Classified as Internal

Application to FRC for signatory Status to UK Stewardship Code 2020

2022 Submission

Contact: Peter Chadderton Pensions Investment and Responsible Investment Manager

Email: peter.chadderton@shropshire.gov.uk

Tel: 07990086399

Foreword

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

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

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

1.4 In December 2022 the Fund's third annual Climate Risk Report was presented to the Pensions Committee, this delivered a view of the climate risk of the Fund's entire asset portfolio, accompanied by proposed actions the Fund could take to manage and reduce that risk. The results were used in the Fund's public-facing Climate related Financial Disclosures for the third year. The Fund was particularly pleased to see that our initial focus on transitioning both passive and active equity mandates into sustainable equity funds has resulted in the Fund's overall carbon intensity being reduced by 46% since March 2020 with 42.96% reduction in financed emissions over the same period.

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

1.6 The climate risk reports have been critical in establishing and understanding the Fund's baseline position and in helping formulate its future investment approach. For example, the Climate Risk Report enabled the Fund to develop a targeted stewardship plan for engagement with fund managers and those investee companies who have the most relevance to holdings in the Fund's portfolio that are highly exposed to climate change risk. This has also enabled the Fund to take a measured and informed approach in affecting transition of underlying assets through engagement, alongside asset allocation to transition out of those assets with a high carbon footprint. The impact of these decisions in demonstrated by the carbon reductions seen in the last report following positive action by the Fund in the structure of its portfolios.

1.7 To support our initiatives and work on strengthening / improving our investment and RI approach, we have added a new role to our management structure from October 2022. This role is a Pensions Investment and Responsible Investment Manager to create more resource at a senior level to review future changes and ensure continued progress to achieving net zero alongside integration of material ESG risks across all asset classes.

1.8 We have written this report in alignment with the UK Stewardship Code 2020 and the content reflects guidance received from the FRC on the content of the report for calendar year 2022. This report has been reviewed by the Fund's Pensions Committee. The report has also been reviewed by Head of Pensions -LGPS Senior Officer to ensure the accuracy of process descriptions and content. This review and challenge have given us confidence that our reporting is fair, accurate and balanced and most importantly informative in that it imparts critical information on our approach to stewardship to our stakeholders.

T H Biggins	J. Bridges
T H Biggins (May 20, 2023 16:13 GMT+1)	Justin Bridges (May 16, 2023 11:10 GMT+1)
Tom Biggins	Justin Bridges
Chair	Head of Pensions – LGPS Senior Officer

Purpose and governance (Principles 1 to 5)

Principle 1

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

Purpose

2.1 Shropshire Council is the administering authority for the Fund under the LGPS regulations. Shropshire Council delegates responsibility for the administration and management of the Fund to the Pensions Committee. The Fund has about 220 participating employers and 48,500 member records of which 13,700 are pensioners; 18,300 are deferred; and 16,500 actively contributing. As the Fund's two largest employers are Unitary Councils, virtually all its participating employers are associated with local government activities, and 6 of the 9 members of its Pensions Committee are Councillors, the Fund's ethos is driven by a strong sense of social responsibility.

2.2 The primary purposes of the Fund are to:

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

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

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

2.3 The level of employer contribution is assessed every three years through an actuarial valuation of the Fund. This valuation establishes the solvency position of the Fund, that is the extent to which the assets of the Fund are sufficient to meet the Fund's pension liabilities accrued to date. The objective is that the Fund should be 100% funded on an ongoing basis, taking account of any additional contributions paid by employer bodies to cover any past service deficit over a 16-year time frame.

Strategy

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

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

• Monitoring of manager decisions including ESG integration

- The exercise of voting rights
- Risk measurement and management
- ESG considerations in the tender, selection, retention, and realisation of investments
- Statement of compliance with the Myners principles
- Stock lending
- Strategic asset allocation

2.6 The Fund's ISS and Funding Strategy Statement (FSS), the key document setting out how each Fund employer's pension liabilities are to be met going forward and which all employers are consulted on prior to any changes, are taken to our Pensions Committee for input, debate and ultimate agreement. Members are therefore able to have clear input and influence on the Fund's stewardship.

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

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

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

2.9 At the inception of LGPSC in April 2018, a Framework for Responsible Investment and Engagement was established which builds directly on the investment beliefs of the company's eight partner funds. It is a shared belief across our pool partners that strong investment stewardship increases our ability to protect and grow shareholder value. This document is normally reviewed annually, and was last updated in March 2021. The 2023 update is due to be added to the website in the near future.

2.10 LGPSC has identified four themes that are given particular attention in its ongoing stewardship effort. The four themes are reviewed on a three-year basis (the current period is 2020-2023): climate change; plastic pollution; responsible tax behaviour; and human rights (see further detail below under Principle 4).

2.11 The partner funds and LGPSC believe that identifying core themes helps direct engagement and sends a clear signal to companies of the areas that the partner funds and LGPSC are likely to be concerned with during engagement meetings. The Fund monitors closely the effectiveness of LGPSC and their work in this area to support the Fund in its ongoing requirements in the following ways:

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

2.12 LGPSC also supports the Fund through the annual preparation of a Climate Risk Report which assesses (a) what the climate-related risks and opportunities faces by the Fund are and (b) what options are available to manage these risks and opportunities.

2.13 During 2022, LGPSC supported the Fund in the preparation of the Fund's third Climate-related Financial Disclosures, ensuring alignment with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). We consider this a critical stepping-stone in the Fund's ongoing management of climate risk and a direct way of translating our investment beliefs on climate change into action.

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

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

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

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

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

Investment beliefs

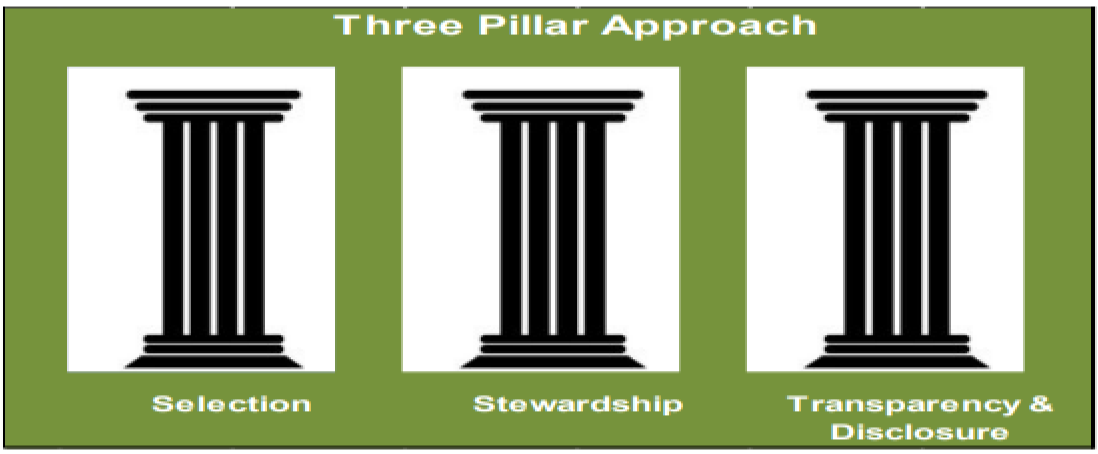
2.19 The Fund's investment beliefs are included in its ISS and encompass:

- Financial market beliefs

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

2.20 RI is a core part of the Fund's fiduciary duty, and we believe that effective management of financially material ESG risks supports the requirement to protect investment returns over the long term. The Fund's investment team seeks to understand relevant ESG factors alongside conventional financial considerations within the investment process, and the Fund's external investment managers are expected to do the same. Non-financial factors may be considered to the extent that they are not detrimental to the investment return. ESG factors include:

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



2.22 The Fund intends to realise these aims through actions taken on its three RI pillars, both before the investment decision (which we refer to as the **selection** of investments) and after the investment decision (the **stewardship** of investments).

Actions will be taken with reference to an evidence base, using the best available objective data sets. We aim to be transparent to all stakeholders and accountable to our clients through regular **disclosure** of our RI activities, using best practice frameworks where appropriate. Some recent examples of how this has been applied are:

Selection

2.23 A key recommendation from the ISS approved Pensions Committee in September 2021 was for the Fund to look at investing in a mix of sustainable equities and low carbon factor funds. The application of these beliefs has been demonstrated in 2022 by a number of investments and asset allocation actions as follows:

- Our asset allocation decision (actioned 2022) to transition our passive investments of £515m out of the Legal & General MSCI World developed Equity Index into the Legal and General Low Carbon Transition Developed Markets Fund. This fund has dual carbon objectives, to reduce initial emissions intensity by c70% compared to market capitalisation benchmarks and to maintain emissions intensity consistent with a net zero decarbonisation pathway.

- To move our UK equity portfolio £107m from Majedie to LGPSC ltd Global Sustainable Equity Active Broad Fund in May 2022

- The above changes mean that the Fund has allocated over 70% of its equity portfolio to specific low carbon related and sustainable funds. This has allowed the Fund to reduce its carbon footprint as measured in the climate risk report by over 46% in terms of carbon intensity since the base line was established in 2020.

Stewardship

2.24 The Fund has continually looked to develop and improve its approach to RI and appointed a Pensions Investment and Responsible Investment Manager in October2022 to help drive RI reporting and engagement.

2.25 In December 2022 the Fund's third annual Climate Risk Report delivered a view of the climate risk of the Fund's entire asset portfolio, accompanied by proposed actions the Fund could take to manage and reduce that risk. The results were used in the Fund's public-facing Climate related Financial Disclosures for the third year.

Transparency & disclosure

2.26 Starting in January 2020 the Fund has provided a training and workshop programme on RI, sustainable, impact and ethical investment, and the spectrum of capital for all its Pension Board and Pension Committee members to enable them to make informed decisions going forward. A workshop was provided to discuss and debate the Fund's investment beliefs for a sustainable approach to investing in September 2021 and will be held again in February 2023 as part of the review of the Fund's ISS. LGPSC also provides a dedicated annual RI training event to which all members are invited. Participation is increasing and the modular format allows members to attend for specific sessions and pick up recordings of speakers if they are unable to attend on the day. LGPSC have advised that feedback to the training has been positive and that they will continue to evolve the training based on feedback received.

