fund's behalf. These votes are executed in line with LGPSC's published Voting Principles. The Fund believes that the advantage of a consistent signal and working collectively through the pool will have a positive influence on company behaviour. LGPSC also provides regular updates on our targeted stewardship themes.

13.2 As described in Principle 10 we monitor our engagement with companies and how the proxy voting of these investments is cast, reporting this to Pensions Committee meetings using geographical, and company name analyses. Over the year EOS voted at 3,353 meetings on 42,082 resolutions. EOS voted against management on one or more resolution at 65.8% of meetings with an overall dissent level of 14.41% An example of the voting and engagement statistics provided is detailed below for quarter 4 of 2023.

Example LGPSC Geographical Engagement

LGPS Central Limited

Federated Hermes EOS

Engagement Report

Q4 2023

EOS at Federated Hermes

LGPS Central - ACS

Engagement by region

We engaged with 345 companies held in the LGPS Central - ACS portfolio on a range of 1165 environmental, social and governance issues and objectives

Global

We engaged with 345 companies

Environmental 40.8%
Governance 17.3%
Social 28.4%
Strategy, Risk & Comm 13.5%

Australia & New Zealand

We engaged with 31 companies

Environmental 32.5%
Governance 33.8%
Social 8.8%
Strategy, Risk & Comm 25.0%

Developed Asia

We engaged with 52 companies

Environmental 33.1%
Governance 30.9%
Social 24.3%
Strategy, Risk & Comm 11.6%

Emerging & Developing Markets

We engaged with 39 companies

Environmental 32.7%
Governance 25.7%
Social 29.7%
Strategy, Risk & Comm 11.9%

Europe

We engaged with 74 companies

Environmental 54.4%
Governance 8.8%
Social 21.6%
Strategy, Risk & Comm 15.2%

North America

We engaged with 131 companies

Environmental 39.8%
Governance 12.7%
Social 35.9%
Strategy, Risk & Comm 11.5%

United Kingdom

We engaged with 18 companies

Environmental 39.4%
Governance 13.6%
Social 31.8%
Strategy, Risk & Comm 15.2%

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Example of LGPSC Themes

Engagement Report LGPS Central - ACS

Engagement by Meta theme

We engaged with 345 companies held in the LGPS Central - ACS portfolio on a range of 1165 environmental, social and governance issues and objectives

Environmental

Environmental topics featured in 40.8% of our engagements

- Circular Economy & Zero Pollution 14.3%
- Climate Change 63.6%
- Natural Resource Stewardship 22.1%

Social

Social topics featured in 28.4% of our engagements

- Human & Labour Rights 43.5%
- Human Capital 42.9%
- Wider Societal Impacts 13.6%

Governance

Governance topics featured in 17.3% of our engagements

- Board Effectiveness 49.0%
- Executive Remuneration 36.1%
- Investor Protection & Rights 14.9%

Strategy, Risk & Communication

Strategy, Risk & Communication topics featured in 13.5% of our engagements

- Corporate Reporting 31.8%
- Purpose, Strategy & Policies 47.8%
- Risk Management 20.4%

Example LGPS Voting Report

LGPS Central Limited

Federated Hermes EOS

Voting Report

Q4 2023

LGPS Central - ACS

EOS at Federated Hermes

Over the last quarter we made voting recommendations at 391 meetings (3,071 resolutions). At 195 meetings we recommended opposing one or more resolutions. We recommended voting with management by exception at five meetings and abstaining at zero meetings. We supported management on all resolutions at the remaining 191 meetings.

Global

We made voting recommendations at 391 meetings (3,071 resolutions) over the last quarter.

- Total meetings in favour 48.8%
- Meetings against (or against AND abstain) 49.9%
- Meetings with management by exception 1.3%

Australia & New Zealand

We made voting recommendations at 98 meetings (544 resolutions) over the last quarter.

- Total meetings in favour 17.3%
- Meetings against (or against AND abstain) 80.6%
- Meetings with management by exception 2.0%

Developed Asia

We made voting recommendations at 52 meetings (293 resolutions) over the last quarter.

- Total meetings in favour 71.2%
- Meetings against (or against AND abstain) 28.8%

Emerging & Developing Markets

We made voting recommendations at 119 meetings (796 resolutions) over the last quarter.

- Total meetings in favour 57.1%
- Meetings against (or against AND abstain) 41.2%
- Meetings with management by exception 1.7%

Europe

We made voting recommendations at 27 meetings (221 resolutions) over the last quarter.

- Total meetings in favour 66.7%
- Meetings against (or against AND abstain) 33.3%

North America

We made voting recommendations at 36 meetings (475 resolutions) over the last quarter.

- Total meetings in favour 13.9%
- Meetings against (or against AND abstain) 83.3%
- Meetings with management by exception 2.8%

United Kingdom

We made voting recommendations at 59 meetings (742 resolutions) over the last quarter.

