Annual Stewardship Report

2020

01 Foreword

Responsible Investment continues to be at the heart of everything we do. Our conviction remains that our Partner Funds' best interests are served through a combination of comprehensive ESG integration and robust stewardship.

During 2020 the COVID 19 health pandemic has caused significant disruption to markets, companies and people. While the situation is highly disruptive, our view that engagement is a key tool which helps us enhance the long-term value of our assets has not faltered, rather it has been reinforced. The pandemic has also brought home the point, in stark terms, that the "S" in ESG carries material risks. We believe that companies who actively engage their stakeholders and are attuned to stakeholders' views are more likely to tackle the crisis well and be more resilient to future crises, including future pandemics and the ongoing climate crisis. Furthermore, it is important that conversations between investors and corporations around climate change are holistic and recognise the social implications of the transition to a low-carbon economy. As we continue our work to undertake ESG analysis alongside engagement, it is with a conviction that this helps both enhance our long-term investment performance and at the same time provide positive impacts for society.

The physical impacts of climate change are becoming ever more evident. We take the view that financial markets will be materially impacted by climate change and by the response of climate policymakers. During the course of 2020, LGPS Central Ltd conducted in-depth climate risk assessments for each individual Partner Fund and provided a Climate Risk Report (CRR) bespoke to each of them. We released our first stand-alone TCFD Report in 2020 following on from the interim report we produced in 2019. The report discloses in detail the steps we are taking to ensure climate-related risks are fully integrated into our investment process. We also supported seven of our Partner Funds in producing their own TCFD-compliant reports.

We have continued our focus on four, core Stewardship Themes in engagement with companies, industry standard setters and policy makers during 2020:

- Climate change
- Plastic pollution
- Responsible tax behaviour and
- Tech sector risks

This engagement work – undertaken by us, our stewardship provider EOS at Federated Hermes and our other engagement partners – has led to tangible positive results. Many companies across energy supply and the demand side have set Net Zero by 2050 ambitions and we see a greater focus and clarity around what a "plastic transition" entails across key sectors. While tax transparency remains low, investors' insistence on the issue is likely to help companies view it through a lens of paying your fair share. Our dialogue with tech sector companies on social media content control has seen companies take critical steps to assess and remove objectionable content. We actively monitor and encourage engagements undertaken by our external managers. Topics covered in 2020 include the treatment of the Uyghur people and political lobbying in the technology and pharmaceutical sectors.

At LGPSC we apply an all-encompassing RI Integrated Status (RIIS) approach to any fund at launch and through the lifespan of that fund, and during 2020 we have achieved 100% success rate in this regard. We will continue to enhance our capabilities in terms of people, processes, and systems. We plan to grow our Responsible Investment & Engagement Team and to invest in analytical tools that will enable us to provide even more robust challenge to our external managers and help us to understand the ESG risks embedded in our investment portfolios.

Mike Weston
Chief Executive Officer

Key achievements and progress across our stewardship activities in 2020

Responsible Investment Integration

All product launches and existing products have RI-Integrated Status

Climate Risk Monitoring Service

All Partner Funds received a detailed Climate Risk Report

7 TCFD Reports delivered to Partner Funds

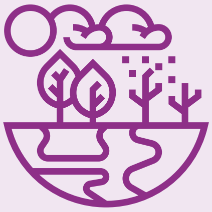
Stewardship Theme Activity & Progress

CLIMATE CHANGE

Key collaborative initiatives: CA100+, IIGCC and TPI

Many companies have set Net Zero by 2050 ambitions and initial steps to set short- and medium-term targets in line with long-term ambition

LGPSC direct engagement with 10 companies



RESPONSIBLE TAX BEHAVIOUR

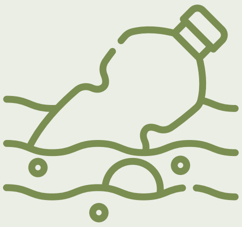
Engagement collaboration with four European investors, as a sub-group to a broader Tax Roundtable with more than 20 institutions from Europe, North America and Asia.

Dialogue with six companies from technology, telecommunications, finance and mining sectors. The level of tax transparency is generally low across companies and sectors

PLASTIC POLLUTION

Focus on six packaging companies that have high exposure to risks/ opportunities stemming from plastic transition

1-2 meetings held with all companies as part of a collaboration led by Dutch asset managers



TECHNOLOGY & DISRUPTIVE INDUSTRIES

102 investor-strong collaboration on social media content control sees companies taking encouraging steps to efficiently assess content and to remove objectionable content from their platforms

Human rights risks engagement initiative is building momentum after Investor Expectations were published and shared with technology companies Google (Alphabet), Amazon, Apple, Facebook, Microsoft and Twitter

Broader Engagement

DEFORESTATION

LGPS Central is a member of the investor coalition "Investor Policy Dialogue on Deforestation" (IPDD) established in mid-2020

Dialogue with the Brazilian government (including Vice President, Central Bank Governor and Congress)

Outcomes expected from investors of the Brazilian authorities include significant reduction in deforestation rates, enforcement of Forest Code regulation as well as public access to deforestation data

MODERN SLAVERY

Investor group has engaged 22 laggard FTSE 350 companies that had failed to meet the reporting requirements of Section 54 of the UK Modern Slavery Act 2015

High success rate: 20 out of 22 companies have become compliant with the Modern Slavery Act in the course of 2020

Phase II of this project has begun in 2021 to engage a further 62 FTSE 350 companies

This report covers each of the 12 principles of the UK Stewardship Code 2020 in numerical order under four main headlines as follows:

PRINCIPLES 1-5

Purpose and governance

- Purpose, investment beliefs, strategy and culture
- Governance, resources and incentives to support stewardship
- Conflict of Interest
- Identification and response to market-wide systemic risks to promote a well-functioning financial system
- Review of polices, assurance of processes and assessment of the effectiveness of activities

PRINCIPLES 6-8

Investment approach

- Client communication on activities and outcomes of stewardship efforts
- Integration of material ESG issues including climate change
- Signatories monitor and hold to account managers and/or service providers

PRINCIPLES 9-11

Engagement

- Engagement with issuers
- Participation in collaborative engagement to influence issuers
- Escalation of stewardship activities to influence issuers

PRINCIPLE 12

Exercising voting rights and responsibilities

Contents

Purpose and governance

2.0 Purpose and governance

PRINCIPLES 1-5

PRINCIPLE 1 2.1 Purpose, investment beliefs, strategy and culture

2.1.1 Purpose and values

LGPSC is an FCA regulated institutional investment manager responsible for the pooled assets of eight Local Government Pension Funds in Central England. LGPSC was formed in April 2018 and is owned equally by all eight of its Partner Funds and is dedicated solely to the management of local government pension scheme assets.

The aim of the Company is to use the combined scale of its Partner Fund assets to reduce costs, improve investment returns, strengthen governance and widen the range of available asset classes for investment – for the benefit of local government pensioners, employees and employers. LGPSC Partner Funds have combined pooled assets of approximately £45 billion. At the end of the reporting year (2020), LGPSC had £21.66 billion in assets under management and advice invested in listed equities (active and passive), fixed income, private equity, targeted return, property and infrastructure. The majority of pooled assets are invested in listed equities and fixed income under an Authorised Contractual Scheme (ACS) fund structure.

The pooling endeavour is dependent on continuous dialogue and collaboration; hence we refer to our eight owners as Partner Funds. All LGPSC Partner Funds view Responsible Investment (RI) and engagement as a "must have" and we build on a proud tradition of RI which has been spearheaded over many years by individual Partner Funds. We also seek to espouse values as a Company that mirror expectations that we have of investee companies and the wider investment value chain. Our values and behaviours are:

We put our clients first

- Working in partnership to deliver our Clients' and Shareholders' long-term needs
- Always acting with integrity, transparency and professionalism
- Doing the right thing

We are inclusive

- Collegiate and collaborative, delivering more as one team
- Valuing and treating everyone equally
- Listening to everyone's ideas and using their experiences to support growth

We are ambitious

- Constructively challenging the status quo to continuously improve how we operate
- Combining a public service ethos with a commercial business focus
- Celebrate excellence

We are a great place to work

- Staff are encouraged to be open, learn from mistakes and grow in confidence
- Individual trust and empowerment combined with personal accountability and responsibility
- Friendly, honest and supportive in everything we do

As an example, LGPSC Limited is a member of the 30% Club, as well as the Investor Chapter of the 30% Club. We view diversity as integral to sound decision making and we believe that the most effective boards of companies include a diversity of skills, experiences and perspectives. This view is reflected both in our Responsible Investment & Engagement Framework and in our Voting Principles. LGPSC's Board has 50% female representation and our Executive Committee has 33% female and ethnic minority representation. LGPSC's own BAME (black, Asian and minority ethnic) and female ratio is currently 41%.

Our Company is a member of the Employers Network for Equality & Inclusion and we participate in a number of work streams of the Diversity Project promoting good practice on flexible working, ethnicity, working families and an early careers programme (mentoring potential graduates from socially disadvantaged communities). When selecting external managers for LGPSC investment mandates, we expect both good in-house diversity across the organisation, and we expect that the manager integrates diversity in their ESG assessments of companies they invest in. Diversity is one element of our broader assessment of a given manager's culture and ethos and we view strong diversity across gender, culture and ethnicity as indicative of overall strong governance.

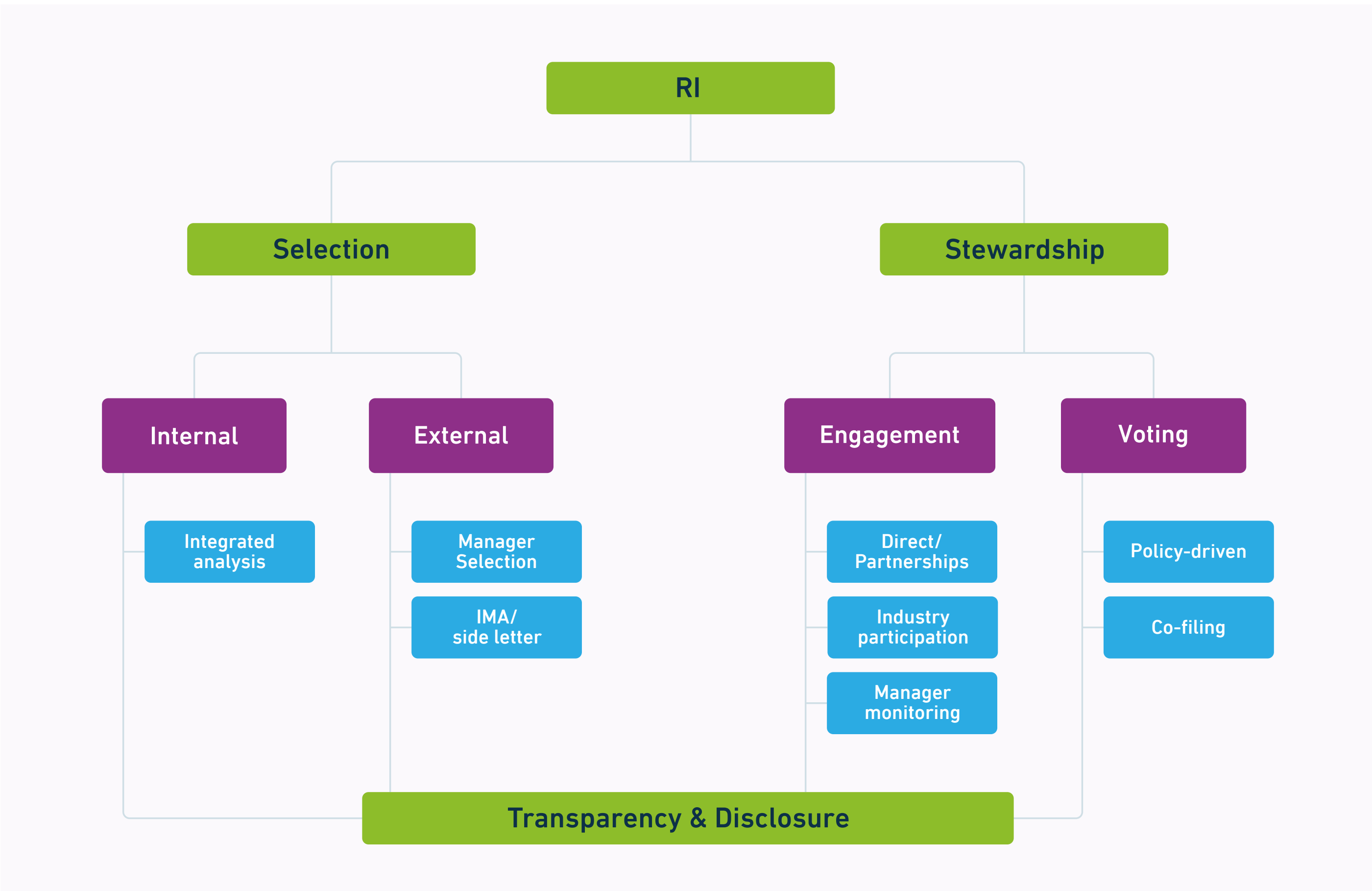
2.1.2 Responsible Investment integral to our asset management operations

At inception of LGPSC in April 2018, we established a Framework for Responsible Investment and Engagement which builds on the investment beliefs of the Company's eight Partner Funds. The Framework establishes two high-level objectives for all LGPSC RI-related efforts. 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.

The RI&E Framework is applied in a manner that promotes these objectives both before the investment decision (which we refer to as the **Selection** of investments) and after the investment decision (the **Stewardship** of investments). Furthermore, we aim to be **Transparent** to all stakeholders and accountable to our Partner Funds through regular **Disclosure** of RI activities.



We take the view that strong RI policy and action increases our ability to protect and grow stakeholder value. Against this premise, key targets of our RI efforts are to:

1. Integrate material environmental, social and governance factors into investment decisions both pre and post investment
2. Influence corporate behaviour at company and sector levels through engagement and voting
3. Participate in and contribute to industry-wide best corporate and investor practices
4. Enhance trust with our stakeholders through ongoing dialogue and a high level of transparency

The strategy to meet the key objectives and the way we aim to measure success against them, is described in the Sections below of this document. Table 2.1.2.1 shows, at high level, our objectives and how we measure achievement against them.