2.27 The Fund makes a public version of Climate Risk report, TCFD disclosure and Climate Stewardship Plan available to the public on the Funds website. All of these documents are updated annually, and previous copies are made available to allow comparison.

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

- Measuring climate-related risks and opportunities through triennial economic assessment of the Fund's asset allocation against plausible climate-related scenarios;
- Assessing material climate-related risks and opportunities, alongside the manager's approach to mitigating these risks as part of the selection and due diligence of new funds;
- Joining collaborations of like-minded institutional investors to collectively lobby for Paris-aligned climate policies and promote engagement through LGPS Central;
- Actively engaging with LGPSC to determine Engagement Themes and working with Columbia Threadneedle Investments as the Fund's overlay partner to ensure a complimentary holistic approach to engagement.

2.29 The Fund held two ISS training workshops for Pensions Committee and Pension Board Members in February 2023 and a further workshop has been planned for early April 2023. These workshops are to ensure that the ISS reflects the current economic environment and the position as per the latest triannual valuation as at 31st March 2022.

Principle 2

Signatories' governance, resources, and incentives support stewardship

Governance

3.1 As detailed in our Governance Policy Statement accountability for all decisions is delegated to the Pensions Committee to take decisions in regard to the administering authority's responsibility for the management of Shropshire County Pension Fund. This includes the management of the administration of the benefits and strategic management of Fund assets. The Committee comprises of 6 voting members being 6 Councillors, 2 employee representatives and a pensioner representative.

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

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

Stewardship Resourcing

3.4 The Fund has an appointed investment advisors from AON who attend all the Committee meetings, supports the investment performance monitoring of all the Fund's investment managers, advises on RI, supports due diligence requirements on the Fund's investments and provides a quarterly investment update to the pensions committee. AON are independent to the Fund and play a crucial role in advising the Fund on its investment opportunities.

3.5 The Fund also appoint Roger Bartley as an independent advisor to support the committee and provide independent strategic advise without portfolio management.

3.6 The Fund's day-to-day duties are delegated to the Head of Pensions – LGPS Senior Officer who is supported by a Pensions Administration Team (27 FTE's) and a Pensions Investment Team (3 FTE's) who have many years of knowledge and experience in this area.

3.7 The Fund has long had a culture of inclusiveness with strong values and behaviours that can be demonstrated more clearly in The Shropshire Plan which has four pillars:

- Healthy People
- Healthy Economy
- Healthy Environment
- Healthy Organisation

The healthy organisation principle is built across five key principles.

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

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

3.8 LGPSC's Responsible Investment & Engagement (RI&E) function supports the Fund's stewardship activities and reports regularly to the Partner funds RI&E working Group (The Fund is a representative). Their contribution has included work on: ESG integration, engagement, voting, the RI&E framework, the Climate Risk strategy, the Climate Risk 2022 report, the TCFD report and ongoing guidance on the Fund's reporting against the Stewardship Code.

3.9 LGPSC has a dedicated RI&E team that sits within LGPSC's investment team and reports to the CIO. There is close collaboration between the RI&E team and asset class teams on (a) the approach to RI when new funds are conceived and set up, (b) the selection and monitoring of fund managers, (c) engagement and voting, as relevant to the asset class, and (d) RI performance assessment and reporting.

3.10 The LGPSC RI&E Team currently consists of an Investment Director, Head of Stewardship, RI&E Manager (Net Zero), RI&E Manager (Integration) and two RI analysts. Team members come from diverse academic backgrounds and specialisms across RI policy development, ESG integration in public and private markets, stewardship and engagement across the value chain, as well as climate expertise. This level of diversity and breadth of perspectives is a strength for the team. The RI&E Team leverages a strong network among peer investors both in the UK and globally, as well as investee companies, industry associations and relevant regulatory bodies.

3.11 LGPSC has EOS at Federated Hermes (EOS) as its stewardship provider, with the remit of engaging companies on ESG issues across all relevant asset classes, sectors, and markets, executing the LGPSC voting principles which are also the principles agreed by the Fund. EOS employs 34 dedicated engagers supported by six staff in the voting and engagement support team, alongside two Executive Assistants and the EOS client team of six. The wider EOS team counts 48 in total.

3.12 This followed a comprehensive due diligence process by LGPSC: EOS were selected as their beliefs align well with LGPSC's and the Fund's beliefs, namely 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. The EOS team provides access to companies globally based on a diverse set of skills, experience, languages, connections, and cultural understanding. EOS also engages regulators, industry bodies and other standard setters to help shape capital markets and the environment in which companies and investors can operate more sustainably.

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

3.14 The Pensions Committee delivers its oversight of stewardship by meeting four times a year, or otherwise as necessary. This is the same for the Pension Board.

3.15 To support our initiatives and work on strengthening / improving our investment and RI approach, we have added a new role to our management structure from October 2022. This role is a Pensions Investment and Responsible Investment Manager to create more resource at a senior level to review future changes and ensure continued progress to achieving net zero alongside integration of material ESG risks across all asset classes.

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

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

Principle 3

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

4.1 The fund manages and mitigates conflicts of interest by:

- Having clear governance material to refer to, including a Funding Strategy Statement, Pension Administration Strategy, Investment Strategy Statement, Climate Change Risk Strategy, Governance Policy Statement and Training Policy & Programme, which are all publicly available on the Fund's website.
- Keeping the Fund's budget separate to Shropshire Council's and operating a separate bank account.
- Ensuring actual and potential conflicts of interest are considered during procurement processes.
- Asking the individual concerned to abstain from discussion, decision-making or providing advice relating to the relevant issue.
- Excluding the individual from the meeting(s) and any related correspondence or material in connection with the relevant issue (for example, a report for a Pensions Committee meeting).
- Advising an individual to resign due to a conflict of interest or requesting the appointing body to reconsider their appointment.

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

4.3 The need to avoid conflicts of interest is also highlighted in our asset manager mandates and contracts with external parties.

4.4 When the Fund appoints external managers, a thorough due diligence process is undertaken. This includes consideration of the external managers process and procedures around the Management of Conflicts of Interest. All the Fund's managers have confirmed that they have conflict of interest policies in place, and these are subject to regular review. All managers have confirmed that they have a Conflicts of Interests Board / separate Committee to monitor and investigate conflicts of interest and have a conflicts of interest register.

4.5 A public register of interests is maintained for all Councillors and could be subject to audit inspection at any time. Councillors are responsible for updating their register as and when their interests change. This is overseen by the Monitoring Officer at the respective Council from which they are appointed.

4.6 Pensions Committee members are required to make declarations of interest at the start of all meetings. If a member declares that they have an interest at the start of a meeting, then the context would determine the action that would be taken i.e., if they declare that they have an interest that is either personal or financial to an item on the agenda, then they would more than likely be asked to leave the room for that item and would be excluded from any voting activities.

4.7 All Fund officers and Committee members are made aware of and reminded at least annually of Shropshire Council's codes of conduct. The Code of Conduct includes a section on conflicts of interest and the expectations placed upon Council employees (the requirement to handle public funds in a responsible and lawful manner for example). Any member of staff found to be in breach of the policy may be the subject of disciplinary action and could be subject to dismissal. This includes staff who administer the investment side of the Fund.

4.8 The Council also has a whistleblowing policy to enable staff to raise any concerns that they may have.

4.9 LGPSC's approach to managing and mitigating risks associated with conflicts of interest is outlined in the LGPSC conflicts of interest policy. This is made available to all staff and clients of LGPSC. While this policy is intended to ensure compliance with FCA rules and regulations around conflicts management and requirements under MIFID II, the policy is also designed to ensure fair outcomes for clients and to ensure that LGPSC fulfils its stewardship responsibilities to its clients in terms of how their assets are managed.

4.10 LGPSC operates a one for eight RI service model. This ensures that LGPSC delivers a consistent level of service to all eight Partner Funds ensuring that no conflicts arise in terms of the level of support they get from the Responsible Investment Team. As an example, LGPSC provided Climate Risk Reports to all eight Partner Funds in the course of 2022. For the 2023 provision of the same service, LGPSC will follow the same delivery order as last year. This is to ensure consistency and fairness among Partner Funds and timely delivery of reports.

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

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

4.13 When LGPSC appoints external managers, a thorough due diligence process is undertaken. This includes consideration of the external managers process and procedures around the Management of Conflicts of Interest. LGPSC expects their managers to have robust controls and procedures in place around conflict management and to demonstrate commitment to managing conflicts fairly.

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

Examples of addressing possible conflicts of interest

Appointment of Transition Manager for the LGPSC Global Active Sustainable Equities Fund

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

Voting

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

4.17 LGPSC expects their proxy voting agents to be transparent about conflicts of interest and to implement appropriate measures to ensure conflicts are managed such as Chinese walls, conflicts management policies and conflicts registers. 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.

4.18 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.

Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

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

5.2 The Fund believes that having the best understanding of the world around us will allow us to review, prioritise, scrutinise and adapt accordingly effectively. Our risk management processes support us in achieving this goal and are subject to annual challenge through the internal audit programme set up by the Fund.

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

5.4 To mitigate and respond to risk, we regularly review our ISS, monitor the investment performance of our appointed managers, have a diversified portfolio, and review our qualified advisors' objectives regularly. Strategic asset allocation is reviewed quarterly by the Pension Committee. We have various equity protection arrangements in place maturing between June 2023 and December 2023 for approximately 50% of our passive market equity funds which provides protection against a fall of up to 30% in market valuations whilst capturing as much of the upside as possible.

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

5.6 A summary of the risk register is publicly available within the Funds Annual Report (Page 8/9).

5.7 The Fund has open line communications with Investment Advisors AON and Roger Bartley so that we can discuss market volatility in a timely manner. This was particularly important in late September 2022 due to market impact of both political instability and the mini budget announced at that time to ensure that the Fund was taking appropriate steps to protect both its long-term asset position but also its cashflow requirements.