- Total meetings in favour 78.0%
- Meetings against (or against AND abstain) 22.0%

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Example LGPSC Company Engagement

LGPS Central Limited

Notices:
LGPS Central Limited is committed to disclosing its voting record on a vote-by-vote basis, including where practicable the provision of a rationale for votes cast against management.
The data presented here relate to voting decisions for securities held in portfolios within the company's Authorised Contractual Scheme (ACS).

Meeting Date	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation
09/10/2023	China Travel International Investment Hong Kong Limited	Extraordinary Shareholders	All For		
10/10/2023	Guotai Junan International Holdings Limited	Extraordinary Shareholders	All For		
11/10/2023	Cathay Pacific Airways Limited	Extraordinary Shareholders	All For		
25/10/2023	Sino Land Company Limited	Annual	Against	3.1 3.4 5.2,5.3 3.2,3.3,3.5	Concerns related to inappropriate membership of committees Concerns related to approach to board gender diversity Combined CEO/Chair Concerns related to inappropriate membership of committees Lack of independence on board Issue of equity raises concerns about excessive dilution of existing shareholders Lack of independence on board
02/11/2023	New World Development Company Limited	Extraordinary Shareholders	All For		
03/11/2023	Sun Hung Kai Properties Limited	Annual	Against	3.1d 3.1c 6 7 3.1a,3.1b,3.1f	Concerns related to succession planning Concerns related to succession planning Concerns related to approach to board gender diversity Insufficient/poor disclosure Issue of equity raises concerns about excessive dilution of existing shareholders Lack of independence on board
21/11/2023	New World Development Company Limited	Annual	Against	3a 6 3c,3e,3f 7	Concerns related to inappropriate membership of committees Issue of equity raises concerns about excessive dilution of existing shareholders Lack of independence on board Pay is misaligned with EOS remuneration principles
29/11/2023	CSPC Pharmaceutical Group Ltd.	Extraordinary Shareholders	All For		
20/12/2023	Guotai Junan International Holdings Limited	Extraordinary Shareholders	All For		
22/12/2023	Far East Horizon Limited	Extraordinary Shareholders	All For		
23/10/2023	Japan Logistics Fund, Inc.	Special	All For		
25/10/2023	AEON REIT Investment Corp.	Special	Against	4.1	Concerns related to succession planning
26/10/2023	Advance Residence Investment Corp.	Special	All For		
27/10/2023	Mitsui Fudosan Logistics Park, Inc.	Special	All For		
14/11/2023	ITOCHU Techno-Solutions Corp.	Special	Against	2 1	The change is requested in connection with the reverse stock split proposed in item 1, which does not merit support. The purchase price represents a low premium to the share price before the tender offer announcement, which does not appear fair and reasonable to its minority shareholders.
20/11/2023	Mani, Inc.	Annual	All For		
22/11/2023	Bic Camera, Inc.	Annual	Against	2.1,2.8,2.9	Lack of independence on board
23/11/2023	Japan Hotel REIT Investment Corp.	Special	Against	3.1	Concerns related to succession planning
23/11/2023	LaSalle LOGIPORT REIT	Special	All For		
23/11/2023	TOSHIBA Corp.	Special	No Action Taken	1.2	
23/11/2023	Ryohin Keikaku Co., Ltd.	Annual	Against	2.5,3.7	Lack of independence on board
24/11/2023	SHIFT, Inc.	Annual	Against	2.1	Concerns about overall performance
28/11/2023	Daiwa House REIT Investment Corp.	Special	All For		
29/11/2023	ORIX JREIT, Inc.	Special	All For		
30/11/2023	FAST RETAILING CO., LTD.	Annual	Against	1.2,1.3 1.1	Concern about independence due to tenure Concern about overall gender diversity at the board
30/11/2023	Japan Metropolitan Fund Investment Corp.	Special	All For		
08/12/2023	CyberAgent, Inc.	Annual	Against	3.2 2.4	Concerns related to succession planning Lack of independence on board
08/12/2023	Noevir Holdings Co., Ltd.	Annual	All For		
11/12/2023	GMO Payment Gateway, Inc.	Annual	Against	2.2,3.3	Lack of independence on board

13.3 We ask LGPSC to utilise all levers to influence corporate behaviour across our equity investments. Voting is a core part of our overall stewardship effort as a shareholder in investee companies.

Voting approach and objectives

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

- 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.