TABLE 2.1.2.1: SUMMARY OF TARGETS, STRATEGIES AND MEASURES OF SUCCESS

TARGETS	*STRATEGY*	*MEASURES OF SUCCESS (MOS)*
Integrate material ESG factors into investment decisions	Define an RI Integrated Status approach for each fund prior to launch and through its lifecycle	100% of relevant products achieve and maintain RI Integrated Status (RIIS) RIIS is approved by the Investment Committee and maintenance is checked quarterly by the Quarterly Portfolio Review Committees See Section 2.2.1 below
Influence corporate behaviour	Engagement and voting at company and sector levels	Achieve the majority of the MoS listed in Section 4.2 below (Stewardship Themes)
Participate in and contribute to industry standards	Engagement at industry and policy levels	Active contribution to theme-relevant industry initiatives and broader initiatives of relevance to LGPS Funds Contribution to a minimum of three public consultations on standards/ regulation with market-wide application and/or theme-relevant application See Section 2.4 below
Enhance trust with stakeholders	Transparency and disclosure	Quarterly stewardship disclosure (this will change to three times a year from 2021, with the fourth quarter covered by the Annual Stewardship Report) Quarterly RI meetings with Partner Funds Annual RI events for Partner Funds to allow dialogue on key themes and to build knowledge Annual Stewardship Report in line with UK Stewardship Code PRI report in line with PRI Framework, achieving a high score (LGPSC received an A+ rating for its 2019 report) AAF report including testing of the accuracy of RI data and implementation of RI processes See Section 3.1 below for more detail

During 2020, we have largely achieved these measures of success as is evidenced in the relevant sections of this report (see references in the right-hand column of the above table).

2.1.3 A “One-for-eight” model

Since inception, LGPSC’s RI&E function has implemented a “one for eight” model. This means that we operate one framework, one service offering, one approach, that delivers the same service to our eight Partner Funds. This aligns well with the overarching goal of the pool, which is to reduce costs, improve investment returns, strengthen governance and widen the range of available asset classes for investment while implementing high quality RI services. We label this “Mandate Services”. One of the core functions of the Pool is to provide Partner Funds with investment opportunities suited to their investment needs as these evolve. As part of our Mandate Services we apply an all-encompassing *RI Integrated Status (RIIS)* approach to any fund at launch and through the lifespan of that fund. Through RIIS we ensure that RI objectives are reflected at inception of new funds through to deployment/selection of asset managers and their ongoing monitoring. RIIS is described in more detail in Section 3.2 below.

While still in a phase where Partner Fund assets are transferring to LGPSC, we also offer some customisation of client-specific deliverables; “Call-off Services”. These include assistance with RI&E policy design/update, RI-specific training for boards and pension committees, and ad-hoc queries from beneficiaries on RI-related matters. During Q1 2019 and throughout the reporting year 2020, LGPSC introduced a Climate Risk Monitoring Service (CRMS) which is bespoke to each Partner Fund and tailored to their strategy and asset allocation. CRMS is described in further detail in Section 2.4. below.

2.1.4 Looking ahead

Looking ahead, LGPSC recognises the growing importance of sustainability to the investment process and the evolving demands of our stakeholders. Signals from government and consumers are becoming clearer and analytical tools and the outputs they produce are becoming more sophisticated. We have undertaken a review at the start of 2021 of resourcing within the LGPSC RI&E Team to make sure that both people and systems resourcing is in line with the team business plan and associated deliverables.

Key areas of focus going forward include extending the work we do on climate risk analysis at portfolio level to a broader set of ESG risks and reviewing LGPSC’s position on Net Zero and Paris alignment. We are committed to ensuring that our climate analysis remains fit for purpose and in step with industry developments in this area.

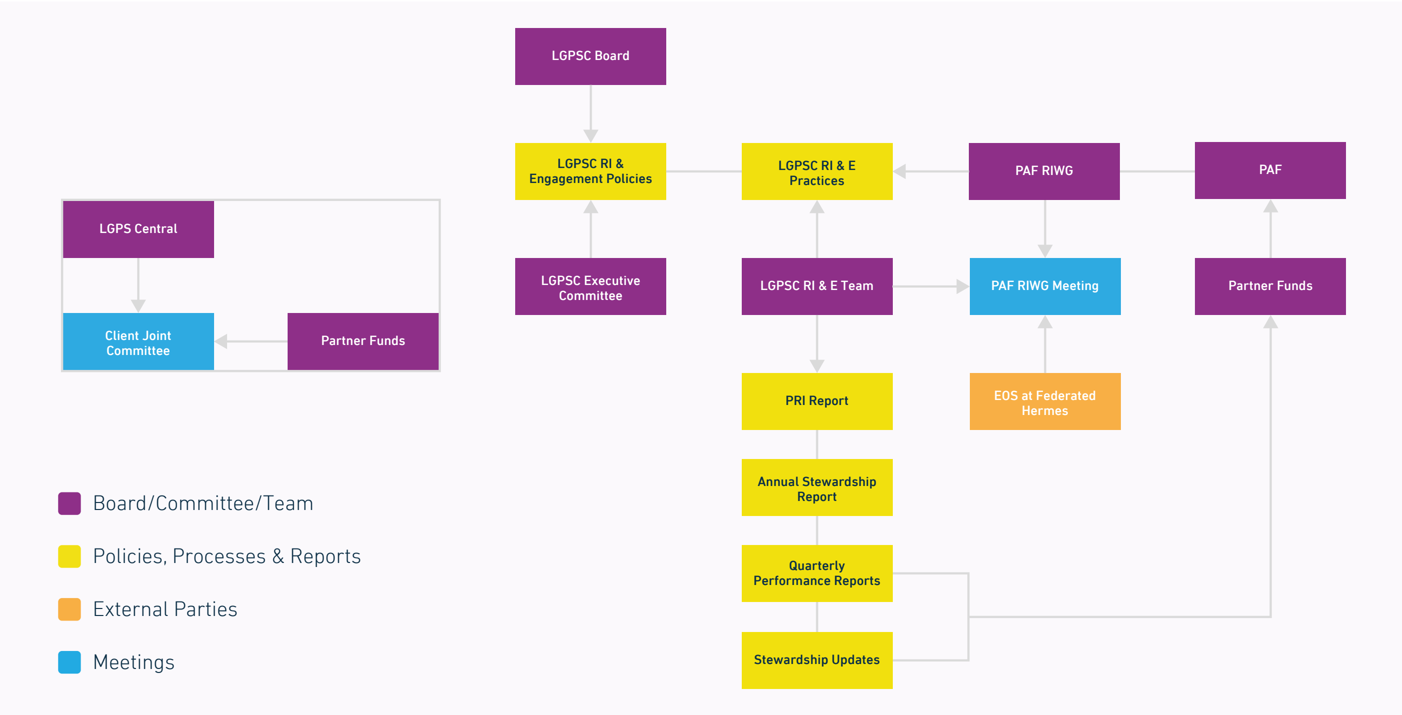
As part of the process we have reviewed our RI & E Framework and Voting Policies to reflect the UK Stewardship Code 2020 and to strengthen our position on diversity and climate change performance. We expect UK companies to have at least 33% female representation on their boards and to be reporting ethnic minority representation at board level. We review these expectations annually so that they remain both realistic and demanding. We have also re-set our expectations of investee companies in terms of climate change management quality score against Transition Pathway Initiative assessments, expecting a higher score than 3 (with 4 being top score). This reflects both the urgency with which companies need to address climate change risks and the progress that has already been made.

The RI&E team works closely with internal investment teams on the development of new products, and the assessment of potential providers. The Director of RI&E is a voting member of both the Investment Committee and the Private Markets Investment Committee. The RI&E Director is also a member of the LGPSC Senior Management Team and has input into the implementation of our Company strategy.

PRINCIPLE 2 2.2 Governance, resources and incentives to support stewardship

2.2.1 Organisation and lines of communication

Figure 2.2.1.1: LGPSC Organisational Structure and Communication on RI-related matters



- LGPSC's Board approve and monitor on a regular basis, LGPSC's RI & E Policy, which is overseen operationally by LGPSC's Executive Committee (see Section 2.2.2 below)
- Our organisational structure reflects a collaborative approach whereby LGPSC Partner Funds have direct influence and dialogue with LGPSC on the overall stewardship effort through a Practitioners' Advisory Forum (PAF) at the high level, and through a Responsible Investment Working Group (RIWG) which assesses RI matters in more detail
- The RIWG feeds into the PAF which is made up of Client Fund Officers and meets on a monthly basis
- As from January 2021, RI matters are a standing item on the agenda of the PAF due to increasing stakeholder interest and concern on various ESG issues, including climate change. The RI&E Team provides an update on its activities during the meeting and an update on broader RI developments
- The RI&E Team now also attends the PAF Investment Working Group, to field any questions related to RI matters
- At quarterly PAF RIWG meetings, Partner Funds are given updates and can scrutinise LGPSC's implementation of engagement and voting activities, integration of ESG across funds, as well as Client-specific services such as the Climate Risk Monitoring Service
- LGPSC's external stewardship provider, EOS at Federated Hermes (see Section 2.2.2 below), takes part in RIWG meetings to provide granular detail on specific topics/sectors of interest to PFs (all four Stewardship Themes were covered during 2020)
- The Client Joint Committee meeting is held annually. At the 2020 meeting, 18 questions from members of the public regarding RI were read and answered during the meeting. This is a significant increase in attention to RI compared to the 2019 Client Joint Committee meeting, which had only one RI question
- LGPSC provides reporting to shareholders and stakeholders through regular stewardship updates (voting and engagement), quarterly performance reports (ESG integration, engagement and voting as part of performance assessment), annual PRI report and as of 2021, an Annual Stewardship Report

2.2.2 Board oversight and ownership across the organisation

LGPSC's Board is responsible for approving and monitoring implementation of the Responsible Investment & Engagement Policy (RI&EP). We have established a Board-level KPI that 100% of relevant products achieve and maintain RI Integrated Status, and regular updates on progress are provided to the Board. The Board meets at least six times a year. RI&E, including climate change, is a regular item on the Board's agenda.

During 2020, the RI&E Team provided LGPSC's Board with an overview of the Company's latest TCFD report as well as a bespoke training session covering stewardship and engagement, and an update on the Climate Risk Monitoring Service. Alongside on-going oversight and knowledge building, Board members sometimes get involved in our broader RI effort e.g. through speaker assignments or in ongoing engagements. During Q1 of 2021, the Chair of the Board, Joanne Segars, took part in a meeting with the Vice President of Brazil, representing LGPSC as a member of the investor coalition "Investor Policy Dialogue on Deforestation". Please see further detail on this engagement, which was initiated in July 2020, in the case study under Section 4.1.3.

We believe it is critical that RI is owned and practiced across LGPSC. As such, the RI&E Team performs a coordinating function relying on regular interaction with colleagues in asset class teams, in the broader Investment Team and across back-office functions including Operations, Legal, HR and Compliance. The RI&E Team reports to the Chief Investment Officer (CIO). As previously mentioned, the Director of RI&E is a member of the Investment Committee, the Private Markets Investment Committee and the Senior Management Team. RI&E related matters are regularly brought to the LGPSC Executive Committee for discussion and approval, for example annual reviews of LGPSC RI&E related policies, our ongoing sponsorship of the Transition Pathway Initiative (TPI) and our contribution to an industry-wide plastic pellet project (see Section 4.2 below).

LGPSC's RI Integrated Status (RIIS) approach inherently requires and allows detailed dialogue between the RI&E Team and the relevant asset class team from inception of a fund and throughout its lifespan. This approach also ensures that the RI approach taken for a given fund or asset is co-sponsored by the Director of RI&E and the relevant Investment Director, reinforcing a shared ownership to RI integration. RIIS could be viewed as an in-house form of "RI certification" which covers the following key elements: Beliefs, Documentation, Process, Reporting and Review. See further detail on RIIS under Section 3.2 below.

LGPSC staff are incentivised to integrate stewardship and investment through the following means:

- Investment Directors have RI and ESG integration objectives included in their semi-annual Personal Development Reviews
- Training and knowledge sharing: As an example, during Q4 of 2020 the RI&E team provided a training session on LGPSC's Climate Risk Monitoring Service (see Section 2.4 below) which had very high attendance and inspired a lot of questions and discussion
- All staff are being asked to think about RI & E and sustainability initiatives as part of smarter working as we move into a new office working arrangement mid-2021
- Going forward, all job descriptions for staff at LGPSC will reflect RI integration

There is no variable pay at LGPSC. Other means are used to incentivise staff to deliver above and beyond. On a monthly basis, members of staff and a team will be recognised with a "Val-U-Me" Award. Colleagues nominate peers for demonstrating the right values and behaviours and going above and beyond their formal roles.

2.2.3 Dedicated in-house stewardship resources

At the start of 2020, the RI&E Team at LGPSC had two permanent senior members – Director of RI&E and a Stewardship Manager – and a 1-year intern. It was a clear aim to increase the RI&E resource to four permanent members during 2020 in order to deliver key strategic projects and to cover for key person risk. Towards the last quarter of 2020, and due to staff turnover, the Team had one permanent senior member and two permanent RI&E analysts. In light of increasing expectations from Partner Funds in terms of breadth and depth of the RI service, we aim to expand the team to six in 2021.

Going into 2021, the RI&E Team consists of an Investment Director, Stewardship Manager and two IMC qualified analysts, both of whom are working toward their CFA certificate in ESG.

Team members come from diverse academic backgrounds and specialisms across RI policy development, ESG integration in public and private markets, stewardship and engagement across the value chain and climate expertise. We 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 and relevant regulatory bodies.

2.2.4 External stewardship resources

With limited in-house resources we have contracted an external Stewardship Provider, EOS at Federated Hermes (EOS), to provide global voting and engagement. Following a comprehensive due diligence process EOS were selected as their beliefs align well with LGPSC's and the Partner Funds' beliefs. We share the 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 activity across relevant ACS funds every quarter, as well as annually. Through this regular dialogue, we are able to ensure that our values remain aligned. EOS also engages with regulators, industry bodies and other standard setters to shape capital markets and the environment in which companies and investors can operate more sustainably.