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

Funding Risks include deterioration in the funding level of the Fund as a result of changing demographics, systemic risk, inflation risk, insufficient actual / future investment returns (discount rate) and currency risk.

The Fund manages these risks by setting a strategic asset allocation benchmark (SAAB) in consultation with the Funds Investment advisors. The SAAB seeks to achieve the appropriate balance between generating the required long-term return, while taking account of market volatility and the nature of the Fund's liabilities. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns.

The current strategic asset allocation was set at the Pensions Committee in March 2021 as follows:

Asset Class	Allocation	Control Range
Total Equities (Global, Sustainable and Passive)	50%	45%-55%
Absolute Return	25%	20%-30%
Property	5%	2.5%-7.5%
Illiquid Growth (Infrastructure & Private Equity)	12.5%	10%-15%
Illiquid Credit	7.5%	5%-10%

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

Some examples of risks covered in performance reports are:

- Manager underperformance when the fund managers fail to achieve the rate of investment return, performance targets, tracking errors, etc assumed in setting their mandates. This is managed by having robust financial planning and clear operating procedures for all significant activities including regular review and monitoring manager performance against their mandate and investment process. Continued underperformance by any single investment manager would be discussed with the Fund's Independent advisors to establish a recommended course of action, which may include divestment.
- Systematic risk, the Fund mitigates systemic risk through a diversified portfolio with exposure to a wide range of asset classes, portfolio holdings and different management styles. All the Fund's managers provide a detailed quarterly investment performance report and quarterly meetings are held with the Fund's investment advisor to review these.

Operational Risks include transition of assets risk, risk of a serious operational failure, custody risk of losing economic rights to Fund assets, risk of unanticipated events such as a pandemic, credit default and cashflow management. Some examples of how we are managing some of these risks are as follows:

- Transition risk of incurring unexpected costs in relation to the transition of assets amongst managers. When carrying out significant transitions, the Fund takes professional advice and appoints a specialist transition manager to mitigate this risk when it is cost effective to do so.
- Risk of a serious operational failure by asset managers and/or LGPSC. These risks are managed by having robust governance arrangements with LGPSC and by quarterly monitoring of asset managers. Monthly meetings are held with LGPSC to ensure that the company is functioning as it should. Key performance indicators and the Risk Register are reviewed at least quarterly.
- Risk of unanticipated events such as a pandemic on normal operations. The impact of Covid 19 was unprecedented, and, although the risk of a pandemic was highlighted on the Risk Register, no one could have foreseen the impact it would have on investment performance and operations. In terms of operations the Fund had trialled working from home or remotely and managed to deliver business as usual throughout the Covid pandemic. This is testament to the robust operational procedures that were in place and the effectiveness of the staff in working in this changing environment. This has also helped explore and implement effective and more efficient ways of working whilst being mindful of the wellbeing and mental health of staff.

Responsible Investment (RI) Risk

The Fund actively addresses ESG risks through implementation of its RI beliefs. It also reviews this as part of the quarterly performance meetings with its fund managers and regular dialogue and support through the LGPSC RI and Engagement team.

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

5.9 In identifying and managing ESG risks, the Fund's stewardship partners are:

Organisation	Remit
LGPS Central Limited	The Fund is a 1/8th owner of LGPSC which has identified four stewardship themes that are the primary focus of engagement. These themes are viewed as likely to be material to the Fund's investment objectives and time horizon, likely to have broader market impact, and to be of relevance to stakeholders. See further detail immediately below. During 2022, LGPSC has been actively involved in

	more than 40 engagements across these themes. A selection of engagement cases is provided under principles 9 – 11.
Federated Hermes	EOS at Federated Hermes is contracted by LGPSC to expand the scope of the engagement programme, especially to reach non-UK companies. In 2022, EOS engaged with 833 companies on 3,477 environmental, social, governance, strategy, risk and communication issues and objectives. EOS takes a holistic approach to engagement and typically engage with companies on more than one topic simultaneously.
COLUMBIA THREADNEEDLE INVESTMENTS	Columbia Threadneedle Investments (CTI) are contracted directly by the Fund for engagement in respect of Equity holdings. CTI had four themes in 2022 covering climate change, Environmental Stewardship, Human Rights and Corporate Governance and 11 projects across these themes. Themes are reviewed annually with the Fund.
Local Authority Pension Fund Forum	The Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF conducts engagements with companies on behalf of local authority pension funds. In 2022, LAPFF engaged 159 companies across a spectrum of material ESG issues.

Stewardship themes

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

- Economic relevance

- Ability to leverage collaboration
- Stakeholder attention

5.11 Identifying core themes that are material to the Partner Funds' investment objectives and time horizon, that are likely to have broader market impact, and that are perceived to be of relevance to stakeholders, helps us prioritise and direct engagement. We fully acknowledge that the spectrum of ESG risks is broad and constantly evolving. However, and in agreement with our LGPSC pool partners, we consider it appropriate to pursue these themes over a three-year horizon, at a minimum, while conducting annual reviews to allow for necessary adjustments or changes. This helps us build strong knowledge on each theme, seek or build collaborations with like-minded investors, identify and express consistent expectations to companies on theme, relevant risks and opportunities, and to measure the progress of engagements. Furthermore, we take the view that engagement on a theme needs to happen at multiple levels in parallel: company-level, industry-level, and policy-level. With our long-term investment horizon, we take a whole-of-market outlook and changing the "rules of the game" through industry and policy dialogue is as important, if not more important, than individual company behaviour. In Section 6.6, we provide information on the annual review of stewardship themes that was carried out during Q4 of 2021 to determine the themes for 2022. In Appendix 2, we give examples of engagement activity for each stewardship theme.

5.12 Themes for CTI are established on an annual basis following consultation with Funds. In 2022 there were four themes climate change, Environmental Stewardship, Human Rights and Corporate Governance and 11 projects across these themes some of which will continue into 2023. This service complements the LGPSC/EOS approach and allows the Fund to take a balanced perspective. Two new themes have been added for 2023 covering Labour standards and Public Health. The table below sets out the projects for 2022.

Theme	Project	Status
Climate Change	Coal phase out	Move to next phase[1]
	Climate Action 100+	Now BAU
	Climate change and banks	Move to next phase
	Physical risks of climate change	Continue in 2023

[1] Throughout 2021-22 CTI focused on engaging with issuers in key countries on the importance of phasing out thermal coal (coal hereafter) in the energy system. Now that the key countries involved have all set net zero targets and are starting to implement energy transition policies we are focusing on engagement with issuers facing the greatest transition risks due to them still planning on expanding coal mining or power capacity or earning over 30% of their revenue from coal. Additionally, issuers with a high proportion of revenue from thermal coal must develop pathways for responsibly phasing out their coal assets and identifying alternative ways of returning value to shareholders. Issuers will also be encouraged to develop plans for a just transition.

Environmental Stewardship	Sustainable real estate	Finished 2022
	Emissions and plastic waste	Continue in 2023
	Biodiversity	Finished 2022
Human Rights	Human & indigenous rights	Finished 2022
	Human rights due diligence	Continue in 2023
	Mitigation of social harms	Continue in 2023
Corporate Governance	ESG metrics in executive pay	Finished 2022

Climate Risk Monitoring Service provided by LGPSC

5.13 Climate action failure is the stand-out, long-term risk the world faces in likelihood and impact according to recent reports from the Intergovernmental Panel on Climate Change. If 'business as usual' continues, the world could heat up by about 5 degrees by 2100 which would have catastrophic environmental impacts and cause profound societal damage and significant human harm. A Paris-aligned transition to a low-carbon economy would lead to lower economic damage and for long-term investors is preferable to alternative climate scenarios. We believe investors can best encourage this transition through a combination of:

a) understanding the risks to their portfolios at a granular level,

b) stress-testing portfolios against various temperature scenarios,

c) identifying tools and actions that can be taken to address and minimise risk. Both the Fund and LGPSC have announced commitments to achieve Net Zero across assets under stewardship by 2050. Our climate risk monitoring is a key building block in ongoing work toward this goal.

5.14 LGPSC's Climate Risk Monitoring Service aims to address each of these aspects. Since 2020 LGPSC has conducted in-depth climate risk assessments for each individual Partner Fund and provided an annual Climate Risk Report (CRR) bespoke to each of them. The CRR is designed to allow each Partner Fund a view of the climate risk held through their entire asset portfolio accompanied by proposed actions each could take to manage and reduce that risk. To facilitate TCFD disclosure, the CRR is deliberately structured to align with the four disclosure pillars.

5.15 In 2022, LGPSC provided our third year of Climate Risk Reporting and made several enhancements to the service to ensure it remained aligned to the latest industry developments and therefore the best assessment on climate-related risk LGPSC could provide to us and Partner Funds. LGPSC particularly wanted to emphasise progress made against the findings of the first report to give Funds a view on their direction of travel. The executive summary provides a summary of the methods we use to assess financially material climate-related risks and opportunities.

5.16 The 2022 reports include:

• Inclusion of a 1.5°C scenario into the Climate Scenario Analysis

• Enhance the company progress updates to demonstrate a more robust link between engagement and outcomes

• New additions to the suite of carbon risk metrics, reflecting the shift towards measuring alignment with Net Zero, such as % of portfolio with Net Zero targets, % of portfolio revenue derived from fossil fuels, % of portfolio revenue derived from clean technology and absolute carbon emissions/ financed emissions.

5.17 We have used the findings of their CRRs to develop our Climate Stewardship Plan as well as our Climate Strategy covering governance, beliefs, objectives, strategic actions and reviews in relation to their climate-related risk. In addition to strategy setting, the CRRs have also been used to facilitate our TCFD disclosure; conduct training sessions on climate change; initiate governance and policy reviews; and for exploring potential investments in sustainable asset classes.

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

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

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

5.20 Appendix 1 provides an overview of initiatives that LGSPC is an active member of, which includes a brief assessment of the efficiency of the initiative and outcomes during 2022.