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

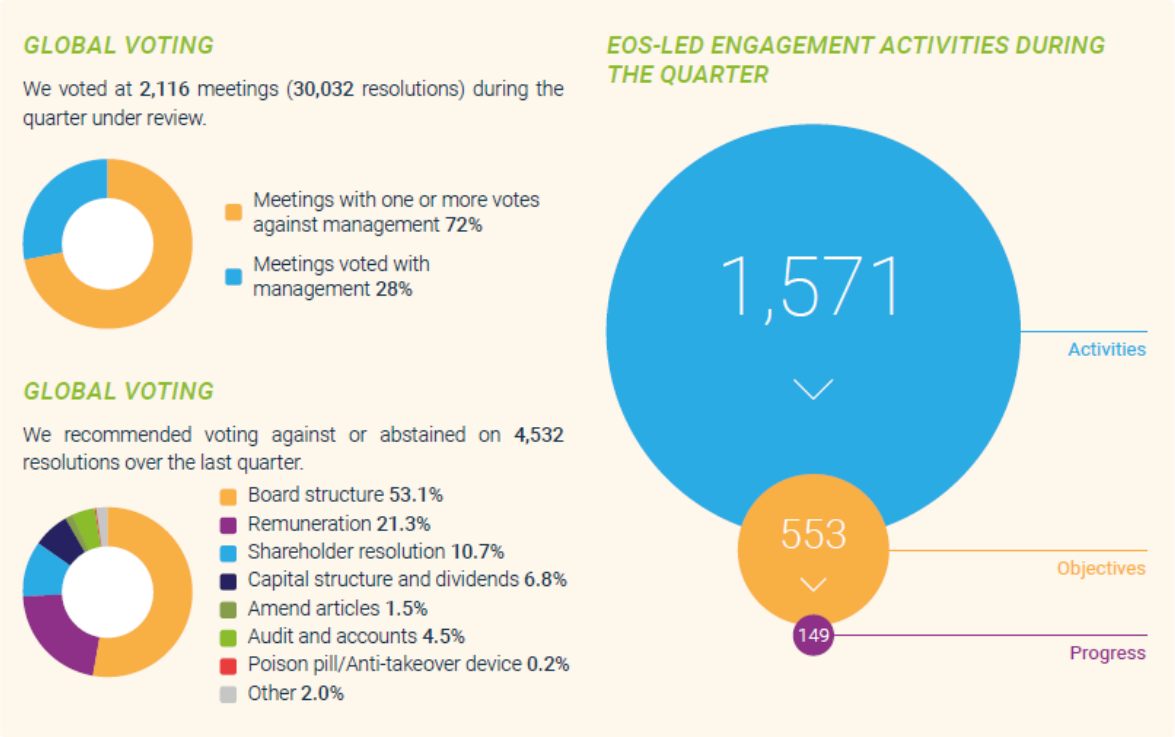
- Adhere to essential standards of good governance for board composition and oversight.
- Be transparent in their communication with shareholders.

- Remunerate executives fairly.
- Protect shareholder rights and align interests with shareholders.
- Promote sustainable business practices and consider the interests of other stakeholders.

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

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

13.8 **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. The graphic below shows a summary of voting during April– June 2023.



13.9 **Transparency:** LGPSC's disclosure of its Voting Principles, and its voting outcomes, supports our ambition of full transparency. With regards to voting outcomes, disclosures are made in three formats. Firstly, a report summarising voting activities is provided in Stewardship Updates three times a year (covering the first three quarters of the calendar year). Secondly, LGPSC provides an annual summary of voting activities, as part of the Annual Stewardship Report, and thirdly, discloses voting decisions for every resolution at every eligible company meeting via an online portal (Example at 13.2). Each of these disclosures is available to the public.

Voting Strategy

13.10 **Ensuring that Voting Principles are applied:** LGPSC have set up a structure whereby EOS at Federated Hermes provides voting recommendations based on our voting principles which are input on the ISS voting platform prior to the vote deadline. The voting recommendations are then cast as voting instructions if there is no further intervention, except in the case of share-blocking votes. With this voting structure, we have confidence that votes are cast according to our voting principles across a voting universe that under no circumstance could be checked manually at each individual company level. In minority cases where a company we are engaging and/or that the Local Authority Pension Fund Forum has issued a voting alert for falls outside EOS' main engagement, we often consult ISS research directly.

13.11 **Voting Watch List:** It is not feasible to do in-depth research into all proxies that will be voted at each of the companies we hold through our ACS equity funds. To prioritise, we establish a "Voting Watch List" annually that consists of approximately 50 companies which cover larger holdings and/or core engagements in and outside of our stewardship themes. Votes at these companies will be given particular scrutiny ahead of the AGM. While it is not feasible to attend all these companies' AGMs, we would aim to attend AGMs virtually (if permissible) for core Climate Action 100+ engagements and for any company with which we have filed a shareholder resolution. 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.

13.12 **Interaction with EOS at Federated Hermes**: Ahead of each voting season, we share our Voting Watch List with EOS to ensure that we receive a more detailed analysis to substantiate their voting recommendations for companies on this list ahead of relevant AGMs. We will seek ad-hoc interactions/meetings with EOS regarding core engagements, where either they or we would like further input from the other ahead of a vote.