We expect our external managers to engage investee companies on our behalf on material issues including ESG factors. We receive quarterly data from external fund managers on the number of engagements undertaken and the weight in portfolio. See further detail under Section 3.3. below.

PRINCIPLE 3

2.3 Conflict of Interest

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 Partner Funds of LGPSC. While this policy is intended to ensure compliance with FCA rules (SYSC 4 & 10) and regulations around conflicts management and requirements under MIFID II, the policy is also designed to ensure fair outcomes for Partner Funds and to ensure that LGPSC fulfils its stewardship responsibilities to its pool partners in terms of how their assets are managed.

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.

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.

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. We expect our managers to have robust controls and procedures in place around conflict management and to demonstrate commitment to managing conflicts fairly.

LGPSC only manages Partner Fund assets and the majority of our 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 Conflicts of Interest

Appointment of Transition Manager for the Global Active Equities fund

All colleagues involved in the appointment process were required to complete a conflicts of interest declaration. The declaration asks colleagues to provide details of any conflicts with any of the potential transition managers for assessment by the compliance team. Conflict will inevitably arise particularly in the form of existing business relationships and previous periods of employment with the investment managers on the shortlist. As long as these conflicts are declared and recorded, they can be managed.

Voting

Conflicts of interest 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 possibly in some circumstances where they engage with and provide voting recommendations in relation to a pension scheme's sponsor company.

We expect our proxy voting providers to be transparent about conflicts of interest and to implement measures to ensure they manage these conflicts such as Chinese walls, conflicts management policies and conflicts registers. As from Q1 of 2021, EOS at Federated Hermes – LGPSC's external stewardship provider – applies an enhancement to its service to further improve transparency by informing voting clients of potential significant conflicts of interest when EOS provides voting recommendations. One such conflict would be when EOS recommends a vote in relation to clients' sponsor companies, and specific assurance of EOS' independence in assessing this stock is needed.

EOS has a publicly available Stewardship conflicts of interest policy. EOS conflicts are maintained in a group conflicts of interest policy and conflicts of interest register. As part of the policy, staff report any potential conflicts to the compliance team to be assessed and, when necessary, the register is updated. The conflicts of interest register is reviewed by senior management on a regular basis.

Fairness in the provision of RI&E Services from LGPSC to Partner Funds

During 2020, LGPSC provided Climate Risk Reports to all eight Partner Funds, as part of a Climate Risk Monitoring Service that we have made available to them. For the 2021 provision of the same service, we are following the same delivery order as last year. This is to ensure consistency and fairness among Partner Funds and to avoid some receiving reports six months apart or others +14 months apart.

LGPSC operates a one for eight service model. This ensures that we deliver 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 RI&E Team.

PRINCIPLE 4 2.4 Identification and response to market-wide and systemic risks to promote a well-functioning financial system

Stewardship Themes

In close collaboration with its Partner Funds, LGPSC has identified four core Stewardship Themes that guide the pool's engagement and voting efforts. These are climate change, plastic pollution, responsible tax behaviour and 'tech sector' risks. These themes have been chosen based on the following parameters:

- Economic relevance
- Ability to leverage collaboration
- Stakeholder attention

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. 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. Under Section 4 below, we give a detailed overview of engagement activity and progress for each Stewardship Theme.

Climate Risk Monitoring Service

Climate action failure is the stand-out, long-term risk the world faces in likelihood and impact according to the 2020 Global Risks Report from the World Economic Forum. If 'business as usual' continues, the world could heat up by about 5 degrees by 2100 which would cause profound societal damage and significant human harm. A Paris-aligned transition to a low-carbon economy would lead to lower economic damage and for long-term investors is preferable to alternative climate scenarios. We believe investors can best encourage this transition through a combination of a) understanding the risks to their portfolios at a granular level, b) stress-testing portfolios against various temperature scenarios, c) identifying tools and actions that can be taken to address and minimise risk.

LGPSC's Climate Risk Monitoring Service aims to address each of these aspects. During 2020, LGPSC conducted in-depth climate risk assessments for each individual Partner Fund and provided a 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 allocation (both pooled and non-pooled assets) 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. Table 2.4.1 gives a summary of the methods we use to assess financially material climate-related risks and opportunities.

TABLE 2.4.1: METHODS OF ASSESSING 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	We assess the extent to which the Fund's risk and return characteristics could 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). An external con-sultant provides analytical support for this section
Risk Management	Based on the report findings we provide 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 & Targets	We conduct a bottom-up carbon risk metrics analysis at the company and portfolio level. For the most part, four types of carbon risk metric are utilised: portfolio carbon footprint, fossil fuel exposure, weight in clean technology and climate risk management (via the Transition Path-way Initiative)

Our Partner Funds have used the findings of their CRRs to develop individual Climate Strategies covering governance, beliefs, objectives, strategic actions and reviews in relation to their climate-related risk. To date, five of our Partner Funds have published Climate Strategies, with three more upcoming in 2021. Aside from strategy setting, the CRRs have also been used to facilitate TCFD disclosure (which seven of our Partner Funds have achieved to date); formulate Climate Stewardship Plans; conduct training sessions on climate change; initiate governance and policy reviews; and for exploring potential investments in sustainability-themed investment products.

LGPSC will provide bespoke CRRs to each of our Partner Funds on an annual basis. It is our intention that future iterations of the report will show progress against the baseline of data collected in the first year. The upcoming 2021 reports will explore 1) how the results have changed in the past year 2) what recommendations have been achieved and 3) how our Partner Funds can continue to develop in this space. As part of the third objective, we have been exploring the areas of convergence and commonality across each of the eight bespoke CRRs in order to facilitate collective action as a Pool. We have identified recommendations that feature in all of the CRRs and are currently working in collaboration with our Partner Funds to crystallise these into specific pool-level workstreams. Examples of potential actions we are considering include issuing a joint statement on climate change as a pool, holding a joint Partner Fund training day, and updating the Pool's TCFD Report (which has already been achieved).

Participation in industry dialogue, partnerships and building of standards

LGPSC is an active participant in the debate on good corporate and investor practice. We value collaboration with peer investors and with industry initiatives, which gives a stronger voice and more leverage in engagement. Taking part allows us to access data, research and tools available to members – and at the same time influence further development of these initiatives.

Table 2.4.2 overleaf is a list of organisations and initiatives that LGPSC is an active member of and includes a brief assessment of the efficiency of the initiative and outcomes during 2020.

TABLE 2.4.2: PARTICIPATION IN INDUSTRY DIALOGUE

ORGANISATION/INITIATIVE NAME	*ABOUT AND OUR PARTICIPATION*	*EFFICIENCY AND OUTCOMES*
PRI	Largest RI-related organisation globally. Helps with research, policy influence and collaborative engagement. During 2020, LGPSC Director of RI&E was a member of the Listed Equity Committee and the Stewardship Manager was a member of the PRI Plastics Working Group	PRI is a standard bearer of good practice for responsible investment. LGPSC has been a member of PRI since inception of the pool. We view LGPSC's active participation in PRI through submission of an annual report and through membership of PRI Working Groups as clearly value-adding to ongoing RI development and pursuit of Stewardship Theme engagements
IIGCC (Institutional Investor Group on Climate Change)	Influential asset owner and asset manager group. Useful for climate change research and policy influence. During 2020, LGPSC Director of RI&E was a member of the Shareholder Resolutions Committee and the LGPSC Stewardship Manager has been appointed to the Corporate Programme Advisory Group	IIGCC's corporate engagement and policy engagement programmes are both highly value-adding to LGPSC's work on climate change on behalf of all Partner Funds. It has a clear purpose and seems attentive to member needs and input. IIGCC engages broadly with stakeholders, for example the International Energy Agency in regard to the Net Zero Scenario and the need for that to include price projections to at least 2040
Cross-Pool RI Group within LGPS	Collaboration group across the LGPS pools (and Scotland recently). Includes funds and pool operators. LGPSC Stewardship Manager is Vice Chair of the group	This is a good forum to allow discussion between like-minded investors, who operate in the same regulatory environment and with similar expectations from Partner Funds and beneficiaries, on RI topics of interest and/or urgency (e.g. The Ministry of Housing, Communities and Local Government (MHCLG)'s work to introduce TFCF aligned reporting across LGPS Pools and Funds)
FRC Investor Advisory Group (Financial Reporting Council)	Influence new policies and standards, on governance, stewardship, reporting and audit matters. LGPSC Director of RI&E was a member of the Investor Advisory Group	This has been a useful opportunity for LGPSC to discuss and provide input to the FRC, in particular in the development and lead up to implementation of the Stewardship Code 2020
Transition Pathway Initiative (TPI)	Analysis of listed equities in terms of carbon risk vs a benchmark. Industry influence and access to high profile company engagements. LGPSC has been a member of the TPI Steering Committee since inception of our company	TPI is a highly useful tool that LGPSC uses directly to inform engagement and voting on behalf of Partner Funds. We view very positively TPI's close collaboration with CA100+ during 2020 in the roll-out of the Benchmark Framework which will allow evaluation of company progress against Paris alignment on key parameters (targets, actions, disclosures)

30% Club Investor Group	Investor group engaging both UK listed equities and increasingly companies abroad, on gender diversity. LGPSC has been a member since inception of our Company	This forum has a clear target and allows for discussion, learning and direct engagement with like-minded peers on an ongoing critical governance issue. During 2020, a sub-set of 30% Club Investor Group members, including LGPSC, has engaged in the Japanese market
BVCA **British Private Equity and Venture Capital Association**	UK trade body for private equity. Director of RI&E was a member of the RI Advisory Group during 2020	This forum is very useful for deal flow information. It also runs discounted training courses which helps build knowledge
LAPFF **Local Authority Pension Fund Forum**	Engagement with companies in the UK and abroad, assisting LGPS funds with ethical investment challenges	LAPFF has conducted engagements that is complimentary to LGPSC's stewardship theme engagement effort, for instance in reaching out to companies during 2020 on human rights risks that stem from operating in conflict zones such as Palestinian/Israeli territories
Climate Action 100+	More than 570 investors, responsible for over 50% of all global assets under management. Engaging 161 companies on climate risk. LGPSC Stewardship Manager is a member of the Mining and Metals Sector Group and the Shareholder resolutions group	This is a robust, targeted and strong investor collaboration which LGPSC views as highly value adding relative to climate change risk management. The 2020 CA100+ Benchmark Framework embeds structure and rigour to assessments of companies against a Paris trajectory
Investor Forum	High quality collaborative engagement platform set up by institutional investors in UK equities. LGPSC has been a member since inception of our Company	LGPSC co-sponsored an Investor Forum coordinated plastic pellet prevention project formally launched in June 2020. The overarching goal of this project is to help companies achieve and maintain zero pellet loss across their pellet handling operations. At the start of 2021, an expert group had drafted an industry standard specification which has been out for consultation

Policy engagements and consultation responses

Since inception of LGPSC in April 2018, the Company 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, and sustainability reporting requirements.

During Q2 of 2020, LGPSC signed IIGCC-coordinated letters to EU and UK leaders calling for a sustainable recovery from the COVID 19 pandemic. From a long-term investment perspective, it is critical that both the EU and UK align their recovery efforts with existing climate goals (EU Green Deal, UK's Net Zero Emissions target by 2050, respectively). It is encouraging that the European Council decided, in July 2020, to ensure that the COVID-19 recovery package and long-term EU budget expenditures must comply with the EU's objective of climate neutrality by 2050 and the 2030 climate targets.

LGPSC provided a response to the European Commission review of the Non-Financial Reporting Directive (NFRD). As a long-term, global investor we would like to see more consistent, complete, and reliable disclosure of material environmental, social, and corporate governance information. In the response, we welcomed the proposed broadening of the scope and requirements for the reporting of "non-financial" information. We suggested that fair and transparent tax behaviour merits specific mention in the NFRD because it is intrinsically tied in with managing/reducing market-wide risks and crisis including the climate change crisis and the current COVID-19 health pandemic. In tandem with this policy response, LGPSC contributed to a consultation on Fair Trade Mark's (FTM) report "The Essential Elements of Global Corporate Standards for Responsible Tax Conduct" which seeks to identify common, international norms for responsible tax conduct.

LGPSC's stewardship provider, EOS, regularly engages with a wide range of stakeholders, including government authorities, trade bodies, unions, investors, and NGOs, to identify and respond to market-wide and systemic risks. As an example, EOS co-hosted a thematic workshop on the changing landscape of human rights due diligence and workforce reporting in the context of Covid-19. The co-host was the Workforce Disclosure Initiative (WDI), of which EOS is a signatory. The event allowed companies and investors to learn more about the WDI and speak candidly about the challenges and opportunities faced when conducting human rights due diligence.

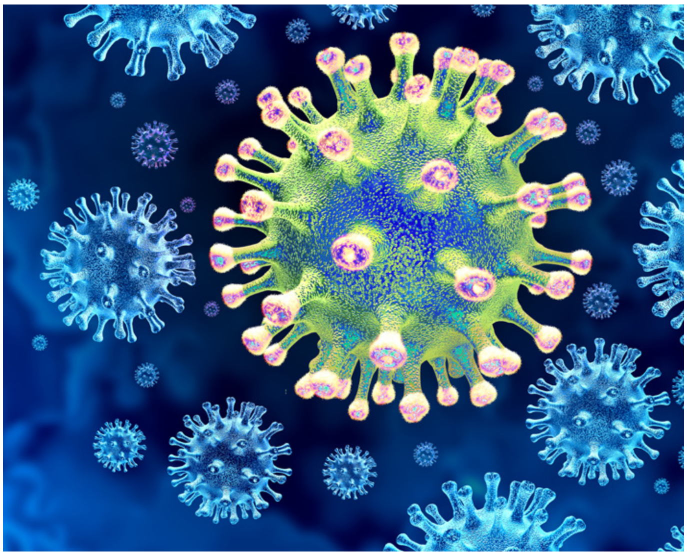
EOS also engages on market-specific trends and policies and as an example, in 2020 made several recommendations as part of Japan's Corporate Governance Code revision. EOS pressed for improving board effectiveness through the separation of chair and CEO, increased diversity, more stringent criteria for independence, and director training.