Policy engagements and consultation responses:

5.21 Since inception of LGPSC in April 2018, it has taken active part in policy dialogue on behalf of Partner Funds across various themes and regulations including on ethnicity pay reporting, tax transparency, modern slavery, climate change and sustainability reporting requirements.

5.22 In Q2 2022 LGPSC sent a letter to Barclays to explain our vote at the May AGM, as well as to engage on Barclay's Climate Strategy, Targets and Progress 2022 report. As a positive development, Barclays has started using the IEA's Net Zero by 2050 Roadmap for Energy sector analysis as a reference and has set specific 2030 sector emissions intensity targets. We have expressed concern over the target ranges for these targets, which do not appear fully aligned with IEA's NZE analysis and will continue engagement on this. While the company initially set a 2035 timeline for phasing out financing of US thermal coal power generation, we greatly welcome their recent commitment to prepone this deadline from 2035 to 2030 taking effect year-end 2022.

5.23 LGPSC together with fellow 30% Investor Club members, and led by Royal London Asset Management, continued engagement with a Japanese financial services company to encourage better diversity and to seek more disclosure on diversity-related policies and targets. Over a two-year period of engagement, we have valued the company’s willingness to engage on the topic (which is still a challenge in the Japanese market) and we have seen some promising progress. The company has increased the level of female representation on the board to 13.3%. Furthermore, the company has joined the Japanese chapter of the 30% club which should help support its own ambitions regarding diversity and inclusion. We were also pleased to note the company’s initiative in developing human resource policies aimed at empowering women across the organisation. We encourage 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.

5.24 LGPSC together with Rathbones Group Plc, held a meeting with ITV, discussing the company’s management of modern slavery risks. ITV has shown strong practice in setting policies on modern slavery risks, and we wanted to get more disclosure of its framework. We discussed ITV’s corporate governance, whistleblowing practices, modern slavery training as well as supplier-risk mapping. We appreciate ITV’s commitment to mitigate modern slavery risk. The company is compliant with the Modern Slavery Act and has published its sixth Modern Slavery Act Transparency Statement.

5.25 As an escalation to the engagements on micro-plastic pollution, LGPSC cosigned a letter with two other investors on behalf of 29 investors with £5 billion in AUM to the ministers at DEFRA. In the letter we emphasised our support for the recommendations of the “All Party Parliamentary Group on Microplastics” issued in 2021, specifically to mandate the installation of microfibre filters in new washing machines by 2025.

5.26 LGPSC’s stewardship provider, EOS, regularly engages on behalf of clients 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 responded to an Institutional Investors Group on Climate change (IIGCC) consultation about how investors and companies should approach offsetting. EOS welcomed the principles as an important step towards holding investors and portfolio companies to account for delivering credible net-zero strategies, but emphasised some areas that could be clarified. EOS suggested doing more to explain that emissions reduction for investors and their portfolio companies is an absolute priority and should be the primary focus, considering the significant emission cuts that need to happen up to 2030. EOS also co-signed a letter co-ordinated by Farm Animal Investment Risk and Return (FAIRR) to the Food and Agricultural Organisation of the United Nations (FAO), calling on the FAO to produce a global roadmap towards a sustainable global food system by 2050. In the letter, signatories underlined that it is crucial that the roadmap aligns with the Paris Agreement's goal of limiting global warming to 1.5C while ensuring the protection and restoration of nature and achieving food and nutrition security goals.

5.27 EOS also engages on market-specific trends and policies and, as an example, submitted a letter to the Securities and Exchange Commission (SEC) in response to the proposed climate disclosure rule. EOS welcomed the SEC's efforts to enhance reporting requirements for companies to include material ESG factors and consider disclosure rules on climate change, including the requirement to disclose Scopes 1 and 2 emissions, and material upstream and downstream Scope 3 emissions. Furthermore, the disclosure rule would lead to more timely, accurate, comprehensive, comparable, and standardised information disclosed by public and private companies. In turn, this disclosure would contribute to informed capital allocation and business decisions, resulting in improved value creation and risk mitigation for investors.

Principle 5

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

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

6.2 All of the Fund's strategies and Policy statements are publicly available on the Funds website for complete transparency.

6.3 The Fund has an agreement with Shropshire Council to provide internal audit services on an annual basis across all areas of the Funds activities. The Fund received substantial assurance for 2022 which is the highest assurance available under the audit framework. There were two minor recommendations raised as a result of the work and these have been addressed during 2022 and will be reviewed by the auditors as part of the current years audit.

6.4 As part of the Fund's governance processes quarterly reports are taken to Committee on responsible investment with updates from the Fund's stewardship partners. In addition to the active equity portfolios the Fund has a significant passive holding with Legal and General Investment Managers and Quarterly ESG reports are provided to the Committee in respect of these investments. Reports are publicly available as part of the Funds Committee public papers.

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

6.5 Through our quarterly PAF(Practitioners Advisory Forum) RIWG (Responsible Investment Working Group)meetings, information-sharing and debate/checks on LGPSC's provision of RI services against the RI&E Framework are discussed. As one of the Partner Funds we take a keen interest in RI and engagement, which reflects our ultimate beneficiaries' ongoing interest in climate change and broader sustainability issues.

6.6 LGPSC undertake an annual review of the effectiveness of the stewardship themes in close collaboration with Partner Funds. During 2021, LGPSC conducted a review through PAF RIWG discussions which resulted in the following adjustments for 2022:

• Climate change remains the number one theme

• Biodiversity and land use should be included alongside climate change

• The S in ESG should feature more prominently, with a preference for focus on Human Rights

Description of themes in light of discussions with Partner Funds:

Theme	Review discussions leading to 2022 themes
Climate Change	Climate change is regularly among the World Economic Forum's top five global risks, both in terms of likelihood and impact. Through both physical risks (e.g., increases in extreme weather events) and market risks (e.g., impact of carbon pricing or technology substitution), climate change impacts institutional portfolios. In addition, greater incidence of flooding, wildfires, chronic precipitation, sea level rise are already having profound societal consequences. In the UK, campaign groups, governments and regulators are increasingly taking an interest in the extent to which investors are managing climate-related risks. This includes the Environmental Risk Audit Committee, Department of Work and Pensions, Financial Reporting Council, divestment campaign groups, and more. TCFD reporting will become mandatory for LGPS funds from 2023. Investor best practice on climate change is emerging through the Institutional Investor Group on Climate Change (IIGCC) Net-Zero Investment Framework. Biodiversity loss could reduce nature's ability to provide goods and services, including food, clean water and a stable climate. Tropical forests play an important role in tackling climate change, protecting biodiversity and ensuring ecosystem services. Forests alone absorb one-third of the CO2 released from burning fossil fuels every year. During COP26 we have seen governments pledge to halt deforestation by 2030. Financial institutions, including LGPSC, have committed to engage with a view to eliminating commodity driven deforestation by 2025 through engagement at policy and corporate levels.
Plastics	Plastic pollution is a global problem that is continually growing due to both an increase in consumerism and an increase in the number of plastics used to manufacture the things we use regularly. Some companies are starting to change the way they use these plastics and are actively taking steps to reduce waste. As well as the negative effects on the planet, companies that purchase, use, or produce significant amounts of plastic could face regulatory tightening, more plastic taxes, and reputational damage as consumers and policymakers become more aware and mindful of the problem. It will be necessary to look at both shorter-term targets companies should strive for, in line with emerging best practices, as well as a longer-term vision for "zero leakage/waste" by 2050. LGPSC joined a call (on behalf of

	businesses and financial institutions) on United Nations member states to commit to the development of a global treaty on plastic pollution to commence early 2022. Agreement has since been found to negotiate a treaty.
Tax - transparency and fair tax payment	The trust an organisation builds with its stakeholders is of critical (though intangible) value. As a measure of an organisation's contribution to the economies it operates in, tax is a key dimension in building that trust. Global corporate tax avoidance is estimated to cost governments $240 billion globally in foregone revenues each year. Companies with overly aggressive tax strategies could be storing up liabilities and could damage their reputation with key stakeholders. While many countries are providing various forms of tax relief to 26 Classified as Internal Theme Discussions and review during 2021 businesses during the COVID pandemic, it seems reasonable for investors to expect companies to pay their fair share of tax. G20 leaders have recently agreed a corporate tax deal for minimum 15% corporate tax, which adds to the expectations for responsible tax behaviour.
Technology & disruptive industries risk replaced by Human Rights	The previous technology theme is a sector-specific theme that covers several risks factors. LGPSC's engagements have primarily focused on human rights risks for tech sector companies, including social media content control. These areas have come under increased scrutiny from regulators and stakeholders more broadly including companies that advertise on social media platforms. We envisage continuing engagement with tech sector companies (Alphabet, Amazon, Apple, Facebook, Microsoft and Twitter) on relevant human rights risks including privacy and data protection; freedom of expression; disinformation in public and political discourse; and discrimination and hate speech. We also know that weak labour rights in supply chains (especially in emerging markets), both in the technology sector and across other industries, can cause reputational damage that in turn risk undermining shareholder value over the long term. We view it as feasible to adjust this theme to a broader Human Rights theme that would allow a greater focus on human and labour rights across companies and sectors. We would take as a starting point the UN Guiding Principles for Business and Human Rights, which also apply to investors. Ongoing engagements on Modern Slavery and related to the Israel/Palestine conflict would continue and would be captured under this theme.

6.7 LGPSC carries out quarterly internal quality controls of engagement and voting data before this is shared with Partner Funds through regular Stewardship Updates.

LGPSC's external stewardship provider, EOS at Federated Hermes, has its voting process independently assured on an annual basis.

Examples of LGPSC Engagement by Theme

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

6.9 As noted at 2.23 under selection the Fund used the results of the second climate change risk report in 2021 to drive changes to the Equity portfolio in 2022 resulting in the carbon reduction reported in the third climate Risk Report in December 2022. The Fund continues to keep the portfolio under review from an ESG perspective and ESG will form part of the Investment Strategy workshops in 2023 in preparation for review of the ISS.