13.13 **Interaction with external managers:** It is our intention to capture intelligence and recommendations from active equity fund managers relative to key holdings and/or contentious voting issues. To achieve this:

- LGPSC meets with each external manager annually ahead of the voting season for a dedicated voting-related discussion.
- External Managers will be kept up to date on any changes to LGPSC Voting Principles, and vice-versa.
- We will share with each external manager our Voting Watch List with an explicit incentive to communicate their views on companies on this list that are held in their portfolio.
- We may reach out on an ad-hoc basis in cases where we would like to elicit views on contentious issues in core holdings or key engagements that can supplement views from EOS.

Voting Highlights and Outcomes 2023

13.14 The 2023 proxy season has seen 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 dissent 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, we examine four key takeaways from the 2023 season and actions for boards to consider.

1) Continued momentum for investor engagement and voting on **climate change and biodiversity**, and increased emphasis on natural capital as evidenced by the developments below:

- 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 the assessment of transition plans and voted against a number, which we considered to be not fully aligned to a 1.5°C pathway, 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.
- We voted against directors or other relevant proposals at 95 companies due to concerns about insufficient management of climate-related risks.

2) Social Issues

In 2023 there were 152 shareholder proposals, the majority were filed against 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 were 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 the 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 of long-term value creation.

3) Diversity and Inclusion

We 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.

4) Remuneration

We continue to voice concerns over executive pay, we voted against 45% of Say on Pay proposals, of which 74% were composed by resolutions directed at approving of annual executive remuneration reports and 26% of resolutions directed at approving remuneration policy.

Voting Outcomes

13.15 **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 prepares 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 who 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.

13.16 **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 baseline FY 2020 emissions. The firm is implementing a three-year strategy and implementing 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.

13.17 **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 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.

13.18 **Case Study: Amazon**

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,14 or other authoritative sources, designed 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 several 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.

13.19 Our passive pooled products managed by LGIM are voted according to the voting policies of LGIM. LGIM believes in using its scale and influence to bring about real, positive change to create sustainable investor and produces a quarterly ESG impact report that includes a voting summary (see example below) The report also includes a breakdown by geographical area if required.

Global - Q4 2023 voting summary

Shareholder proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Shareholder (total)	**340**	**99**	**0**	**77%**	**23%**	**0%**
Director Election	184	49	0	79%	21%	0%
Audit Related	69	1	0	99%	1%	0%
Director Related	6	11	0	35%	65%	0%
Miscellaneous	50	14	0	78%	22%	0%
Company Articles	7	4	0	64%	36%	0%
Social	8	4	0	67%	33%	0%
E&S Blended	0	4	0	0%	100%	0%
Environmental	6	2	0	75%	25%	0%
Capitalization	2	0	0	100%	0%	0%
Non-Routine Business	3	3	0	50%	50%	0%
Compensation	3	7	0	30%	70%	0%
Corporate Governance	2	0	0	100%	0%	0%

Number of	Values
Resolutions	12960
AGM Resolutions	6980
EGM Resolutions	5973
AGMs	741
EGMs	1417
Meetings	2162

Number of companies where LGIM voted:	Values
In Total	1807
For in all resolutions	676
Against or Abstain in at least one resolution	1131

How LGIM Voted	Number of Votes	% Alignment with Management Recommendations
For	9381	76%
Against	3323	78%
Abstain	209	72%

Voting data shown is "For" and "Against" the resolution. Please note that for shareholder resolutions, a vote "For" the resolution is a vote against management.
We aim to keep abstentions to a minimum. Where there are no legal or practical impediments, we vote on our clients' investments across all developed and emerging markets globally, where possible.
Source: LGIM, as at 31.12.2023.

LGIM received a 5* ranking from the UN PRI for investment stewardship and Policy. 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. Examples of the voting undertaken by LGIM in 2023 across the ESG environment are detailed below:

Environment

Significant votes

Company name	Yum! Brands Inc*
ISIN	US9884981013
Market cap	$38.44bn (as at 30 June 2023, source: MarketWatch)
Sector	Consumer, cyclical: retail
Issue identified	The issue at stake in this resolution was plastic pollution and transparency around the company's efforts to reduce plastic use. LGIM believes that improving the recyclability of products will have a positive impact on climate change and biodiversity.
Summary of the resolution	Resolution 5 – Report on Efforts to Reduce Plastic Use AGM date: 18 May 2023
How LGIM voted	For Resolution 5 (against management recommendation)
Rationale for the vote decision	As the filer of this resolution noted, the company has not aligned its packaging targets with key initiatives such as the Pew Report, which suggests that companies should commit to reducing plastic demand by at least a third through elimination, reuse and new delivery models. Although the company published its Sustainable Packaging Policy, the policy does not make any reference to single-use plastics (but rather mentions "unnecessary packaging") and its disclosures do not seem to sufficiently address the regulatory risks and the risk of higher costs in case of inaction. Therefore, a vote for this resolution was warranted.
Outcome	Over a third of shareholders supported the resolution, which is a significant level of support for a shareholder proposal. This demonstrates that investors are increasingly putting pressure on companies to take action to tackle plastic pollution, and at LGIM we will continue our engagement on these issues with companies and policymakers.
Why is this vote 'significant'?	The circular economy is a key component of LGIM's approach to nature, and we believe solving plastic pollution is critical in a just transition to net-zero and nature-positive economies.

Significant votes

Company name	Toyota Motor Corp*
ISIN	JP3633400001
Market cap	$218.12bn (6 July, source: Toyota (TM) - Market capitalization (companiesmarketcap.com))
Sector	Consumer, cyclical: auto manufacturers
Issue identified	Climate lobbying: we believe all economic actors must use their influence positively and advocate for public policies that would support the delivery of a net-zero economy
Summary of the resolution	Resolution 4 – Amend Articles to Report on Corporate Climate Lobbying Aligned with Paris Agreement AGM date: 14 June 2023
How LGIM voted	For resolution 4 (i.e. against management recommendation)
Rationale for the vote decision	We acknowledge the progress that Toyota Motor Corp has made in relation to its climate lobbying disclosure in recent years, and we welcome planned improvements to expand the number of trade associations in scope of assessment and intentions to seek third-party alignment reviews. However, we believe that additional transparency is necessary with regards to the process used by the company to assess how its direct and indirect lobbying activity aligns with its own climate ambitions, and what actions are taken when misalignment is identified. Furthermore, we expect Toyota Motor Corp to improve its governance structure to oversee this climate lobbying review. We believe the company must also explain more clearly how its multi-pathway electrification strategy translates into meeting its decarbonisation targets, and how its climate lobbying practices are in keeping with this.
Outcome	15% of shareholders voted in favour of the proposal. We will continue to engage with the company on the alignment of its climate lobbying practices with its climate ambitions, and on governance.
Why is this vote 'significant'?	LGIM views climate lobbying as a crucial part of enabling the transition to a net-zero economy, and we have disclosed our expectations across all companies in our blog.

Social

Significant votes

Company name	McDonald's Corp*
ISIN	US5801351017
Market cap	$217.86bn (as at 3 July 2023; source: McDonald (MCD) - Market capitalization (companiesmarketcap.com))
Sector	Consumer cyclical, retail
Issue identified	LGIM considers antimicrobial resistance (AMR) to be a systemic risk. The overuse of antibiotics, one form of antimicrobial, is known to exacerbate AMR. The majority of antibiotics used globally are consumed by animals, not humans. It is essential to limit the use of antimicrobials, and in particular antibiotics, to stem the speed at which AMR is occurring. The World Bank estimates that AMR could result in a 3.8% loss in global GDP, an impact comparable to that of the 2008 financial crisis, and in an AMR worst-case scenario, additional healthcare expenditures could amount to $1.2 trillion globally on an annual basis. Further, in a study published in January 2022 in the Lancet it was established that in 2019 1.27 million deaths occurred due to bacterial AMR, and 4.95 million deaths were indirectly linked to AMR.
Summary of the resolution	Resolution 6: Comply with World Health Organization Guidelines on Antimicrobial Use Throughout Supply Chains AGM date: 25 May 2023
How LGIM voted	For resolution 6 (i.e. against management recommendation)
Rationale for the vote decision	For the last two years we supported AMR shareholder proposals filed at McDonald's, pre-declared our votes in relation to these resolutions, and engaged with the company. We also signed a collaborative investor letter under the leadership of ICCR asking the company to publish targets related to the reduction of medically important antibiotics for the routine prevention of disease in its global beef supplies, which in 2018 they had announced that they would do by end of 2020. Given insufficient progress on these issues, we decided it was time to further escalate our concerns. During the autumn of 2022, we were approached by The Shareholder Commons to co-file a shareholder proposal asking McDonald's to apply the World Health Organization Guidelines on Use of Medically Important Antimicrobials in Food-Producing Animals throughout its supply chains. We co-filed the shareholder proposal on 1 December 2022. The company has since released its antibiotics reduction targets, two years after the initial deadline. However, we do not deem that to be sufficient progress within the company's AMR activities.
Outcome	The proposal received 18% votes in favour, which, although slightly lower than we had hoped, still draws attention to the issue and has put pressure on the company to acknowledge it. LGIM is looking forward to working with the company, both individually and collaboratively with other shareholders over the course of 2023 and beyond, to meet our request.
Why is this vote 'significant'?	This vote is significant because it relates directly to antimicrobial resistance, an area of focus for us and a core 'sub-theme' under our 'health' 'super theme'.