COVID 19 pandemic

In engaging companies (directly, in collaboration and through EOS), LGPSC is cognisant of the unprecedented challenges that the health pandemic poses to individual companies and to sectors. At the same time, core expectations that we express for management of risks and opportunities on LGPSC's four Stewardship Themes are still reasonable and timely to uphold. Companies have largely been receptive and welcoming of engagement, which in some respects has been more efficient when carried out via virtual means. See engagement and voting examples under Section 4 below.

In April 2020, EOS sent an open letter on behalf of clients to the chairs and CEOs of the companies in its engagement programme[1], explaining that dialogue during and after the pandemic would focus on business resilience and stakeholders. Most companies had a good narrative for how they were protecting their operations and key stakeholders, including employees, although we challenged one large US retailer over allegations of poor COVID practices in its stores. In contrast, UK supermarket Tesco did well to adapt its operating environment and customer proposition, and we completed a long-standing engagement on their audit and risk management.

Despite the lockdown restrictions, EOS' engagement activity was higher than in 2019, with similar or higher levels of access to board directors and senior executives due to lack of travel. These efforts resulted in some positive outcomes, with oil and gas major **BP** announcing a new net-zero strategy with capex and accounting assumptions aligned with the Paris Agreement goals, and similar indications from **Repsol**, **Total** and **Royal Dutch Shell**. There was also significant progress at **Amazon** on net-zero targets, **LafargeHolcim** on science-based targets, **Rolls-Royce** on net-zero emissions, even as it faced a collapse in air travel, and **Anglo American** on carbon neutral mining.



[1] EOS engagement plan identifies 12 key themes and 36 related sub-themes. This breadth of coverage is necessary to reflect the diversity of the issues affecting companies in the global engagement programme.

PRINCIPLE 5 2.5 Review of policies, assurance of processes and assessment of the effectiveness of activities

Review of LGPSC RI & E policies

Prior to the launch of LGPSC in April 2018, LGPSC's Board approved three RI-related policy documents; LGPSC RI&E Framework, LGPSC RI&E Policy and LGPSC Voting Principles. Each document is subject to annual review by the LGPSC Board which happens at the start of every year. Ahead of each annual review, LGPSC consults its Partner Funds to solicit their views. Revisions will then be taken through LGPSC's Investment Committee and Executive Committee for discussion and approval before the Board finally assesses and approves them. The Board take an active interest in these policies and often recommend alterations and enhancements. They are familiar with the issues and their perspectives are welcome and add value.

In addition to Partner Fund consultation, we discuss trends and developments in RI with investor peers on a continuous basis, in particular with our LGPS Pool peers (see overview of Initiative memberships in Section 2.4 above). We also discuss voting trends with EOS and with peer investors ahead of revision of our Voting Principles. As an example, we have over the last two years heightened our expectations on companies' governance of Board and Senior Management diversity, sustainability reporting and climate risk management. We have done this in tandem and close alignment with similar changes to EOS' voting policies and those of close peers.

At the start of 2021, we compiled an RI Emerging Risk Register. This will help us stay attuned to any regulatory initiatives (hard and soft law) that may impact on our RI approach and policies. We consider this a "live" document that will be updated on a regular basis in close collaboration with LGPSC's Legal Team. We have shared this document with Cross-pool peers through the Cross-pool RI Working Group. Discussion on upcoming regulation, consultations, other standard developments will be a regular item for discussion within this group.

Ongoing information-sharing and review of Stewardship Themes

Through our quarterly PAF RIWG meetings (See Section 2.2.1 above), we allow for information-sharing and debate/checks on LGPSC's provision of RI services against the RI&E Framework. All our Partner Funds take a keen interest in RI and engagement, which is a reflection of their ultimate beneficiaries' ongoing interest in climate change and broader sustainability issues.

LGPSC undertake an annual review of the effectiveness of the Stewardship Themes in close collaboration with Partner Funds. During 2020, we conducted a review through PAF RIWG discussions which resulted in the following minor adjustments and acknowledgements:

- Climate change remains the number one theme
- "Just transition" related elements to be included in climate change[2]
- "Single-use plastics" to be converted to "plastics" (to include broader plastic pollution risks)
- To reflect both a) the time taken to establish engagements and deliver results and b) the long-term investment approach of Partner Funds, it is a presumption that stewardship themes will be for 3 years in duration, with an annual review
- Themes identified in 2019 will remain in focus for a three-year period between 2020 - 2023

At the start of the financial year 2020-21, LGPSC informed Partner Funds of our plan to make the quarterly stewardship reporting more compact. This was done in part to make the stewardship reporting more accessible and easier to digest, and in part due to the fact that annual stewardship reporting (as of 2021) will lessen the need for detail on a regular basis.

AAF controls

During the reporting year LGPSC carried out an externally assessed AAF 01/06 – Assurance Reports on Internal Controls of Service Organisations under the guidance issued by the Institute of Chartered Accountants in England and Wales. These internal controls include testing of the accuracy of RI data and implementation of RI processes in relation to LGPSC's voting policy, voting implementation, and accuracy of voting data. As part of the AAF controls, LGPSC carries out quarterly internal quality controls of engagement and voting data before this is shared with Partner Funds through Regular Stewardship Updates. We also conduct an annual review of EOS' stewardship services, which is based on multiple interactions with EOS in the course of a year (see Section 3.3 below). This review is shared with our CIO and the LGPSC Investment Committee.

We have considered whether the new Senior Managers and Certification Regime (SMCR) affects our oversight of external stewardship provider services. Key elements in this regard are to Evidence meetings and interaction; Sharing of information with senior management up to the top of the organisation; Demonstration of good oversight including having good test points and key performance indicators (KPIs) under AAF. While we view the current KPIs related to RI processes as robust, we have initiated a project in 2021 to review these KPIs and to consider adjustments and/or expansions in order to capture the full breadth of RI efforts.

EOS has its voting process independently assured on an annual basis (AAF 01/06).

[2] LGPSC responded to an All-Party Parliamentary Group for Local Authority Pensions Funds consultation on Just Transition on 4 May 2021 Responsible Investment for a just transition: An inquiry by the all-party parliamentary group for local authority pensions (lgpscentral.co.uk)

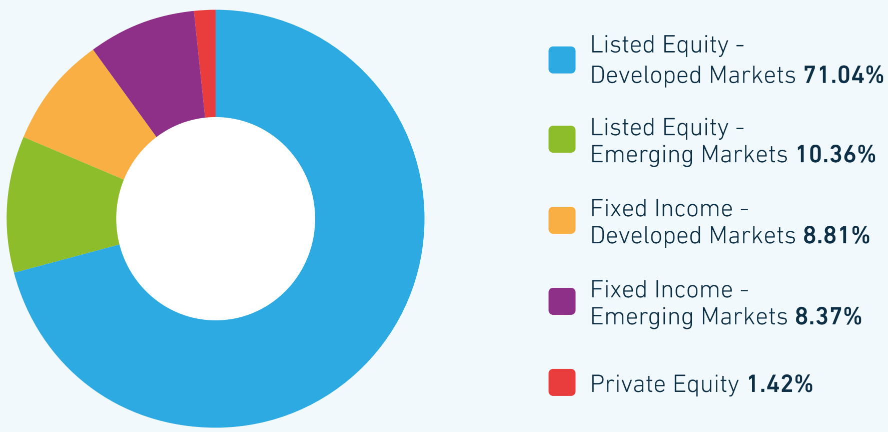
Investment approach

3.0 Investment approach

PRINCIPLES 6-8

PRINCIPLE 6 3.1 Client communication on activities and outcomes of stewardship efforts

Figure 3.1.1: Breakdown of LGPSC Assets under Management as at 31 December 2020



* Emerging Markets for both Equities and Fixed Income includes emerging, frontier and other markets.

Figure 3.1.1 shows a breakdown of LGPSC ACS Fund which have been set up to meet Partner Fund investment needs. LGPSC is in continuous dialogue with its Partner Funds on both the development of new investment funds and reviewing existing funds to ensure that RI is clearly visible both at inception and throughout the life of the fund offerings. The primary tool to ensure this, is LGPSC's RI Integrated Status approach (see Section 3.2 below).

Development of new funds

LGPSC aims to offer investment products to support Partner Funds, to manage climate risk and to capture climate change opportunities. Our All World Climate Multi Factor Fund (launched October 2019) takes account of the risks and opportunities associated with climate change by design. While seeking exposure to five style factors, the fund tilts away from companies that are carbon intensive or own fossil fuel reserves, and tilts towards companies that generate green revenues.

During the latter part of 2020, LGPSC's Active Equities team started work to develop a sustainable equity investment solution in line with Partner Fund needs. Due to rising investment interest in "Sustainable Investing", alongside rapid market developments in this space, the team placed a notice on the LGPSC webpage inviting submissions for research and white papers on the topic. Based on this detailed research (over 50 submissions were received) and further in-house analysis, LGPSC is collaborating with Partner Funds to build an investment product that will target this growing area of the market. It is likely that the product would offer access to three different sustainable strategies: Broad, Thematic and Targeted. This is in order to provide a sufficient range of investment opportunities and satisfy demands among Partner Fund. Additionally, the Active Equities team has met with FTSE (LSE Group) to learn more about the different mainstream and niche ESG indices which may prove useful for benchmarking purposes in the future. Meetings have also been held with Sustainable Investing teams and fund managers from different asset management groups to learn more about the different approaches and strategies employed across the sector.

Ongoing dialogue with Partner Funds on application of the RI&E Framework

- LGPSC seeks Partner Fund views when identifying and revising Stewardship Themes
- Quarterly RIWG meetings allow for knowledge sharing and scrutiny
- Annual RI Days have been held over the last three years to allow a deeper debate on key topics (divest/engage; climate change)
- Increasing attention to RI at the AGM and at Client Joint Committee Meetings with all Partner Funds
- PAF meetings: RI included as a standing item at the start of 2021, in response to increased interest in this area from Partner Fund Pension Committee members and the broader stakeholder group

Ongoing Stewardship reporting

- Regular Stewardship Updates including engagement and voting examples (progress, outcomes)
- Vote by vote disclosure on LGPSC website
- Quarterly Performance Reporting including RI narrative
- Quarterly Media Roundup which gives highlights of RI-related news and developments
- Measures of Success against the Annual Stewardship Plan are presented to Partner Funds at each RIWG
- PRI report
- Annual Stewardship Report

While LGPSC aims for a high level of transparency and disclosure we also want to make sure that the reporting is suited to Client needs and their ability to absorb information in a timely fashion. We generally observe a heavier RI reporting burden on investors through various initiatives and question whether this automatically enhances the value in terms of quality of reporting and value for Partner Funds. In the UK market, a closer alignment between the PRI and the UK Stewardship Code would in our view be of great benefit both to reporting organisations and to their stakeholders.

Bespoke assistance to Partner Funds

The bulk of the time for the LGPSC RI & E Team is intended for Mandate services which benefit all Partner Funds and ensures that existing LGPSC Funds are managed in according to the Fund's RI Integrated Status. We also provide Call-off Services in the form of:

- Communications (ad-hoc ethical queries, Freedom of Information requests)
- Training
- Policy development
- Presentations
- Climate Risk Monitoring Service (see Section 2.4 above)
- Compliance with the UK Stewardship Code 2020

Client satisfaction surveys

LGPSC conducts annual Client Satisfaction Surveys on our overall services, including the RI & E function. Client satisfaction with LGPSC across all services has increased from 52.8% (2019) to 67.6% (2020). Partner Funds have expressed a high level of satisfaction with the RI Strategy since inception of the company giving an 85% score for 2020, and we have received specific, positive feedback from Partner Funds on the assistance LGPSC has been able to provide related to RI activities.

Case study

More compact Stewardship Updates:

Since inception of LGPSC, we have provided Partner Funds with Quarterly Stewardship Reports including market developments, engagement examples, voting examples and industry participation/policy dialogue. These submissions have been well received by Partner Funds. However, providing a QSR at near 20 pages with in-depth analysis and narratives takes up resources and we saw a risk that it was taking time away from actual engagement and voting. During early 2020 we started discussing with our Partner Funds, whether a more compact Quarterly Stewardship Update might be a more appropriate format. It was agreed that an update would be centred around examples of engagements and voting that illustrate the value in our stewardship efforts, e.g. where good progress is made or where we escalate an engagement to achieve results. We also took into consideration the fact that a slimmer quarterly update would be better suited to complement the more in-depth annual report that is required under the revised UK Stewardship Code from 2021 onwards. We made the change of going from a Report to an Update as we entered the new financial year (2020-21).

PRINCIPLE 7

3.2 Integration of material ESG issues including climate change

3.2.1 LGPSC's RI Integrated Status for all ACS Funds

Since April 2018 we have been integrating RI & E into all (relevant) asset classes[3]. We established an overarching KPI that 100% of product launches must receive our RI Integrated Status (RIIS). This feature enables an all-encompassing RI approach to any fund at launch and through the lifespan of that fund to give internal and external stakeholders straightforward assurance that RI is being integrated with the breadth and quality they desire. The proposal for RIIS within particular investment products is communicated via an RIIS Document, which is co-sponsored by the Director of Responsible Investment & Engagement and the relevant Investment Director for the product(s). By requiring co-sponsoring of the RIIS documents, we ensure that RI&E is an integrated process. The specific RIIS proposal is brought to the Investment Committee for review and approval 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: (1) primarily, to support the Company's investment objectives; (2) secondarily, to be an exemplar for RI within the financial services industry and raise standards across the marketplace. RIIS status criteria to be met are:

- Our RI beliefs relevant to the asset class or mandate in question
- Relevant RI related documentation supports the decision to invest, e.g. policies and procedures at external managers or co-investment companies
- Fund managers factor RI into their selection of portfolio assets
- RI reviews are carried out by the fund managers frequently and at the appropriate levels
- Our delegated Stewardship responsibilities are carried out thoroughly, e.g. engaging with companies, shareholder voting, manager monitoring, industry participation
- Fund managers are transparent in their reporting to Partner Funds and the wider public (where appropriate)

Case study

RI Integrated Status for Private Equity funds

We believe that responsible investment is supportive of risk-adjusted returns over the long term, across all asset classes. The RI Integrated Status document for Private Equity (funds) is split into three components: Selection, Stewardship and Transparency & Disclosure.