INVESTMENT APPROACH (Principles 6 to 8)

Principle 6

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

7.1 The Fund has been established to pay LGPS defined benefit promises as they become due. The Fund has about 220 participating employers and 48,000 member records of which 13,500 are pensioners; 18,000 are deferred; and 16,500 actively contributing.

7.2 The Fund is equally split between equity investments (50%) with (50%) diversification across other asset classes. The covenants of its employers, its net cashflow, the age profile of its members and the fact that it has a steady stream of new members mean that it can take a long-term investment horizon of at least 15 to 20 years taking on board the need of meeting the immediate and future member benefit liabilities.

Cashflow Management	2021/22 £m	2020/21 £m	2019/20 £m	2018/19 £m	2017/18 £m
Contributions Receivable	69.5	91.7	68.8	65.5	84.1
Benefits Payable	84.1	96.8	79.4	78.3	71.5
Other Expenses	17.5	17.8	17.7	14	14.6
Surplus/Deficit (-)	-32.1	-22.9	-28.3	-26.8	-2
Investment Income	177.4	385.5	-55.6	108.3	67.6
Net Cashflow	**145.3**	**362.6**	**-83.9**	**81.5**	**65.6**

7.3 The Fund's Strategic Asset Allocation Benchmark (SAAB) and Ranges are:

Asset Class	Allocation	Control Range
Equity	**50%**	**45% -55%**
Active		
LGPS Central Global Sustainable Equity	8%	
LGPS Central Global Equities	14%	
Passive		
L&G Low Carbon Transition Developed Markets	28%	
Absolute Return	**25%**	**20% - 30%**
Unconstrained Bonds		

Blackrock Fixed Income Global Opportunities	6%	
PIMCO GIS Low Duration Opportunities Fund	6%	
T Rowe Price Dynamic Global Bond Fund	6%	
Blackrock Appreciation Strategy Hedge Fund	5.5%	
Securis Non Life Fund	1.5%	
Illiquid Alternatives	**25%**	**20% - 30%**
HarbourVest – Private Equity	6.25%	
Global Infrastructure Partners	3.5%	
LGPS Central Core/Value added Infrastructure	2.75%	
LGPS Central – Private Credit	6%	
DRC Savills UK Whole Loan Fund (Property Debt)	1.5%	
Aberdeen UK property	5%	
Total	**100%**	

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

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

7.6 The Fund provides an annual update to all members together with the Annual report which is available on the Fund's website. In addition to this the Fund has a number of newsletters that are tailored to either our active, deferred or retired members. Full details of the Funds communication methods are detailed in our communication Strategy which is available on the Funds Website. Since Covid the Fund has moved more to utilising technology to deliver updates in a blended approach with face-to-face meetings. The following is an example article issued in the Autumn 22 retired Members Newsletter.

Welcome to this edition of Intouch. I do hope you are well and have been able to enjoy the summer, despite it being too hot for most of us on occasions. Let's hope everyone's plants are now recovering from the drought and lawns are gradually returning to green.

I have been kept busy attending Pensions Committee meetings and training events this summer and autumn. It's now getting easier to hold meetings with Covid restrictions being eased. Let's hope this continues.

With the continued war in Ukraine, high levels of inflation, rising interest rates, prospects of a global recession and the impact of the cost of living/energy crisis impacting on financial markets globally, the value of the pension fund has fallen by 4.7% in the last quarter. It's still however outperforming its benchmark by 1%. The rolling three-year performance is 5% per annum compared to the benchmark of 3.3%. The fund does invest in a range of asset classes in order to diversify risk and this benefitted the fund during the last quarter. Bond markets have been very volatile but our fund only has 1% in a liability driven investment (LDI) mandate so has not been badly affected. The main issues are with corporate pension schemes rather than LGPS funds.

During the June quarter, funds were transferred to LGPS Central's Global Sustainable Equity Fund with the new fund launching in May 2022. In March 2022, the fund also transitioned into a low carbon, net zero aligned global equity fund with Legal & General. These recent changes will significantly reduce the fund's carbon emissions and carbon footprint going forward.

In December 2022, the fund will be publishing its third climate risk report which will demonstrate the fund's continued commitment to addressing climate change.

Do take care of yourselves and let's hope this Christmas may be a little more normal.

Regards

Jean Smith
Pensioner Representative
Pensions Committee

Following the appointment of a Pensions investment and Responsible Investment Manager we will be expanding the content on ESG matters in our newsletters during 2023.

7.7 The Fund delivers periodic updates to employers on any changes that may impact them and has a separate section on the website for employer information including a full section on the website dedicated to "McCloud". The Fund issued 21 updates across 2022covering various topics from Employer Meetings and Consultations to regulation changes and statistics. All updates are retained on the website for employer reference.

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

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

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

7.11 Our Annual Report and Financial Statements are available from our website and our website also provides up to date information about our governance, funding, investments, finances, and operations. It is our intention following the appointment of a Pensions Investment and Responsible Investment Manager to include a bespoke funding and investments area on the website during 2023.

7.12 The Fund also replies to all Freedom of Information requests as and when they arise.

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

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

• A long-term approach to investment will deliver better returns.

• The long-term nature of the Fund's liabilities is well suited to a long-term approach to investment.

• Asset allocation policy is the most important driver of long-term return.

• Risk premiums exist for certain types of assets and taking advantage of these can help to improve investment returns.

• Markets can be inefficient, and sometimes 'mispriced' for long periods of time, and there is a place for both active and passive investment management.

• Diversification across investments with low correlation improves the risk/return profile, but over-diversification is both costly and adds little value.

• The Fund should be flexible enough in its asset allocation policy to take advantage of opportunities that arise as a result of market inefficiencies, and flexible enough to protect against identifiable short-term risks when this is both practical and cost effective.

• Responsible investment can enhance long term investment performance and the Fund expects responsible investment integration to be a key part of the selection criteria for appointing new managers

• Investment management fees are important and should be minimised wherever possible, but it is ultimately the net return to investors (i.e. the return after all fees and costs) that is the most important factor.

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

The Committee believes that acting as a responsible investor of the Fund's assets should be fully integrated into investment decision-making. The Committee therefore seeks to ensure that the Fund considers all aspects of responsible investment. This includes investment manager appointments and monitoring, through to discharging the rights and responsibilities of asset ownership, in order to encourage and promote high standards of governance and corporate responsibility, in the underlying companies and assets in which the Fund invests. The Committee believes that ultimately, high standards of governance and corporate responsibility creates long-term value for the Fund and its beneficiaries. The Committee has developed a Climate Change Strategy and Stewardship Plan. The Committee also reports in line with the Task Force on Climate-Related Financial Disclosures (TCFD) on an annual basis, outlining climate related metrics, risks and opportunities.

8.3 **Climate Change Strategy**

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

- Measuring climate-related risks and opportunities through triennial economic assessment of the Fund's asset allocation against plausible climate-related scenarios;
- Assessing material climate-related risks and opportunities, alongside the manager's approach to mitigating these risks as part of the selection and due diligence of new funds; Reference Investment Strategy Statement Page: 16
- Joining collaborations of like-minded institutional investors to collectively lobby for Paris-aligned climate policies and promote engagement through LGPS Central; This Climate Change Strategy has been established to run for three years from September 2021 to September 2024, but will be reviewed annually.

8.4 **Climate Stewardship Plan**

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

Asset Class	Topic
Equities	• Stewardship activities with companies identified in the Climate Risk Report • The influence of climate factors on sector positioning
Fixed Income	• Approach to assessing climate risk in the absence of reported GHG emissions data • Engagement with the most intensive carbon issuers

	• Extent of investment in green bonds
Real Assets	• Physical risk resilience • GRESB participation

8.5 **Industry Initiatives**

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

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

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

8.6 During 2022 the company has transitioned two of its equity mandates to reduce its carbon footprint and assist the Fund in meeting its objectives of being carbon neutral by 2050. The passive LGIM investment in the World developed Equity Index was converted to another LGIM passive investment in the Low Carbon Transition Developed Markets Equity Index. The Fund's previous UK equity mandate was terminated in favour of LGPSC Global Sustainable Equities investment.

8.7 **LGPSC's RI Integrated Status tool**

Our pooling company has established a system whereby any new fund that is launched and made available to Partner Funds will have Responsible Investment Integrated Status (RIIS) from concept and through lifespan of the Fund. The LGPSC Investment Committee needs to approve a particular product's (or set of products') RIIS status(es). The proposal for RIIS within some particular investment product is communicated via a RIIS Document, which is co-sponsored by the Director of Responsible Investment & Engagement and the relevant Investment Director for the product(s) put to approval.

8.8 By requiring co-sponsoring of the RIIS documents, LGPSC ensures that RI&E is an integrated process, not a siloed affair. The RIIS proposal will be approved by the Investment Committee if and only if the committee is satisfied that the combination of processes, techniques, activities and reporting achieve, in a manner suitable to the asset class, product, or mandate in question, the Company's agreed responsible investment aims. These are: (1) primarily, to support investment objectives; (2) secondarily, to be an exemplar for RI within the financial services industry. Promote collaboration and raise standards across the marketplace. RIIS criteria to be met will typically include:

• RI beliefs relevant to the asset class or mandate in question

• Relevant RI related documentation that supports the decision to invest, e.g., policies and procedures at external managers or co-investors • Fund managers factor RI and ESG into their selection of portfolio assets

• RI reviews are carried out by the fund managers at regular intervals (usually quarterly)

• Stewardship responsibilities are carried out thoroughly (engaging with companies, shareholder voting, manager monitoring, industry participation)

• Fund managers are transparent in their reporting to clients and the wider public

8.9 **Manager Selection**

An assessment of RI&E is a core part of LGPSC's manager selection process. Typically, manager selection processes are done in three broad stages: standard questionnaire, request for proposal, and manager meetings, of which RI&E assessments feature in all three. In stages one and two, the RI&E Team draft questions for insertion and then score the managers based on their responses.