Significant votes

Company name	FedEx Corporation*
ISIN	US31428X1063
Market cap	US$66.6 billion[10]
Sector	Industrial: transportation
Issue identified	Paid sick leave. At LGIM, we believe human capital issues represent risk to a company's operations, whether through heightened attrition or decreased productivity.
Summary of the resolution	Resolution 7: Adopt a paid sick leave policy AGM date: 21 September 2023
How LGIM voted	LGIM voted FOR Resolution 7 (i.e. against management recommendation)
Rationale for the vote decision	A vote in favour was applied as LGIM supports the adoption of a paid sick leave policy for all employees as it is set to improve employee wellbeing which is critical to human capital management and gender equality.
Outcome	34.6% shareholders voted in favour of the proposal
Why is this vote 'significant'?	This vote is significant because it relates to human capital management issues, which have been a focus of engagement for us, and reflects our broader campaign in 2022 on paid sick leave at US railway companies, described in our Q1 2023 ESG Impact Report

Governance

Significant votes

Company name	Microsoft Corporation*
ISIN	US5949181045
Market cap	US$2.8 trillion*
Sector	Technology
Issue identified	The issue identified is company transparency regarding risks related to AI-generated misinformation and disinformation, an important topic in the realm of social media, and one which comes under the broad scope of our 'digitisation' stewardship theme. As one of the largest tech companies in the world, Microsoft's approach to these issues has the potential to set the benchmark across the industry more broadly.
Summary of the resolution	Resolution 13: Report on Risks Related to AI Generated Misinformation and Disinformation AGM date: 7 December 2023
How LGIM voted	LGIM voted against this resolution (i.e. in line with management recommendation)
Rationale for the vote decision	Having engaged with the company directly to discuss its approach to the risks described in this resolution, we consider at the present time that the company is a leader in the disclosures, governance processes and mitigation steps it is taking on risks posed by its operations from generative AI. We therefore took the decision not to vote in favour of this shareholder resolution.
Outcome	21.2% of votes were in favour of the proposal. We will continue to engage with Microsoft on this issue as it evolves and as shareholder expectations evolve, too. AI will continue to be an important issue and Microsoft's position as a leader in its industry brings with it the responsibility to take appropriate actions regarding governance, risk and transparency on this issue.
Why is this vote 'significant'?	This vote is significant because it relates to one of our core stewardship themes, digitisation, and because it demonstrates the value of company engagement in determining how our votes should be applied on complex, new topics.

Company name	Mastercard Inc*
ISIN	US57636Q1040
Market cap	$370bn (03 July 2023, source: Mastercard (MA) - Market capitalization (companiesmarketcap.com))
Sector	Financials: diversified financial services
Issue identified	The prevalence of unequal share class structures, also called 'dual-class' shares (i.e. two or more types of share, with different voting rights) continues to impede shareholders' rights.
Summary of the resolution	1.a Elect Director Merit E Janow AGM date: 27 June 2023
How LGIM voted	LGIM voted for this resolution (i.e. in line with management recommendation).
Rationale for the vote decision	Our vote policy would ordinarily be to vote against this resolution, due to the dual-class share structure at this US company. However, following engagement with the company, a vote for this resolution was applied because, while we note the dual-class share structure with A and B shares outstanding, the company has confirmed that the legacy B shares do not confer any rights and therefore do not negatively affect the rights attached to the commonly traded A shares.
Outcome	98.1% of shareholders voted in favour of the resolution.
Why is this vote 'significant'?	This vote was significant because it demonstrates the value of engagement in situations where an individual company's circumstances or structural elements may be unclear.

Investment Grade Corporate Bonds – Exercise of rights and Responsibilities

13.20 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. An example in respect of T Rowe Price is shown at 8.27.

13.21 **Case Study Next Era Energy** – LGPS Central Investment Grade Credit Fund – Manager Neuberger Berman

Objective: To improve disclosure of political donations and lobbying practices.

Sector: Utilities

ESG Topics Addressed: Social Conduct, Culture and Ethics

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

Scope and Process: The Neuberger Berman (NB) Fixed Income team collaborated with the Equity and ESG investing teams to engage with the issuer on increasing lobbying disclosures. This has been an area of 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 over potentially violating the Federal Election Campaign Act after allegedly providing financial support for political campaigns.

Quarterly discussions were held with the issuer's management team, a special meeting with the 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.