- **Selection:** RI is integrated into due diligence on a 5-pillar scoring framework that covers: Policy, People, Process, Performance and Transparency & Disclosure. If a fund is considered high risk, either due to its sector or geographical location, a more rigorous due diligence assessment is conducted. The findings of the due diligence report are considered as part of the Private Markets Investment Committee approval process. When appointed, we include reference to our RI&E policy in a side letter and, in certain instances, include a request for particular ESG disclosure.
- **Stewardship:** We request that the manager report on material ESG incidents. We conduct an annual review of our primary funds focusing on five pillars (see Selection) which were assessed during due diligence. Following this annual review, we rescore the manager on each pillar and assess whether they have improved since the initial due diligence.
- **Transparency & Disclosure:** RI is included in regular internal quarterly reports, which go to the Quarterly Review Committee, and externally to Partner Funds, through quarterly performance reports.

The RI & Team recently worked closely with the Private Equity Team to engage with a co-investment manager to identify and establish KPI's for the ongoing monitoring of ESG risk faced by the underlying portfolio company. It was important that the KPI's were risk based and covered the material risks specific to the business model of the company. The KPI's will be monitored on an ongoing basis and will give comfort to the Private Equity team that ESG related risks are being managed effectively. This exercise has provided a template for how we intend to monitor our other co-investments. It is important that the right KPI's are identified as within the co-investment framework our access to the underlying portfolio company is limited.

[3] Relevance is judged case by case but only in exceptional circumstances would it be deemed not relevant to integrate RI. In one case, UK Gilts, have we deemed RI and ESG integration as irrelevant.

3.2.2 LGPSC's monitoring of managers' ESG integration and engagement (ESG questionnaires etc.)

Once appointed, we 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. We 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. Whilst the ultimate voting decision rests with LGPSC, we have a procedure through which we capture intelligence and recommendations from external fund managers.

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.

LGPSC has developed a 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: green (manager shows clear strengths tailored to requirement), yellow (manager is fulfilling role but with minor areas of concern), amber (manager warrants closer scrutiny with potential for going on "watch") and red (manager fails to convince, warrants formal review with potential manager exit). 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.

3.2.3 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. These committees scrutinise investment proposals at a preliminary stage and authorise appropriate expenditure in connection with full due diligence and negotiation of investments. The RI and Stewardship implications are first discussed and scrutinised during this initial preliminary review. A due diligence report, including due diligence by the RI & E team, is presented to the IC or PMIC for scrutiny and final approval.

Case study

Launch of Infrastructure Fund

A recent example of cross-team interaction is provided by the Q1 2021 launch of the LGPSC Infrastructure Fund which invests in a variety of renewable energy solutions. The RI & E team had full access to all the deal documentation and met with the ESG teams at the shortlisted managers. Due diligence showed that overall ESG integration and stewardship were strong at both managers, however areas for improvement were identified around supply chain management and one of the company's human rights policy. These concerns will be assessed and discussed as part of the ongoing monitoring of the asset manager.

PRINCIPLE 8 3.3 Signatories monitor and hold to account managers and/or service providers

Monitoring of external managers

External fund managers are monitored in order to ensure the ongoing application and efficacy of their approaches to RI and stewardship. Managers report on a regular basis to LGPSC in respect of how engagement activities have been discharged during the period in review. In 2020, LGPSC's external managers conducted 203 direct engagements with companies held in the Global Equity Active Multi-Manager Fund and Emerging Equity Market Active Multi-Manager Fund.

In Q4 2020, BMO (part of LGPSC Emerging Market Equity Active Multi-Manager Fund) conducted an engagement with a large multinational consumer goods company on potential forced labour risks in supply chains connected to the Xinjiang Uyghur Autonomous Region. BMO have asked the company to conduct enhanced due diligence for operations in high risk regions where standard auditing procedures may not suffice. The engagement forms the start of a targeted programme by BMO addressing human rights risks in the supply chains of fifteen multinational companies.

In Q3 2020, Schroders (part of LGPSC Global Equity Active Multi-Manager Fund) initiated a large-scale engagement with over 20 companies on their political lobbying. The sectors of the companies covered in the engagement include Financials, Technology, and Pharmaceutical. The engagement was initiated following research on political lobbying and its relationship to companies' financial performance coupled with the rise in shareholder resolutions focusing on political lobbying. Schroders explained the reporting expectations, which focus on transparency and alignment, that they expect these companies to adhere to.

Engagement undertaken by LGPSC's external managers in 2020 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.

An example of this occurred in Q2 2020 when LGPSC downgraded two parts of the RAYG score of one manager from green to amber. LGPSC asked for assurances regarding the consistency of ESG integration across the portfolio, as the manager appeared confident in pre-prepared examples of ESG analysis, but less so in the companies that LGPSC had selected. It was also unclear how the outcomes of recent engagements had been incorporated back into investment decision-making. Six months later, LGPSC has now reinstated part of this score. After initiating a two-way dialogue LGPSC was able to attain a much better understanding of how the manager's engagement outcomes feed back into portfolio construction. LGPSC still is not fully comfortable with the explanation of ESG analysis and will continue to press the manager during quarterly discussions. Anything that is not adequately addressed during these quarterly meetings will be scrutinized as part of LGPSC's in-depth annual manager review.

LGPSC views engagement with fixed income issuers as fully possible and value accretive, both via information gains and via the potential to influence company management. LGPSC tests this during the initial due diligence process when selecting and onboarding managers. The Company looks for evidence of robust issuer engagement and any manager unable to provide this is marked down. Following on from the selection process, LGPSC continues to monitor engagements undertaken by fixed income managers during quarterly monitoring meetings. LGPSC seeks to determine whether the manager is successfully enacting the level of engagement that was pitched, and challenge accordingly if their response seems unsatisfactory. These discussions subsequently feed into LGPSC's manager scoring system.

The engagement conducted by LGPSC's fixed income managers in 2020 was rigorous and effective. One of the Emerging Market Debt managers, M&G, have developed an enhanced engagement process. This includes a Climate Engagement Priority 100 list which is selected according to a multitude of factors including: contribution to total emissions; likelihood of achieving change; size and materiality of holding; and position as a leader/laggard relative to the wider industry. This high-quality stewardship gives LGPSC confidence in M&G's ability to effectively manage the climate-related risks the portfolio may be exposed to.

Future developments to the manager monitoring

We plan to undertake 12-month reviews in 2021 for Active Equity, Fixed Income and Private Equity managers The Director of RI & E provides challenge to the external manager scores through attendance at the LGPSC quarterly portfolio review meetings. It is envisaged that this structure will be rolled out asset class by asset class during 2021 and early 2022.

This structure is further evidence of LCPSC's commitment to integrating RI across investment teams and our belief that RI is not just a prerogative of the RI & E team, it is something that all colleagues need to embrace if we are to realise the benefits in full.

Review of EOS' services

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

The RI&E Team undertakes an annual review of EOS' services to provide assurance to the Investment Committee that the Stewardship Provider, EOS at Federated Hermes, is delivering sufficiently against the terms of the contract. This document is issued to and approved by the Investment Committee on an annual basis. See below an extract from the 2020 review, which highlights Q3 engagement and voting data as full-year data at this point was not yet available.

Summary for 2020 review:

- Provider has given generally strong and value-adding services to LGPSC
- Provider has given direct support to Partner Funds through participation at virtual RI Day in July 2020 and at all PAF RI Working Group meetings during the year

KPI AREA	*KPI REVIEW*
Global engagement	Engaged 261 companies, with a regional and thematic breakdown shown in Appendix 1
Engagement quality	At least one milestone was moved forward for 39% of current engagement objectives (year to end Q3 2020)
Voting coverage	Made voting recommendations at 339 meetings, with a regional breakdown shown in Appendix 3
Client service	Majority of queries to EOS were dealt with in less than 24 hours
Complaint handling	LGPSC discovered two voting-related mistakes during voting season; following discussion measures have since been taken to prevent similar mistakes in future
Client service meeting	Three meetings held pre, during and post voting season 2020 relating to planning of voting season, complaint handling and overall feedback on EOS' services
Reporting punctuality	Reporting on schedule for Q1, Q2 and Q3 2020
Reporting quality	Overall good quality, but Q1 fund-by-fund statistics gave a design error that had to be rectified by EOS
Team stability	Significant growth in North American team with satisfactory overall turnover

Engagement

4.0 Engagement

PRINCIPLES 9-11

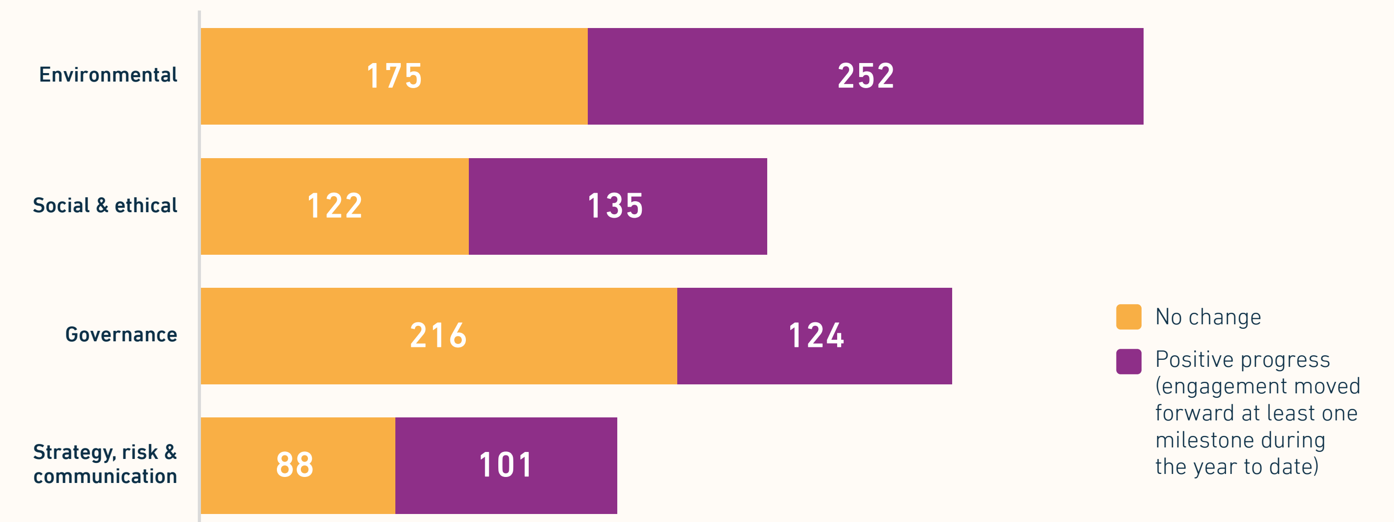
PRINCIPLE 9 4.1 Engagement with issuers

Alongside our own direct engagements, we have several partners that engage companies on our behalf: EOS at Federated Hermes (Stewardship provider to LGPSC) and LAPFF. Through these partnerships, LGPSC was able to engage more than 1,000 companies on material ESG related issues in the course of 2020. Below we give further detail and examples to some of these engagements, including engagements that relate to LGPSC's Stewardship Themes (see Section 4.1.1).

The majority of these engagements were conducted by EOS who engaged with 845 companies on 3,043 environmental, social, governance, strategy, risk and communication issues and objectives. EOS takes a holistic approach to engagement and typically engages with companies on more than one topic simultaneously. 1,406 of the issues and objectives engaged in 2020 were linked to one or more of the UN Sustainable Development Goals (see Figure 4.1.2 below). At least one milestone[4] was moved forward for about 50% of EOS' engagement objectives during the year. Figure 4.1.1 below describes how much progress has been made in achieving the milestones set for each engagement.

LGPSC and all our Partner Funds are members of the Local Authority Pension Fund Forum (LAPFF). LAPFF conducts engagements with companies on behalf of local authority pension funds. In 2020, LAPFF engaged 123 companies through more than 250 meetings across a spectrum of material ESG issues. In 79 out of 308 engagement interactions LAPFF saw improvements and/or change in progress.

Figure 4.1.1 Progress against engagement objectives in 2020

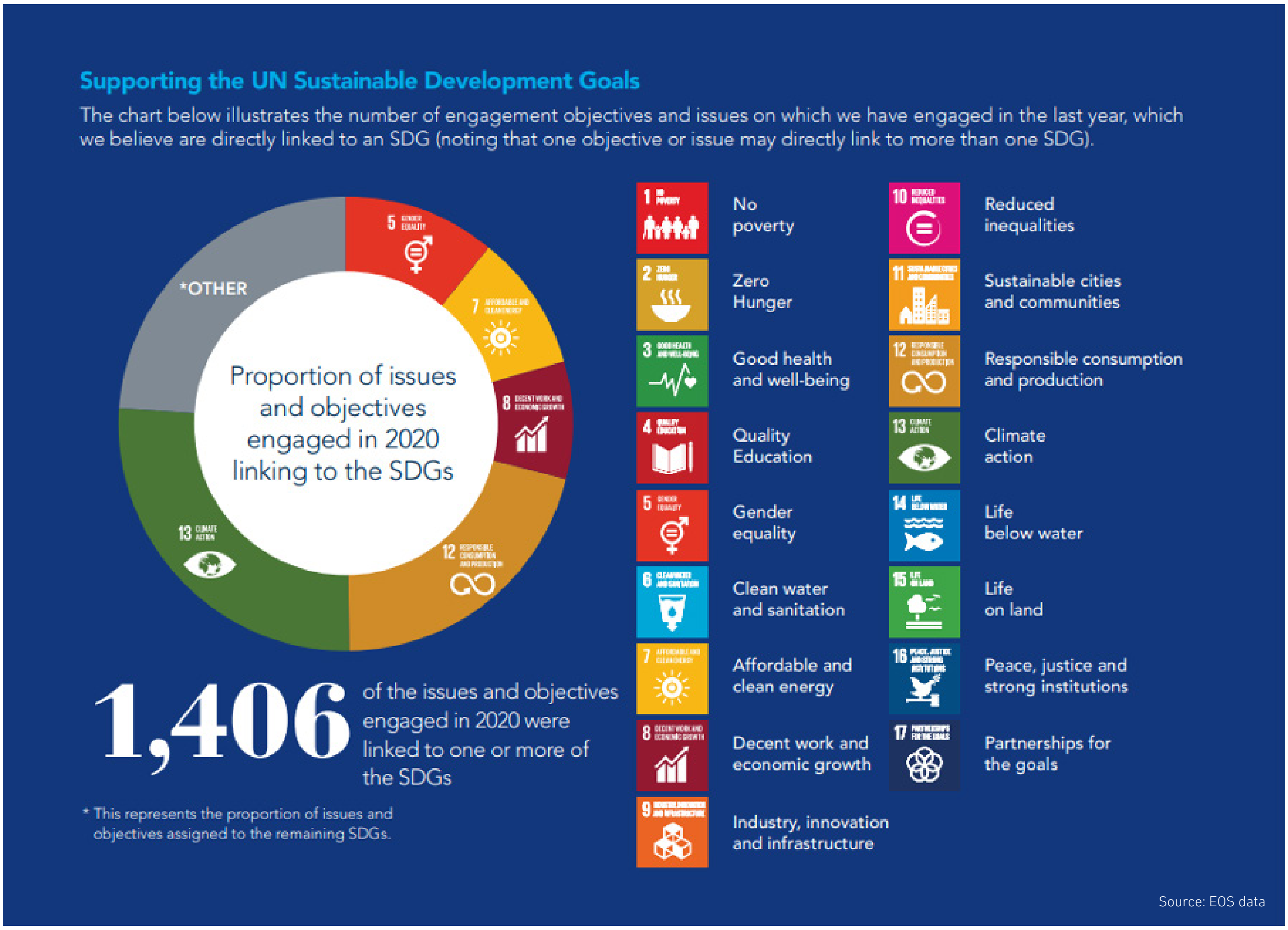


Source: EOS data

[4] EOS' proprietary milestone system allows tracking of engagement progress relative to the objectives set at the beginning of interactions with companies. The specific milestones used to measure progress in an engagement vary depending on each concern and its related objective. They can broadly be defined as follows:

- **Milestone 1** Concern raised with the company at the appropriate level
- **Milestone 2** The company acknowledges the issue as a serious investor concern
- **Milestone 3** Development of a credible strategy/Stretching targets set to address the concern
- **Milestone 4** Implementation of a strategy or measures to address the concern

Figure 4.1.2 Engagement supporting the UN Sustainable Development Goals



4.1.1 Stewardship Themes

It is not feasible to engage all companies we hold through ACS portfolios (current holdings across equity portfolios is 2,600 stocks), even with the assistance of a high-calibre external stewardship specialist. Identifying core themes that are material to our investment objectives and time horizon, and that are perceived to be of relevance to stakeholders, helps prioritise and direct engagement.

In collaboration with our Partner Funds, we identified four themes at the start of the financial year 2019-20, which have been given particular attention in our ongoing stewardship efforts:

- Climate Change,
- Plastics,
- Fair and Transparent Tax Behaviour, and
- Technology and Disruptive Industries Risks.

4.1.2 Stewardship Theme engagements - progress and outcomes

Climate Change

Stewardship strategy:

Engagement is done through key collaborative initiatives including CA100+, Institutional Investor Group on Climate Change (IIGCC) and the Transition Pathway Initiative (TPI).

Measures of success:

We assess progress against the underlying objectives of the CA100+ engagement project, and against improvements on TPI score for management quality and carbon performance. Our aims are:

- To lead or be in the focus group of at least three CA100+ company engagements over the next year
- To see improvements on TPI score for management quality in key engagements
- To see improvements on TPI score for carbon performance in key engagements

Climate engagement case

During 2020, LGPSC continued engagement with audit committees of companies with high exposure to climate change risks. The initiative is a satellite to the CA100+ engagement project and supports the overall goals of CA100+. In November 2019, letters went to three oil and gas majors – BP, Shell and Total – asking for assurances that key financial disclosures to shareholders take due account of all risks, including climate change. If climate risk is not taken into account, the longevity and value of assets held by the company may be over-estimated, which could lead to capital being misdirected. The investor group, led by Sarasin & Partners, published a statement in June 2020 welcoming a recent announcement by BP that the company will lower long-term oil and gas price assumptions used in financial statements to reflect a decarbonising world. The group commended **BP** for this move and the statement also positively acknowledges the fact that **Shell and Total** have similarly lowered their oil and gas price assumptions used in their 2019 audited accounts. The companies in question are willing to engage on the subject and this positive momentum has been harnessed during 2020 through a broader engagement based on a set of Investor Expectations for Paris-aligned Accounts. These expectations were communicated by letter to 36 energy, material, transportation companies in November of 2020.

Engagement highlights during 2020

- 10 live climate-related engagements (eight of which are Climate Action 100+ companies)
- Taking a holistic outlook with engagement across sectors, both supply and demand for fossil fuels, as well as auditors who audit accounts and banks that provide lending
- Done through key collaborative initiatives including Climate Action 100+, Institutional Investor Group on Climate Change (IIGCC) and the Transition Pathway Initiative (TPI)
- LGPSC's voting is engagement-led and reflects the expectation of Paris alignment. Specifically, if a company is assessed by the TPI's Management Quality Framework to be at a level 2 or below (where 4 is maximum score), LGPSC will consider voting against the company Chair, and other relevant directors or resolutions. Ahead of the 2021 voting season, LGPSC expresses a heightened expectation in that companies should be above a level 3 in TPI's Management Quality Framework
- We have seen progress during 2020 through the setting of net-zero by 2050 ambitions and initial steps to set short- and medium-term targets aligned with long-term ambition. There is also progress among the majority of these companies in partially or fully including Scope 3 emissions in target-setting
- TPI scores for the majority of these companies have stayed neutral or improved
- Gaps: As evidenced through the CA100+ Benchmark Framework assessments (published in March 2021), most companies are still in the early stages of the shift to a net zero economy. Gaps remain in aligning capital expenditure plans with net-zero ambitions and in linking delivery of climate targets with remuneration. Climate policy lobbying also remains an area of concern, where most companies need to improve processes and transparency around how they ensure alignment with their own climate positions and the advocacy done on their behalf through industry associations

Plastic pollution

Stewardship strategy:

We will leverage investor collaboration opportunities for instance through the PRI Plastics WG and Investor Forum's Marine Plastic Pollution project. Voting will be engagement led, and we will e.g. consider co-filing or supporting shareholder resolutions that relate to better risk management (reduce plastic use, reduce plastic waste, increase recycling, invest in relevant R&D).

Measures of success:

- We aim for positive interactions at senior levels of target companies and acknowledgement of plastic as a business risk, along with commitments to strategies or targets to manage those risks
- We aim to lead or be part of at least three plastics-related company engagements over the next financial year
- We aim to support investor expectations – e.g. as expressed by the PRI Working Group – in dialogue with companies

Case study

LGPSC engaged a **US-based industrial packaging company** which is seeing greater interest from its customer base for sustainability in the last 4-5 years and as a result, is expanding its post-consumer resin (PCR) products, capabilities and technologies. Demand for PCR is greater among customers in Europe than in North America and the Company is actively educating its customers both on the quality and safety of recycled products and on emissions impacts for specific products. In all these engagements, the investor group would like to see ambitious targets for reduction, re-use and replacement of plastic and clear Key Performance Indicators (KPIs) and timelines for how targets can be achieved. The aforementioned Company is currently going through a KPI setting procedure and we encouraged them to integrate relevant KPIs on sustainability progress in executive remuneration. The Company seems to welcome further investor input to the KPI setting process, and the group will continue dialogue to discuss the development of targets and what progress is being made against those.

Engagement highlights during 2020

- Six live engagements
- Focus on packaging companies, which is one of the sectors more exposed to risks and opportunities stemming from plastic transition
- Collaborative engagement through a sub-group of the PRI Plastic Working Group, led by Dutch investors Achmea Investment Management and Actiam
- The objective is to engage and support progress for companies in a 'Plastics transition' - to reduce, re-use and replace fossil-fuel based plastics
- With increasing attention from governments to the negative impacts of plastic use and consumers calling for less harmful alternatives, investee companies in the plastic value chain are exposed to increasing regulatory risks, environmental risks, reputational risks and the risk of missing out to market developments
- 1-2 meetings have been held with each of the companies in the course of 2020 with an overall high level of receptiveness to investor concerns
- Direct engagement has been combined with "knowledge sharing" events hosted by PRI Plastic WG where some of the companies have taken part
- Sector-specific expectations have been developed by the broader PRI WG and engagement will continue with the six companies during 2021 based on these

Responsible Tax Behaviour

Stewardship strategy:

We will leverage investor collaboration opportunities for instance through PRI Tax Investor Working Group and a newly initiated Tax Roundtable (led by NBIM (Norway) and APG (Netherlands). Voting will be engagement led, and we will consider co-filing or supporting shareholder resolutions that relate to better risk management (through tax policy, board oversight, country-by-country reporting).

Measures of success:

- We aim for positive interactions at senior levels of target companies and acknowledgement of lack of tax transparency as a business risk, along with commitments to strategies or targets to manage those risks
- We aim to lead or be part of at least three tax-related company engagements over the next financial year
- We aim to support investor expectations – e.g. as expressed by the GRI tax standard and the UK Fair Tax Mark – in dialogue with companies

Case study

In conversation with a **US-domiciled software and services company**, LGPSC and fellow investors discussed the Company's approach to tax and how it defines and manages tax related risks. The Company established a Global Corporate Income Tax Matter Policy in 2019 and we were told that the Board stays closely involved and asks questions around tax risk through its Audit Committee. The investor group probed the Company on its tax strategy for digital products and the use of foreign jurisdictions with lower tax rates. It is generally concerning if companies appear to utilise aggressive tax planning strategies. While the company we engaged assured investors that it is not seeking tax havens, we would like to see that more clearly articulated in both policy and practice. The Company has a subsidiary incorporated in Ireland, but which is tax resident in another jurisdiction paying zero tax. This raises some 'red flags' from the outset and does not appear to be in line with OECD's Base Erosion and Profit Shifting Framework. The investor group will seek further clarification from the Company on the underlying realities and whether we might expect a change in tax practices under the newly established tax policy.

Engagement highlights during 2020

- Six live engagements
- LGPSC has formed a collaboration with four other, European investors which is a sub-group to a broader Tax Roundtable led by Norges Bank Investment Management and APG
- Group has sought engagement with companies across technology, telecommunications, finance and mining sectors where a low effective tax rate was an initial concern with several of these
- Engagements have been initiated through letter outreach and subsequent meetings with five out of six companies
- Key asks: Board oversight of tax policy and risk assessment; disclosure of tax strategy and policy; robust management of tax related risks, including preferably a country-by-country tax disclosure; link between company's purpose, sustainability goals and tax strategy; engagement with tax policy makers and other stakeholders
- Alongside direct engagement, the broader Tax Roundtable is developing a set of Tax Transparency expectations that amalgamate expectations set by individual investors
- Engagement will continue with all companies, bar one, which is considered a best practitioner, and may be expanded in scope. The level of tax transparency is generally low across companies and sectors

Technology and disruptive industries risk

Stewardship strategy:

We will leverage investor collaboration opportunities for instance the New Zealand Crown-owned investors' coalition aimed at eliminating terrorist and violent extremist content online. Voting will be engagement led, and we will e.g. consider co-filing or supporting shareholder resolutions that relate to better risk management on social media content control and human rights risks.

Measures of success:

- We aim for positive interactions at senior levels of target companies and acknowledgement of the above-mentioned risks faced by many tech companies
- We aim to lead or be part of at least three engagements with tech companies over the next financial year
- We aim to support benchmarks such as Ranking Digital Rights, the Workforce Disclosure Initiative and a potential new SASB standard on social media content control

Engagement highlights during 2020

- Six live engagements
- LGPSC is part of two collaborative initiatives: one focusing on social media content control, and one addressing human rights more broadly (see further detail on the latter under Principle 10 below)
- Big tech companies have initially been hard to engage due to the founder/owner governance structure of most of these companies and a seeming inclination to ignore minority shareholders' voices
- The social media content control engagement project has garnered impressive investor support from 102 financial institutions including West Midlands Pension Fund and LGPSC since inception in March 2019 (see further detail in case study below)
- In the face of COVID19 and a highly polarised US presidential election November 2020, the social media content control engagements garnered momentum through pressure from advertisers and other stakeholders (including World Federation of Advertisers) on harmful content including hate speech and aggression

Case study

During the latter half of 2019 and all of 2020 LGPSC has taken part in collaborative investor engagement, led by the New Zealand Crown-owned investors, with **Facebook** and **Twitter** to discuss their governance and operations to ensure appropriate social media content control. This big tech engagement project was initiated following the horrific Christchurch attacks in March 2019 which were livestreamed on social media platforms. Both companies are taking encouraging steps to efficiently assess content and to remove objectionable content from their platforms. Technology is developing rapidly and with the help of AI the companies appear more effective at capturing contextual content such as hate speech. Facebook has established an Oversight Board to ensure fair decision-making in situations where free speech is at odds with authenticity, safety, privacy and dignity, and that will assist in hearing difficult and important content removal decisions. The Board may overrule management and may comment on policies in order to ensure that these are aligned with the company's core values. Rebuilding trust with advertisers and users should be a focus for Facebook going forward. We expect them to move the discussion from a focus on risk management and mitigation to prevention. Twitter provides a public biannual transparency report which describes how content is managed in relation to issues like elections integrity, cyber security, data protection and harmful content amongst others. Twitter actively seeks collaboration with peers and other stakeholders in order to discuss the challenges and how they can best be tackled. The investor coalition has signalled to both companies the importance of board oversight and has requested to meet board directors at both companies as engagement continues.