In both stages, a 10-15% weighting is attached to the RI&E questions to reflect the importance that LGPSC places on full ESG integration. A representative from the RI&E Team then attends all the manager meetings. A key objective in the assessment of a manager is whether the ultimate decision maker is engaged in the integration of ESG factors into his or her decision-making process. Managers will not be appointed unless they can demonstrate sufficient awareness of and ability to manage the risks posed by ESG factors.

8.10 **Case Study: Tendering for Global Sustainable Equities Mandates**

The most recent example of Manager Selection was the tendering process for the Global Sustainable Equities fund, which was launched in May 2022. In close dialogue with our Partner Funds, we decided that the tendering for Global Sustainable Equities Mandates would take the form of a three-sleeve approach encompassing Broad, Thematic and Targeted offerings. LGPSC's Active Equities team advertised for potential managers in June 2021. Each of the 77 applications were read and marked in a fair, transparent and consistent manner with support from the RI&E Director and the Investment Risk Manager. Eight applications, comprising three for each sleeve, were taken through to the final Due Diligence Stage. This took place in September 2021 and consisted of 3-hour meetings for each manager. Meetings included a 1.5-2-hour presentation followed by breakout sessions in separate virtual meeting rooms which provided the Team with further insight on focused areas such as RI&E and Risk. The presentations and interviews were scored by the Team and resulted in three managers being selected to manage approximately £1bn. The funds launched in Q2 2022. The Team has investigated different tools which could be used for measuring impact of the funds and also looked at a number of different secondary benchmarks which could be used for internal measurement purposes.

While it remains early in the fund's life, performance has been satisfactory to date. At year end, the Broad fund has outperformed the benchmark and target while the Thematic and Targeted funds were modestly below benchmark. More importantly than short term performance, we remain comfortable that the managers are faithful to their investment strategies which had been described in the procurement process. Following the procurement of a new ESG monitoring tool, we look forward to implementing it within our reporting process.

8.11 As noted at 8.6 the Fund transferred its UK Equity Mandate into this fund in 2022.

8.12 **Active Equities**

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

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

8.14 LGPSC has developed a Red, Amber, Yellow, Green (RAYG) rating for manager monitoring, of which RI&E is a core component. These ratings get updated each quarter based on the discussion at the manager meetings. The RAYG rating is split into four possible ratings: red (manager fails to convince, warrants formal review with potential manager exit), amber (manager warrants closer scrutiny with potential for going on "watch"), yellow (manager is fulfilling role but with minor areas of concern) and green (manager shows clear strengths tailored to requirement). We score managers on four components of their RI&E approach:

1) philosophy, people and process

2) evidence of integration

3) engagement with portfolio companies

4) climate risk management.

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

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

Proposals for product development are discussed and challenged at the Investment Committee (IC) and the Private Markets Investment Committee (PMIC), which derives its authority from the IC and the Board. The Director of RI&E is a voting member of IC and PMIC.

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

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

During the course of 2020, LGPSC conducted in-depth climate risk assessments for Shropshire County Pension Fund and the other LGPSC Partner Funds and provided a Climate Risk Report (CRR) bespoke to each of them. This process has continued and developed with our third CRR being received in November 2022.

8.18 The CRR is designed to allow each Partner Fund a view of the climate risk held through their entire asset portfolio accompanied by proposed actions each could take to manage and reduce that risk. In the analysis, LGPSC uses two approaches, bottom up & top-down analysis. The top-down work is at the asset-allocation level and considers the financial consequences to the individual Partner Fund given plausible climate change scenarios. The bottom-up analysis is at the company/asset level and considers carbon risk metrics such as portfolio carbon foot printing, exposure to fossil fuel reserves, carbon risk management, Financed Emissions and investments in clean technology. In each type of analysis, LGPSC is not addressing the impact of the Partner Fund on the climate, but rather the impact of a changing climate, and changing climate policies, on the Fund.

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

Section	Analysis
Governance	The purpose of this section is to identify areas in which the Fund’s governance and policies can further embed and normalise the management of climate risk. We provide a review of the Fund’s documentation from the

	perspective of climate strategy setting and issue recommendations on how the Fund could improve its governance of climate-related risk.
Strategy	Using the services of Mercer, LGPSC assesses the extent to which the Fund's risk and return characteristics could come to be affected by a set of plausible climate scenarios. This includes an estimation of the annual climate-related impact on returns (at fund and asset class level), and climate stress tests (to explore the potential impact of a sudden climate-related price movement).
Risk Management	Based on the report findings LGPSC provides a Climate Stewardship Plan which identifies the areas in which stewardship techniques could be leveraged to further understand and manage climate-related risks within the portfolio. The Plan includes plans to engage both individual companies and fund managers.
Metrics and Targets	LGPSC conducts a bottom-up carbon risk metrics analysis at the company and portfolio level. For the most part, five types of carbon risk metric are utilised: portfolio carbon footprint, financed emissions, fossil fuel exposure, weight in clean technology and climate risk management (via the Transition Pathway Initiative).

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

8.21 LGPSC have provided the Fund a bespoke CRRs on an annual basis for the past two years. Future iterations of the report will show progress against the baseline of data collected in 2020. The 2022 report explored 1) how the results have changed since the baseline 2) What recommendations have been achieved and 3) How our Partner Funds can continue to develop in this space.

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

Equity (Active and Passive)

8.23 The fund has two Equity Managers LGPS Central for active Equities and LGIM for passive equities. Together Equities make up 50% of the Fund benchmark as set out under principle 6. Examples of Engagement activities by LGPS Central and LGIM are shown under Principle 8 at 9.18 and 9.19

Absolute Return

8.24 As noted under Principle 6 the absolute return section of the portfolio equates to 25%. Depending upon the nature of the investment there is not always a clear engagement evidence as the investments do not hold direct equity and so have no direct voting rights. The clearest example of this would be in respect of Insurance linked securities through the Securis Non-Life Fund. The Fund is comfortable with this position as these only forms 1.5% of the Fund's allocation.

Fixed Income Global Opportunities (FIGO)

8.25 FIGO is not an ESG fund, but the Manager ensures that ESG characteristics are taken into account even though this will not be the sole consideration when deciding to invest. It is also important to understand that voting power is limited in fixed income funds.

8.26 The Investment Stewardship team at BlackRock is a key partner for the FIGO team. Investment Stewardship efforts, including our direct engagement and voting activities, encourage companies to deliver long-term, sustainable growth and returns for our clients. Partnership across teams at BlackRock ensures they can leverage insights and knowledge, and bring the voice of all stakeholders, including corporate bond holders, to the table.

8.27 As a significant manager of fixed income assets, Blackrock are careful to ensure that their impact in the broad fixed income market ecosystem is consistent with their sustainable objectives, driving positive change, maintaining or promoting high standards and best practice. Activities in the global capital markets for instance can be particularly impactful when companies are seeking new and innovative types of funding in addition to day to day refinancing. Blackrock's footprint in the fixed income markets also means that they have substantial opportunity to engage with sovereigns and debt management offices, issuers of securitised bonds, rating agencies, index providers, as well as partnering with public policy teams regarding ESG regulation, policy and disclosure.

8.28 When it comes to corporate fixed income, engagement is core to the Blackrock stewardship program assessing governance, including the management of relevant environmental and social factors. In addition, BlackRock's Global Fixed Income Responsible Investing team may partner with the BIS (Blackrock Investment Stewardship) team both to reflect ESG related topics from fixed income investors as well to attend or host engagement meetings on certain highlighted ESG flagged holdings. These names will be then kept in consideration by the team and their portfolio managers will decide whether or not to maintain exposure based on the engagement outcome as well as on financial valuations. A summary of engagement activity in 2022 is shown below:

BGF Fixed Income Global Opportunities Fund - Aggregate - Engagement Summary Report - Jan 01, 2022 to Dec 31, 2022		
Portfolio covered: FIGM-AG		
Total companies in portfolio (as of 12-31-2022)	**1,693**	
	Number	**%**
Total company engagements	569	
Number of individual companies engaged	300	18%
Number of companies with multiple engagements	150	50%
(of individual companies where we held multiple engagements over the course of the reporting period)		
Engagements by region*		
Americas	340	60%
EMEA	162	28%
APAC	67	12%
Engagement themes*		
Governance	514	90%
Social	236	41%
Environmental	347	61%
Engagement topics*		
E-Biodiversity	10	2%
E-Climate Risk Management	299	53%
E-Land Use/Deforestation	2	0%
E-Environmental Impact Management	93	16%
E-Operational Sustainability	123	22%
E-Other company impacts on the environment	31	5%
E-Water and Waste	22	4%
G-Board Composition and Effectiveness	285	50%
G-Board Gender Diversity	23	4%
G-Business Oversight/Risk Management	188	33%
G-Corporate Strategy	228	40%
G-Executive Management	114	20%
G-Governance Structure	166	29%
G-Other	17	3%
G-Remuneration	249	44%
G-Sustainability Reporting	76	13%
S-Business Ethics and Integrity	4	1%
S-Community relations	10	2%
S-Diversity and Inclusion	33	6%
S-Health and Safety	5	1%
S-Human Capital Management	155	27%
S-Indigenous Peoples Rights	2	0%
S-Other Human Capital Management issues	8	1%
S-Other company impacts on people/human rights	12	2%
S-Privacy and Data Security	13	2%
S-Social Risks and Opportunities	109	19%
S-Supply Chain Labour Management	7	1%

8.29 An example of a recent engagement with Oracle Corporation

Objective: Our recent engagement focused on board composition/quality, compensation concerns and intended changes, as well as updates on human capital management practices amid recent layoffs and opportunity to enhance DEI practices/transparency.

Activity: Board Composition: We reiterated that a policy to appoint an independent board chair is considered to be in shareholders' best interests. The share pledging activity (taking loans against the shares that one holds) by Chair Ellison continues to raise significant concern regarding the Governance Committee's risk oversight. Oracle tries to offer reassurance that Ellison’s shares are pledged to fund outside personal business ventures and not as collateral for margin accounts or to shift/ hedge risk in holding ORCL stock. BIS pointed out that our concern would be in spite of this, if any of his outside business ventures were to do poorly that would affect our clients.