Outcome: 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

13.22 Engagement by our legacy manger is covered under HarbourVest, GIP and DRC is covered Article seven and process and engagement examples can be found here for the following Managers:

- HarbourVest – Private Equity (8.32-8.40) Engagement example at 8.38
- GIP - Infrastructure (8.45-8.48) Engagement Example at 8.47
- DRC – Property Debt (8.51 -8.52) Engagement example at 8.52
- Abrdn – UK Property Engagement example at 8.53

13.23 The following are examples of how LGPS Central engage and exercise their rights and responsibilities across private market Investments.

Case Study Paraguay Government – LGPS Central Private Credit Fund – Manager Baring

Objective: To understand the country's approach to issuing sustainable debt.

Reason for Engagement: Barings have identified Paraguay as a strong contender for a Sustainability-Linked Bond (SLB) issuance.

Scope and Process: In November 2023, Barings' analysts continued engagement with the Paraguay authorities that started in Q2 2023, when ESG-oriented analysis led analysts to find Paraguay as a strong contender for a Sustainability-Linked Bond (SLB) issuance. After discussions with the Inter-American Development Bank and the IMF, the Barings team met with the Debt Management Office (DMO) of Paraguay to discuss their strategy around issuing sustainable debt. After hearing their perspective and understanding capacity limitations, Barings continued to encourage them to consider the benefits of issuing SLBs, rather than the use of thematic proceeds bonds. Barings also advised the Office on potential relevant indicators for Paraguay, including fiscal revenue/GDP, reforestation, and reducing informality in the economy.

Outcome: Further conversations included enhancing government capacity and communications between agencies. The Emerging Markets Sovereign team then connected the DMO with a working group on Sovereign SLB for further capacity development.

Case Study 3P Biopharmaceuticals – LGPS Central Private Equity Fund – Manager Keensight Capital

Objective: To define and implement a robust corporate sustainability policy that aligns with industry best practices.

Reason for Engagement: A robust sustainability policy that aligns with best practice will help ensure that the company manages its ESG risks and opportunities effectively.

Scope and Process: Frequent and constructive meetings and written communications to guide the company in refining their sustainability policy. Keensight actively engaged with the C-suite (Compliance Director, HR Director), ensuring a comprehensive understanding of the strategic imperatives.

Keensights dedicated ESG team led this engagement, leveraging expertise to provide examples of best practices, offer structural guidance, and conduct thorough policy reviews.

Outcome: The engagement has successfully met the stated objective with the establishment, approval, and communication of the corporate sustainability policy.

The established corporate sustainability policy has delivered a transformative outcome, significantly enhancing the structure of the company's priorities and commitments. By codifying sustainable practices and principles, the policy provides a clear roadmap for the organisation, outlining key priorities and commitments that align with ESG imperatives. This structured approach serves as a guiding framework, influencing decision-making processes and daily operations.

Appendix 1

Principle 4: Overview of initiatives that LGSPC is an active member of, which includes a brief assessment of the efficiency of the initiative and outcomes during 2023/24

Organisation/Initiative Name	*About the organisation/initiative*	*Efficiency and outcomes*
30% Club Investor Group 30% Club GROWTH THROUGH DIVERSITY	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 tool 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 training courses which helps build knowledge. The BVCA also organises

		ESG related roundtables and events.
Climate Action 100+	Engagement collaboration of more than 700 investors with a combined $68 trillion assets under management. Engaging 170 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.	In 2023 CA100+ evolved the Net Zero Company Benchmark, providing further guidance on how investors can participate to the initiative and updated to the focus list. CA100+ 's key company engagement priorities are: implementation of strong governance framework, commitment to reduce GHG emissions throughout the value chain, provision of enhance disclosure and implementation of transition plans.
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.
Cross-Pool RI Group within LGPS	Collaboration group across the LGPS pools and funds.	A cross-fund group set up for advising UK local pension schemes on responsible investment and infrastructure.

ICGN  	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.
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.
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	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.

	business and human rights policies.	
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.
Nature Action 100	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.
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.
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.
Investor Forum 	High quality collaborative engagement platform set up by institutional investors in UK equities. LGPSC has been a member since inception of our Company	In 2023 LGPSC continued to participate in an Investor Forum coordinated working group focused on Investing in the Defence Industry. LGPSC and the Investor Forum collaborate for the consultation responses on the review of Corporate Governance Code and FCA Premium Listings.
The Local Government Pension Scheme Advisory Board 	LGPSC Head of Stewardship is a member of an RI Advisory Group to SAB that was formed at the start of 2021. 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.

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's Director of Responsible Investment represents LGPSC on the TPI Limited board contributing to the governance and oversight of this important initiative.	LGPSC uses TPI dataset directly to inform engagement and voting on behalf of Partner Funds. TPI has recently reported on the progress made by food producers on their journey towards net zero, a critical sector in terms of the transition. TPI has also reported on sovereign climate related opportunities and risks (a previously under researched asset class in respect of climate).
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 to parliament on the green taxonomy and the ISBB standards.