4.1.3 Engagement on themes and issues outside of Stewardship Themes

Engagement case: Diversity

Japanese boards have one of the lowest proportions of female representation in major markets and therefore it is highly welcome that the 30% Investor Club opened a 30% Investor Club Chapter in Japan in May 2019. Together with fellow 30% Investor Club members, and led by Royal London Asset Management, we engaged a Japanese financial services company on the issue of diversity and inclusion during 2020. Interestingly, the Company had not been approached by investors to discuss diversity previously, so this was the first dialogue on the issue. The Company has established a Diversity Promotion Committee to ensure that measures such as child-care leave, flexible and shortened workhours, flexibility to change work location, support of women's empowerment (e.g. through leadership seminars) are offered to employees across the organisation. A general hurdle to achieving greater diversity at board level is the fact that historically, Japanese women in their 40ies and 50ies gave up their careers to raise families. During the investor meeting, we found the company had no targets for gender representation on the Board and deemed 30% Club aims unrealistic. Its only gender diversity goal is to increase female senior executives, which currently represent 4%, from 10 people to 20 people by 2025. We encouraged the Company to set and/or increase targets for diversity at all levels of the organisation and to provide more information to investors on how these targets will be met going forward.

Combatting modern slavery

In the course of 2020, LGPS Central joined a collaborative investor-initiative convened by Rathbones Brothers Plc (Rathbones) to press 22 laggard **FTSE 350 companies** that had failed to meet the reporting requirements of Section 54 of the Modern Slavery Act 2015. According to the Act, companies over a certain size (turnover of more than £36 million per year) have to post a modern slavery statement on their website. Furthermore, they must have a process in place by which the statement is approved by the board; signed by a director; and reviewed annually. The project has a two-fold objective of highlighting the importance of eradicating modern slavery in supply chains of FTSE 350, and across businesses globally, as well as encouraging a greater degree of challenge from investors on social issues. The engagement was a success and 20 out of 22 companies have become compliant with the Modern Slavery Act during 2020 due to investor pressure. A phase II engagement project has been launched by Rathbones during Q1 of 2021, to engage a further 62 FTSE350 companies asking Modern Slavery Act compliance. As per end April 2021, all companies have responded and 45 are now compliant. Initial positive responses have given an opening for future meetings to discuss companies' approaches to modern slavery. This is an important step beyond the initial ask of compliance with the Modern Slavery Act, to focus on the content of the statement and to enable investors an understanding of the key risks facing individual companies.

4.1.4 Further refinement of engagement and voting going forward

Engagement:

We want to allow more room for research, especially given that three of our four Stewardship Themes are relatively new. During 2020, LGPSC was either leading or actively involved in 28 engagements. Even with an expansion of the RI&E team, (see Section 2.2.2), we view it as appropriate and efficient to aim for approximately 12-15 live, direct engagements per year. We will also aim for a better balance between the four Stewardship Themes, with approximately 3-5 live engagements per theme. During 2020, Climate Change was by far the most dominant engagement theme. This is to a degree warranted due its dominance as a material financial risk among ESG issues, but we still view it as appropriate with a larger degree of balance between themes. Outside of themes, we also engage on issues of core corporate governance including remuneration and board diversity, hence the stewardship theme related engagements should ideally be at a somewhat lower number.

We also aim to link up our engagement activity closely with ESG risks identified in our portfolios. This will be driven by individual company exposures, industry concentrations and exposure to ESG related themes.

Voting:

Based on learning over the 2020 proxy season, we aim to reduce the number of Watch List companies down from 70-80 companies to around 50 (see further detail on the Voting Watch List under Section 5.2 below). Thorough assessment of resolutions at any given company's AGM is time consuming and we aim for quality over quantity. A shorter list will also increase our ability to ensure that voting is engagement-led for that selection of companies. This makes the voting more impactful. We stay in close contact with our stewardship provider on these issues and may adjust the watch list further in future.


CatwalkPhotos / Shutterstock.com

PRINCIPLE 10 4.2 Participation in collaborative engagement to influence issuers

LGPSC has taken part in and helped build strong investor collaborations in pursuit of better corporate standards across ESG issues and in particular for each of the Stewardship Themes[5] during 2020. 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, we refer back to Section 2.4 above.

Examples of collaborative initiatives of particular importance to LGPSC's stewardship effort in 2020:

Climate Action 100+

LGPSC has since inception been an active member of Climate Action 100+ (CA100+). CA100+ engages 161 companies across the globe that are responsible for 80% of industrial carbon emissions globally. The project is currently being ramped up through a Benchmarking project asking companies to set an explicit target of net-zero emissions by 2050, and to provide verifiable evidence that this will be achieved in the short, medium and long term. LGPSC is actively involved in leading and/or supporting eight CA100+ engagements across mining, oil & gas, industrial technology, and integrated energy sectors. All companies have set a high-level ambition of being net-zero by 2050, with varying remits in scope. LGPSC is pleased to note that two of the eight companies we engage directly (**Glencore** and **Royal Dutch Shell**) have made a decision to allow shareholders an advisory vote on their respective Climate Transition Plans. While neither company has fully disclosed strategies to achieve Paris goals across all scopes and over relevant time horizons (2025, 2036 and 2050), they have taken key steps that can set each company, respectively, on a Paris trajectory. In the case of Glencore, we will particularly encourage clear and ambitious short-term targets that align with their 40% GHG emissions reduction target across all scopes by 2035, and net-zero by 2050. We will also push the company to provide more information on their climate policy lobbying activities, both directly and indirectly through industry associations, giving shareholders assurances that misalignment will be addressed in a robust manner.

Plastic pellet industry standard

Plastic pollution is a very serious global issue, with billions of plastic pellets or "nurdles" making their way into the natural environment each year. This poses a serious threat to the ecosystem and is potentially also a health threat to people. LGPSC is collaborating with the Investor Forum, peer investors and other stakeholders including Marine Scotland, the British Plastics Federation and the British Standards Institute to sponsor and create the first industry specification to prevent plastic pellet pollution. The new specification, a so-called Publicly Available Specification (PAS), will set out measures to prevent plastic pellet leakage and help companies demonstrate good practice in pellet loss prevention across their supply chains. The overarching goal of this PAS is to help companies achieve and maintain zero pellet loss across their pellet handling operations. After 9 months of preparation, an expert group with representatives from 23 organisations (plastic pellet producers, plastic manufacturers, recyclers, retailers, trade associations, NGOs and government agencies) proposed a plastic pellet PAS which went out for consultation during Q1 of 2021. Fauna & Flora International, the investor-sponsor group's representatives, are pleased that the expert group achieved consensus on the following key points; the need for the PAS to be a performance standard, allowing verification of efficacy of the pellet management measures being used, and continual improvement in performance by companies. Influencing corporate practices on a theme across industries is a powerful engagement tool and we will use the plastic pellet PAS as a direct reference in engagement with relevant industries including plastics manufacturers, transportation, retailing and recycling organisations once it is made public.

[5] Confer with response to Principle 4 (p14) above for further detail on LGPS Central Stewardship Themes

Tech sector and human rights standards

LGPSC has taken part in collaborative investor engagement, led by the Council on Ethics to the Swedish National Pension Funds discussing human rights risks with a group of American technology companies. This engagement is part of a broader project to engage technology companies on a wide range of human rights risks including privacy and data protection; freedom of expression; disinformation in public and political discourse; and discrimination and hate speech. These are complex issues that require solutions both within the companies' own sphere of influence, as well as industry standard and public policy intervention. Through this engagement project, investors are opening a line of dialogue and collaboration to encourage greater transparency, better governance and board oversight and overall alignment with existing human rights standards by technology giants. In partnership with the Danish Institute for Human Rights, the Council on Ethics has identified what are reasonable human rights expectations of companies such as Facebook, Google (Alphabet) and Twitter. These expectations were shared and discussed with technology companies during Q4 of 2020 and officially published in December 2020. With clearly articulated expectations, investors have a good baseline for ongoing engagement with technology companies and a means for a more constructive and effective dialogue regarding the companies' responsibility for and impacts on human rights. We view it as critical that big tech firms work strategically on human rights risks and that they are willing to collaborate across their value chain in order to find adequate solutions. Encouragingly, we note that several companies welcome the articulation of comprehensive investor expectations and seem willing to engage on these, and to contribute to the setting of common standards for the industry.

Deforestation

LGPSC engages on the long-term investments risks inherent in deforestation continues, both at policy and company levels. The pool company recognises the crucial role that tropical forests play in tackling climate change, protecting biodiversity and ensuring ecosystem services, which again has an impact on economic development and the stability and well-functioning of capital markets. During Q1 of 2021, the Chair of the LGPSC Board, Joanne Segars, took part in a meeting with the Vice President of Brazil, representing LGPSC as a member of the investor coalition "Investor Policy Dialogue on Deforestation" (IPDD). This was one of several meetings initiated by IPDD with the highest political levels in Brazil across government, central bank and the congress[6]. LGPSC and fellow investors expect Brazilian authorities to halt and reverse deforestation while allowing investors access to data to monitor progress. The Brazilian government acknowledges the urgency in reducing illegal deforestation, however actions taken so far have been inadequate and the rate of deforestation in the Amazon is sadly continuing to increase. We will continue this important engagement, harnessing what appears to be a joint view from both sides that the forest is more valuable standing than destroyed.

[6] IPDD is led by Storebrand (Norway) and BlueBay Asset Management (UK) and LGPSC is on the IPDD Advisory Committee. IPDD will be a two-year project that also aims to span other regions of the world that face deforestation risk.

PRINCIPLE 11 4.3 Escalation of stewardship activities to influence issuers

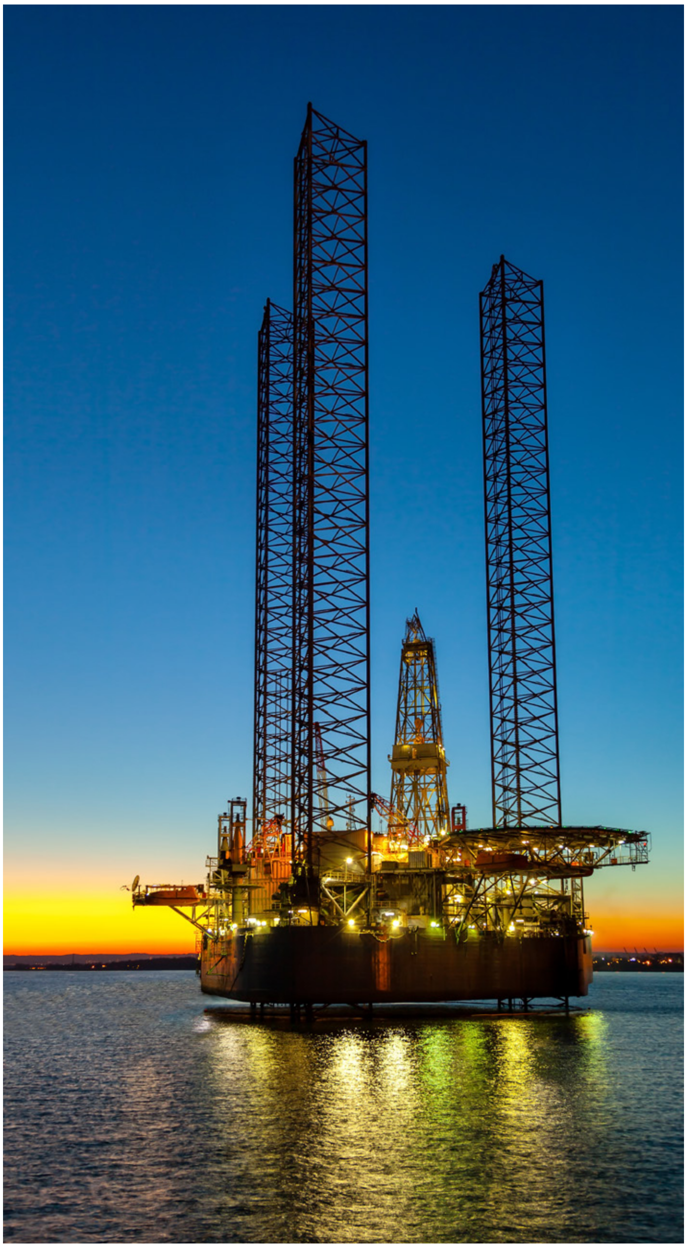
Barclays

LGPSC alongside 10 other investor institutions and led by Share Action, filed a shareholder proposal at **Barclays Bank** in January 2020. The proposal stipulates that Barclays should disclose targets to phase out the provision of finance to companies in the energy and utility sector, that are not aligned with the Paris climate change goals. In other words, investors asked Barclays to establish and disclose plans/strategies to align their loan books with the Paris accord. The proposal received 34% support including abstentions at the AGM.

- The investor group held multiple meetings with senior management of the company during the first part of 2020, as well as directly with the Chair of Barclays Board
- Barclays – close to the AGM in May 2020 – announced an ambition to become a "net-zero bank" covering emissions across Barclays' own operations and those of its Partner Funds
- Developments post AGM: The investor group very much welcomes the bank's decision to join the Partnership for Carbon Accounting Financials (PCAF), its development of a methodology to measure and reduce GHG emissions that covers its capital market activities, and its setting of emissions reduction targets for energy and power & utilities portfolios
- Although LGPSC at the time of filing held only 0.05% of the company, that shareholding allowed the pool to take strong shareholder action on behalf of Partner Funds that spurred constructive dialogue and clear, positive outcomes at Barclays
- More broadly, this engagement can be a conduit to engagement across the banking sector and help raise the bar for climate risk management in that sector
- Gaps: Some concerns remain, such as the bank's exposure to fossil fuel assets, including coal and oil sands. As per April 2021, the bank has not updated its position on these fuels since it announced its net-zero ambition. Engagement will continue to address this, and LGPSC is keen to see further evidence that all of Barclays' lending activities, including those that bear the most climate risk, will be addressed with Paris agreement urgency

Repsol

In December 2019 Repsol became the first oil and gas company to commit to a net-zero emissions goal, supported by a decarbonisation pathway with interim targets. In 2020, together with the co-lead for the company under Climate Action 100+, EOS submitted a statement to the company's annual meeting. Repsol's net-zero commitment is welcome. In light of the low oil price and the coronavirus pandemic, which would have a material impact on the climate strategy, it was pleasing to hear the company reaffirm its decarbonisation ambition. The engagement between EOS at Federated Hermes, the broader Climate Action 100+ engagement group and Repsol continues to advance, now with a focus on implementation of the net-zero pathway.



Voting

5.0 Exercise of rights and responsibilities

PRINCIPLE 12

5.1 Objectives

High-level objectives:

LGPSC views voting as a core component of our Stewardship efforts. In a long-term perspective, all voting activities we undertake aim to:

1. support the long-term economic interests of our stakeholders and
2. ensure boards of directors are accountable to shareholders.