• Compensation: The compensation committee demonstrated poor responsiveness to last year's low say-on-pay vote result. The company extended the performance period of large outstanding front-loaded awards from the original 5 years to another 3 years after previously making a commitment to maintain the existing terms of the awards. BIS pointed out that the extension raises the question of how effective the program was initially. We enquired if it was on the horizon to transition to a more normalized plan, say by 2025, as this would be one way to respond to shareholders feedback. However they did not indicate any timeframe for announcing a transition.

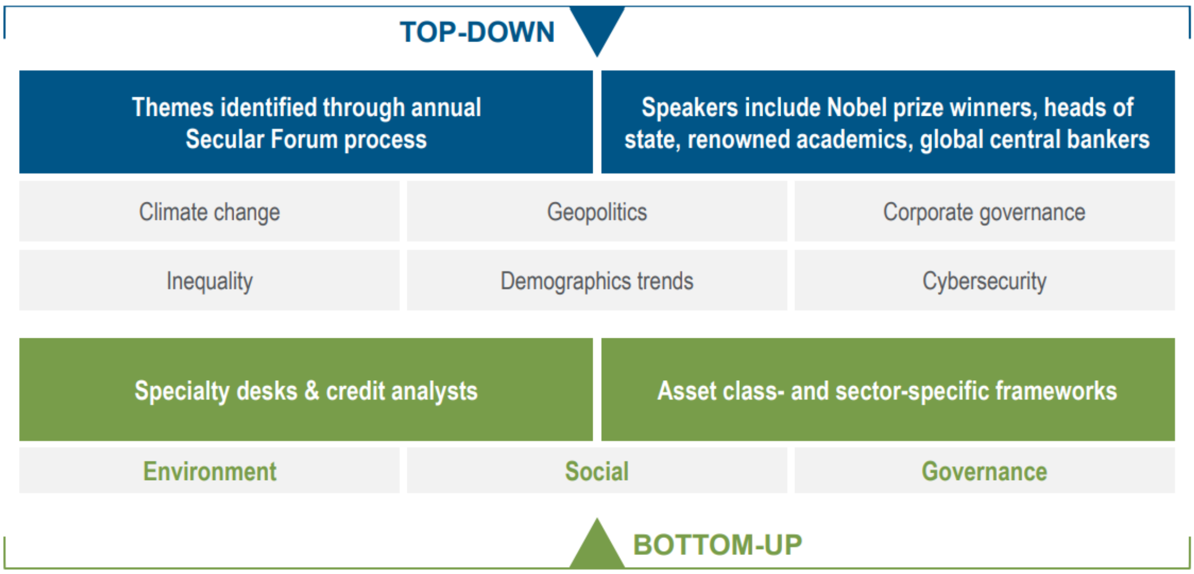
• Human Capital Management: Oracle does not disclose key human capital metrics such as attrition, or metrics to track retention improvements over time. BIS mentioned that disclosing EEO1 (US Equal Employment Opportunity) was low hanging fruit to this end. On the call, Oracle detailed website resources, grants, university and high school initiatives for Diversity, Equity and Inclusion (DEI) outreach.

Outcome: Continue to engage on board composition, compensation and human capital management to ensure pathway towards industry best practice.

GIS Low Duration Opportunities Fund

8.30 This is an ESG category article 6 fund so does not have sustainable investment or ESG as an objective, however PIMCO recognise that ESG factors are increasingly material inputs into understanding global economies, markets, industries and business models.

8.31 ESG factors are integrated into investment decisions using a top down approach to consider macro context in which issuers maybe impacted by material cyclical and secular ESG trends and bottom up analysis to assess resilience of issuers in context of macro and idiosyncratic ESG risks and opportunities.



8.32 An example of a recent engagement by PIMCO with HSBC corporation

Objective: To review HSBC interim target setting re net Zero, human Rights and Client Engagement.

Activity: PIMCO had a 1x1 call with the investor relations team, focusing on climate change and human rights.

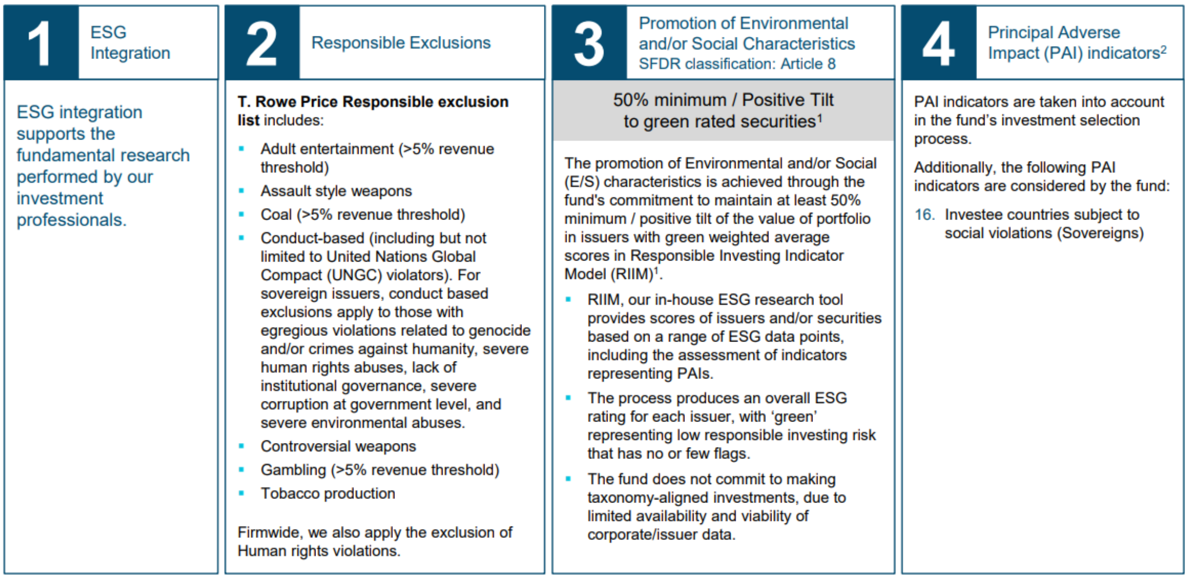
Discussed progress on sectoral target setting, financed emissions, client engagement on transition, clarifications on sector policy and grievance and remediation for human rights. We also discussed the issuer's gaps in their lending policies on natural capital and alignment with net zero and are reviewing the policy though unlikely to be updated in 2022. We encouraged HSBC to clarify their approach to assess and engage clients on transition progress, including clear criteria for assessing clients' transition progress (e.g. against 1.5C pathways, net zero framework by TPI or CA100+).

We recommended more explicit reference to net zero in sector policies, particularly setting out time-bound expectations for all carbon-intensive sectors to have a credible transition plan and/or net zero targets. Furthermore, PIMCO recommended the issuer to set clear criteria for assessing client transition progress, defining engagement strategy, outcomes and escalation process

Outcome: The issuer recognized the room for improvement in strengthening human rights due diligence in lending and intend to improve over the coming years. The issuer is reviewing the lending policies, and progress will be followed up.

Dynamic Global Bond Fund

8.33 The ESG process operated by T Rowe price in selection of investments is shown below. There are no voting rights associated with this investment.



8.34 An example of a recent engagement with Citigroup

Objective: Management of climate risk

Activity: We engaged with Citigroup to discuss its approach to managing climate risk as well as other ESG topics. Citigroup provided an update on its approach to managing risk related to financed emissions. The bank is working on targets for four additional sectors (autos, commercial real estate, steel, and thermal coal mining) ahead of the next Task Force on Climate-Related Financial Disclosures (TCFD) report. Additionally, the bank is participating in the Partnership for Carbon Accounting Financials (PCAF) methodology working group to understand how to measure financed emissions for capital market activities.

Outcome: Our view is that energy transition presents a material finance risk to the banking sector as regulators around the world are increasingly focused on climate. We see some banks respond to this by adopting broad-brush sector exclusions, which we do not advocate. Instead, we believe financial services companies will be better served by taking a risk mitigation approach and evaluating the climate strategies of the companies they are financing. In order to do this effectively, they will need to have a framework in place to evaluate each sector.

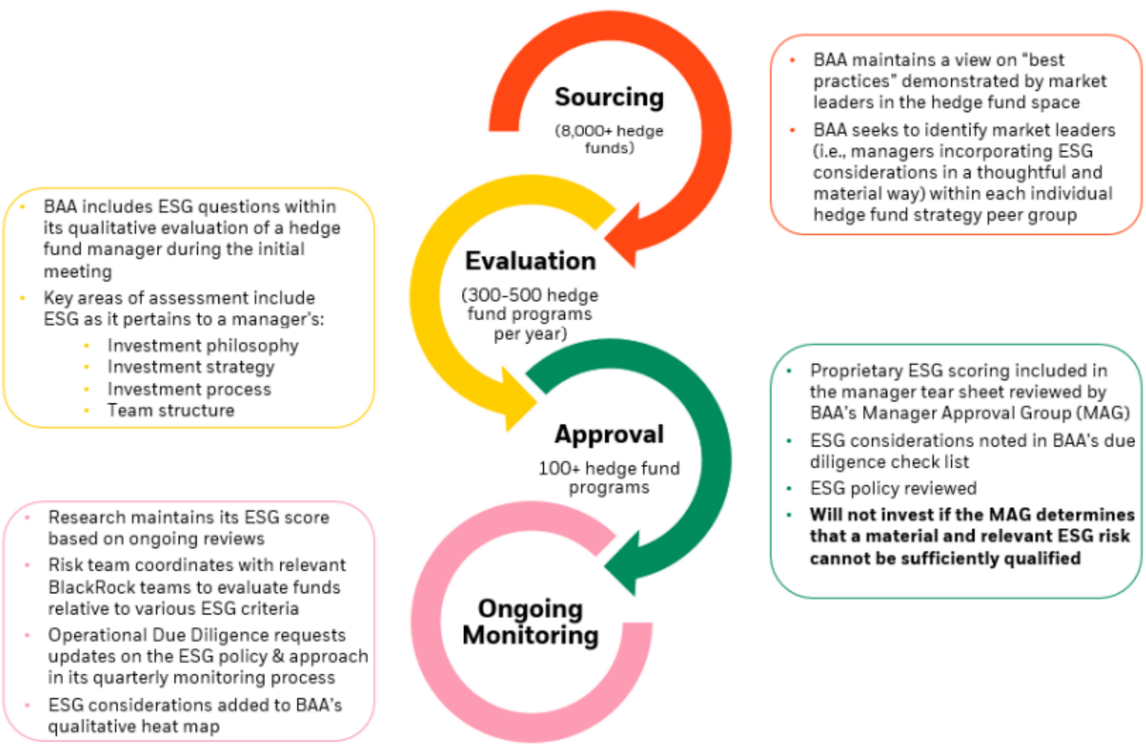
The nature of our discussion with Citigroup was to understand how its frameworks were evolving as it engages with clients and provide our view on best practices. In our view, the bank appears to be ahead of peers in creating a framework/template to assess its clients' transition plans/disclosure. Citigroup is piloting the framework with the largest emitting companies and is building internal capacity to evaluate these plans across more customers. To date, customers have been receptive to the level of scrutiny, understanding that Citigroup needs to collect more information than it had previously. The bank highlighted that while it will aim to provide more detail to investors on this template, it believes it may become proprietary information in the future. We also discussed diversity, equity, and inclusion (DEI). Citigroup was among the first companies to agree to voluntarily conduct a racial equity audit at the request of a shareholder. That audit is still underway; we expect a report in the first quarter of 2023. Meanwhile, the company's DEI update includes expansion of its representation goals. Whereas targets were previously set for the U.S. only, the bank has now expanded this to North America. Where possible (such as gender representation), targets have been expanded across the global workforce. Our engagement with Citigroup allowed us to impart our view on best practices around climate risk and ESG disclosure.