Appendix 2

Principle 9: Details of the four core stewardship themes that applied in 2023: climate risk, plastic pollution, responsible tax behaviour and tech sector risks showing the Stewardship Strategy, measures of success, engagement highlights and case study for each.

1) **Climate Change**

Philips 66

Objective: We expect the company to report on how it manages its relationships with trade associations regarding their positions on climate change.

Engagement: Our stewardship provider, EOS at Federated Hermes, spoke with the company's sustainability and ESG team about its climate lobbying disclosures, human rights impact assessments, and greenhouse gas reductions strategies. On climate lobbying disclosure, EOS asked the company to provide reporting demonstrating alignments with trade associations, and where there were misalignments, decisions the company took to resolve it. EOS pointed to Royal Dutch Shell's lobbying disclosures as best practice reporting.

Outcome: Later in 2023, EOS met with the company in-person after it published its 2023 Sustainability Report which included a lobbying report. EOS were pleased to see the report highlighting the four criteria areas against which the company assesses trade association alignment. The report also includes the recent collaborations the company has undertaken supporting policies for lower-carbon energy alternatives. The company highlighted that no misalignment with its current trade associations was identified. EOS will continue to follow Phillips 66 as it engages with trade associations and focus engagement on its climate strategy.

2) **Plastics**

Investor Statement on Plastic Reduction

Objective: We 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. Apart from companies, we also engage with various working groups, and our stewardship provider, EOS at Federated Hermes participated in a Principles for Responsible Investment

(PRI) working group on plastics with the Ellen MacArthur Foundation (EMF). We also seek to collaborate with other investors to target corporates involved with plastic usage across the value chain.

Engagement: LGPS Central is among the 185 investors with US$10 trillion in combined assets, coordinated by the Dutch Association of Investors for Sustainable Development (VBDO), which are joining forces to call for more action to address the plastics crisis. In a joint statement, the investors warn that the whole plastics lifecycle poses a serious and growing threat to the environment, climate, biodiversity, human rights and public health:

– The estimated costs to society from plastic pollution including environmental clean-up, ecosystem degradation, shorter life expectancy and medical treatment – exceed US$ 100 billion per year.

– There are between 75 and 199 million tonnes of plastic in the oceans.

– Over 3,000 potentially harmful chemicals have been identified in food packaging.

– Cradle-to-grave greenhouse gas emissions from singleuse plastics in 2021 were equivalent to the total annual emissions of the United Kingdom..

Outcome: The statement called for intensive users of plastic packaging such as Fast Moving Consumer Goods and grocery retailers to act more swiftly to address the crisis. With the release of the statement, the investor group shall look into entering collective engagements with these companies.

3) **Fair Tax Payment and Tax Transparency**

Exxon Mobil.

Objective: The objective is for 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.

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.

4) **Human Rights**

Royal bank of Canada

Objective: To ensure the ethical implementation of AI across the business, the company should establish senior management level responsibility for AI.

Engagement: LGPS Centrals stewardship provider, EOS at Federated Hermes, met with the corporate secretary, interim head of Borealis AI, RBC's research institute and the global head of market and counterparty risk, to discuss ethical artificial intelligence (AI) implementation. Discussions centred around the shareholder proposal which asked for enhancing the mandates of the governance committee and the risk management committee to include an ethics component regarding the use of artificial intelligence. The proposal was withdrawn as the company had met the requests in the proposal but had not explicitly disclosed around this. We were pleased that the company has ethical AI principles. The company was encouraged to disclose its alignment with the principles more clearly on its website. The company clarified that no single board member had AI oversight, as the board relies on the expertise of multiple individuals. However, one of the Directors is considered the board expert on AI oversight and strategy. The management team provides an annual review on the progress of AI to the full board. It was noted that the bank had ranked highly against the Evident AI benchmark, which assesses the various approaches businesses are taking towards AI readiness. The company said it was satisfied with the ranking but did not believe it accurately reflects its progress. It believes it is a leader in AI, and has made more contributions than the benchmark reflects, including creating materials on bias and fairness testing as an open source. In terms of AI model adoption, the predominant use cases have been in the fraud and risk areas. Regarding eliminating diversity bias in AI, the bank said that it is committed to maintaining a diverse talent pipeline, and that its model validation process specifically addresses bias. The company does not currently use a third-party auditor to assess algorithmic bias in its AI work but is open to pursuing it in the future. When asked about the role of AI tools like ChatGPT, the company outlined that it has not authorised its use within the bank.

Outcome: Royal Bank of Canada has demonstrated clear progress and has engaged with investors on the ethical implementation of AI across the business. This has been demonstrated by acknowledging investor concerns and appointing board members with expertise on the topic of AI.

Contact details

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If you can read this but know someone who cannot, please contact us on 01743 252130 so we can provide this information in a more suitable format.

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