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

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 the Coronavirus pandemic – 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).

Voting reinforcing engagement:

As far as possible, we aim to use voting to reinforce and promote ongoing engagements, whether carried out directly through LGPSC, through collaborative initiatives or through our external stewardship provider EOS at Federated Hermes. This means that we regularly raise issues concerning environmental sustainability, including climate change, and broader social issue like human rights risk oversight and management through our voting. Many votes against management concern good governance (board composition, board oversight and skill sets, remuneration etc.) – these votes are often an expression of underlying concerns with lack of expertise and or/oversight at board level on issues like climate change or human rights. We also know that strong governance increases the likelihood of companies dealing well with environmental and social risks. During April – June 2020 (high voting season) many ESG-related shareholder proposals got very strong or even majority support.

5.2 Strategy

Ensuring that Voting Principles are applied:

We have set up a structure whereby EOS at Federated Hermes provides us with 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. We currently hold approximately 2,600 companies through our ACS equities funds. With this voting structure, we have reasonable certainty that votes are cast according to LGPSC Voting Principles across a voting universe that under no circumstance could be checked manually at each individual company level. In minority cases where a company we are engaging and/or that LAPFF has issued a voting alert for falls outside EOS' main engagement, we often consult ISS research directly.

Voting Watch List:

It is not feasible for the RI & E team to do in-depth research into all proxies that will be voted at each of the companies we hold through our ACS equity funds. In order 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 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. Watch List companies are a combination of larger holdings across our equity universe and/or core engagement companies. The Voting Watch List serves a further purpose, in allowing us to test whether our votes are generally cast in alignment with our Voting Principles.

Interaction with EOS at Federated Hermes:

- We share the Voting Watch List with EOS ahead of each voting season, who will provide more detailed analysis to substantiate their voting recommendations for companies on the list ahead of the AGM

- We will seek ad-hoc interactions/meetings with EOS in regard to core holdings or key engagements, where either they or we would like further input from the other ahead of a vote

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:

- At a minimum, the Stewardship Manager will hold one voting-related meeting with each external manager annually ahead of the voting season
- External Managers will be kept up to date on any changes to LGPSC Voting Principles
- 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
- The Stewardship Manager 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

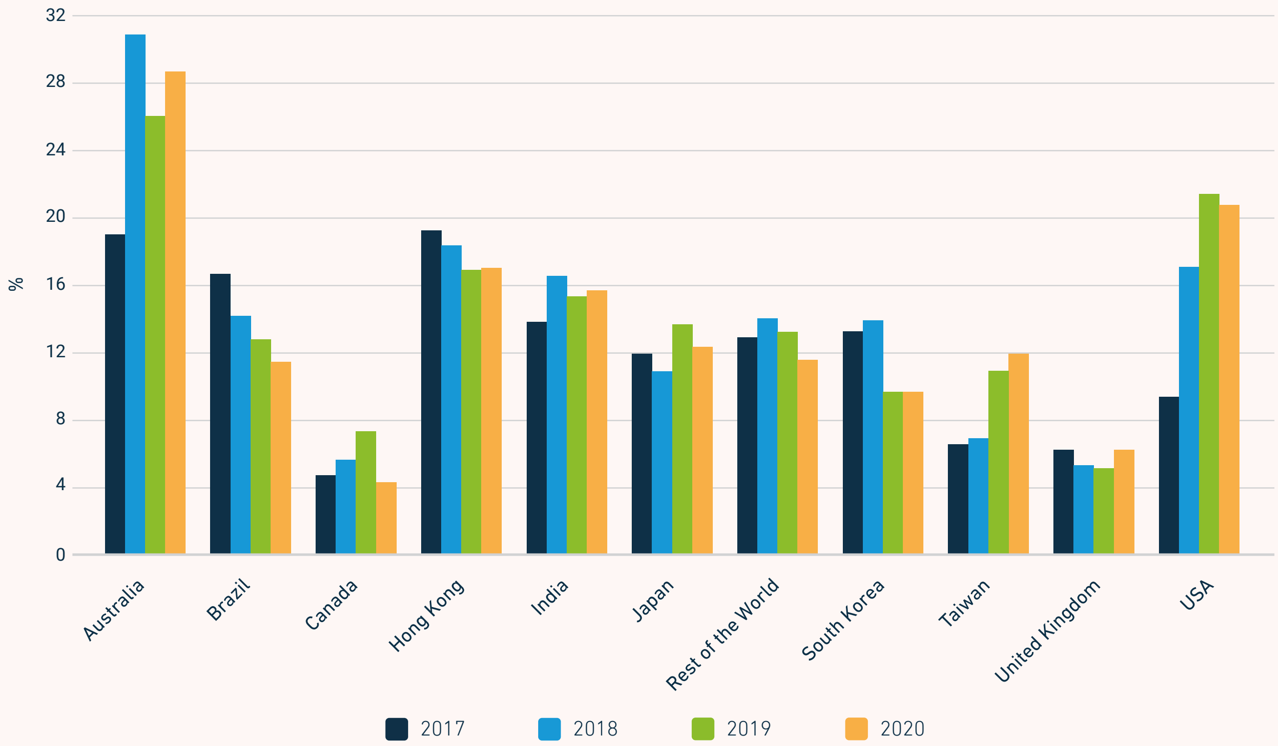
5.3 Voting highlights 2020

The 2020 voting season saw many companies in the US and Europe opt for virtual shareholder meetings against the backdrop of COVID 19. While the virtual format posed fresh challenges for companies and investors alike, it is clear that the attention to material ESG issues remains high on investors' agendas and many ESG-related shareholder proposals got very strong or even majority support. The majority of shareholder proposals that we voted for (against managements' recommendation) were on environmental and social & ethical issues.

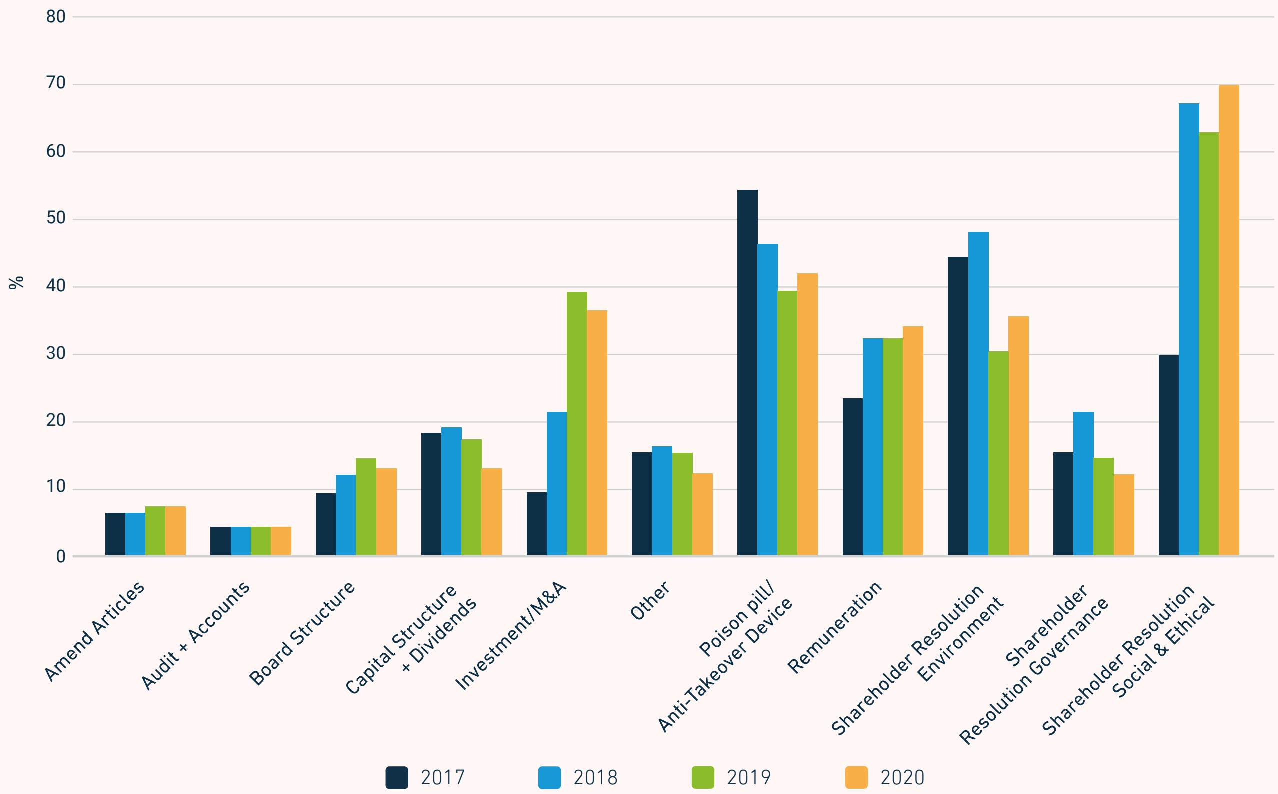
2020 Voting Statistics:

- Voted at more than 11,000 meetings
- 124,000 resolutions
- Attended 3 virtual AGMs (Glencore, Honeywell Inc and Citigroup)
- EOS attended 24 AGMs on our behalf, including Deutsche Bank, BP, Google owner Alphabet, Novartis, Amazon and Facebook
- Voted against management for one or more resolutions at 55% of meetings
- Climate change, human capital management during COVID 19, and gender and ethnic diversity were at the forefront of investors' concerns
- High-profile successes in investors calling for Paris-alignment: Woodside Petroleum (50% support), Santos (47% support) and Barclays (34% support including abstentions)
- Voted against approximately 1,500 proposals due to concerns relating to board composition and lack of independence and/or diversity
- Voted against 35% of pay proposals
- In the US, we opposed 81% of pay proposals including at McDonalds' due to concerns about excessive severance package awarded to the former CEO, and at Facebook, due to concerns about high pay and the lack of shareholding requirements for executives
- In the UK, we opposed 50% of remuneration policy proposals. This was for concerns including an excessive variable pay opportunity (as at GSK, AstraZeneca and Royal Dutch Shell), insufficient share ownership guidelines (Intercontinental Hotels Group) or insufficient action to align executive pension contributions with those available to the workforce (J Sainsbury)
- We are seeing more Chinese state and non-state companies introducing or proposing amendments to share incentive schemes, giving us the opportunity to push for better practices

Percentage of proposals voted against management per key market in 2020



Proportion of resolution type with recommended votes against management



Source: EOS data

At the start of voting season 2020, LGPSC provided its Partner Funds with a briefing on the application of LGPSC's Voting Principles in light of the health pandemic disruptions. Table 5.3.1 below is an overview of elements where flexibility was applied and examples:

TABLE 5.3.1: VOTING APPROACH DURING COVID 19 PANDEMIC

LGPSC COVID 19 VOTING APPROACH	*EXAMPLES OF VOTES REFLECTING COVID APPROACH*
An intention to be supportive of **hybrid AGMs** and of companies that facilitate additional shareholder events with the board of directors	LGPSC attended and asked questions at three virtual shareholder meetings; **Honeywell Inc**, **Citigroup Inc** and **Glencore** EOS attended and asked questions at 24 virtual shareholder meetings, including **Deutsche Bank**, **BP**, **Google owner Alphabet**, **Novartis**, **Amazon** and **Facebook**, up from nine in 2019. EOS made statements for nine companies and asked live questions at six meetings, submitting questions in advance for others
Director elections – we will consider voting "For, by exception" directors that we might otherwise have opposed for reasons of poor corporate governance (tenure, diversity, over-boarding, etc)	In some circumstances LGPSC was more supportive of the re-election of those directors who we believed were critical to short-term crisis management, while continuing to communicate our longer-term governance concerns. For example, at **Morrisons** and **UniQure**, we supported re-election of Board directors by exception, while communicating concerns about persistent poor board gender diversity. At **Ocado Group** we also voted "for by exception" while emphasising our concern around board independence and potential conflicts of interest arising from the company secretary also being an executive director, an unusual arrangement for a FTSE 100 company
Remuneration – we welcome announcements already made by companies making downward adjustments to executive pay and will keep a close eye on pay awards especially at companies expecting the brunt of the crisis to be borne by shareholder capital or by the company's own human capital	LGPSC opposed pay proposals where we did not believe appropriate adjustments had already been made in terms of "sharing the pain" felt by stakeholders, including employees, customers, suppliers and the public – such as at **JPMorgan Chase & Co**, **Disney** and **Delta Airlines** Overall, LGPSC voted against 35% of pay proposals, compared with 37% in 2019 across investee companies
Engagement priorities including climate-relating voting – where there are no indications of imminent financial distress, we will continue to vote against companies performing poorly on climate risk, notably those companies in our engagement set; we will consider voting "For, by exception" at companies currently performing poorly but where there is a reasonable prospect of positive engagement over the longer term	LGPSC Voting Principles reference the Transition Pathway Initiative (TPI) management scoring pathway as a benchmark against which management of climate change risks and opportunities for larger and more exposed companies are assessed We voted against management during 2020 voting season where we remained concerned about the low level of climate ambition following engagement, such as at **Yanzhou Coal Mining**, **Apache** and **China Shenhua Energy** For companies with indications of imminent and severe financial distress (such as in the airline and shipping sectors), or where we believed there was a reasonable prospect of positive engagement on climate change over the longer term, we voted "For, by exception". We took this approach at **Ovintiv**, **Diamondback Energy**, **Berkshire Hathaway**, **Ameren Corp** and **Lufthansa**, amongst others

LGPS Central Responsible Investment & Engagement Team

Patrick O'Hara
Director, Responsible Investment & Engagement

E: Patrick.O'Hara@lgpscentral.co.uk
T: +44 (0)1902 916193

Valborg Lie
Stewardship Manager

E: Valborg.Lie@lgpscentral.co.uk
T: +44 (0)1902 916345

Amelia Gaston
Responsible Investment & Engagement Junior Analyst

E: Amelia.Gaston@lgpscentral.co.uk
T: +44 (0)1902 916304

Laura Michie
Responsible Investment & Engagement Junior Analyst

E: Laura.Michie@lgpscentral.co.uk
T: +44 (0)1902 916213

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