Appreciation Strategy Hedge Fund

8.35 It is difficult to provide concrete examples of engagement and voting examples for this investment given the nature of the asset class. This is because hedge funds typically do not hold direct equity in companies. Rather, hedge funds often use equity-related securities such as futures or swaps, which do not provide voting rights or means of direct engagement with companies. Furthermore, as this investment is a fund of hedge funds, exposure to companies is primarily through the investments into said hedge fund strategies, and as such voting power or means of engagement is limited.

8.36 However, while stewardship is not technically applicable to this investment, ESG is an integral part of Blackrock's investment process, as highlighted in the chart below. The chart sets out how ESG considerations are weaved into each stage of the investment process before making an investment and post-investment with each manager. Engagement with managers is a core pillar of Blackrock's ESG integration efforts and they have a standard process to engage with each manager. The same process and rigour is applied to new managers. Managers are asked to complete a questionnaire at the outset and on a quarterly basis (with very few exceptions) on an ongoing basis.

Incorporating ESG into BAA's Investment Process:



Effective as of December 2022. For illustrative purposes only.
Current investment process is subject to change and based on market conditions, managers' opinions and other factors.

Illiquid Alternatives

8.37 As noted under Principle 6 the Illiquid Alternatives section of the portfolio equates to 25%. Depending upon the nature of the investment there is not always a clear engagement evidence as the investments do not hold direct equity and so have no direct voting rights. We have set out examples of Managers approach to ESG and engagement examples as applicable:

Private Equity

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

1. GP (General partner) engagement

As an indirect investor in private markets, the manager's primary engagement approach is to use its influence to engage with GPs and lead deal sponsors when relevant and appropriate to (i) drive progress more broadly and demonstrate their value-add as a partner, and (ii) address issues at portfolio level more specifically for their own and their LPs' (Limited Partners) assurances.

2. Company engagement

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

3. Industry engagement

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

8.41 **GP Engagement**

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

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

8.42 The Scorecard is typically completed during due diligence for primary and complex secondary investments and is factored into the investment committee materials accordingly. On an ongoing basis, the Scorecard is maintained as a live monitoring tool and updated regularly; scoring data can be used to provide specific feedback to GPs on areas for improvement, and to benchmark them to peers. The Scorecard evaluation and feedback processes serves to encourage continuous improvement from GPs and will (where practicable) prioritize engagement with lower-scoring GPs to encourage the adoption of a systematic approach to ESG integration.

8.43 For example, the manager's ESG team recently updated the ESG Manager Scorecard for a large European buyout GP and marked notable updates that generated an increase in their ESG rating. Since the last evaluation: the GP signed up to the SBTi standard for private equity and expected the targets to be validated in March 2023; they hired a global head of DEI focused on internal diverse recruitment and retention; they developed an internal ESG tool, a "maturity scorecard" used to evaluate deal teams and provide feedback on their execution of the ESG action plan; and lastly, they developed a framework for supporting sustainability-linked loans.

8.44 **Company Engagement**

The following section describes how the manager identifies and engages on portfolio company risks and incidents using a third-party monitoring software, and its influence on portfolio company boards.

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

8.46 **Theme:** Equality and Diversity

Through their standard incident monitoring process, the manager was made aware of a South Korean automotive company being accused of discriminating against its female employees. The allegations surrounded salary increases and opportunities for promotion. The manager contacted the GP, who challenged the allegations made in the article. In particular, the GP noted the pay differential between non-sales force and sales force employees is not driven by gender discrimination but rather that the latter category receives incentives. Sales force employees are predominately male, which is the case for other automotive players in the industry, and the female application rate for sales force positions is less than 1%. As a result, it is very difficult to increase the proportion of female sales force employees. The manager took comfort that under the GP's ownership of the company, several initiatives to improve gender diversity have been successful. As a result, the gender split of non-sales force employees is even, with one of three non-executive and one of four executive directors being female. The GP will continue to work on improving the female application rate for its sales force positions, with the manager monitoring progress.

8.47 **Board-level engagement**

The manager's direct team may hold Board Director positions for certain companies, and where appropriate, will use its influence to affect awareness, improvement and change with respect to ESG topics.

8.48 For example, one of the manager's team members used their position on the portfolio company board of a pharmaceutical company to raise the topic of ESG oversight at board level. The company and the lead GP requested to speak with the manager's ESG team. Following the discussion, the lead GP committed to developing a tailored ESG scorecard to flag and monitor material ESG issues for the portfolio company, which was presented at the next Board meeting. The manager has since been presented with the first and second annual ESG Reports from the lead GP which demonstrated that they had adopted this ESG Scorecard approach at the Board-level across their portfolio, and they indicated the manager was very helpful in providing initial direction. The manager has also been able to use this as an example of best practice adoption when engaging with the GP's sector peers.

8.49 **Industry engagement**

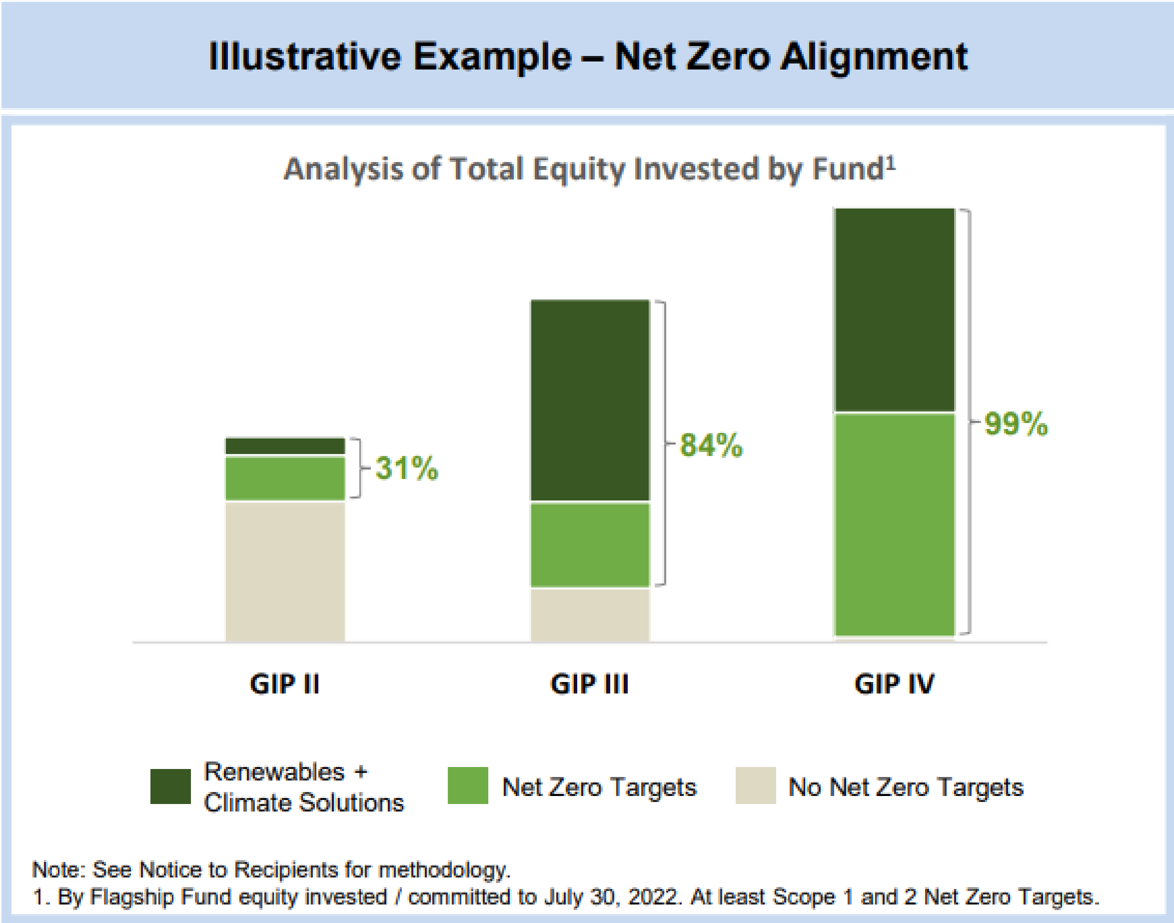
The following section describes how the manager participates in industry initiatives to drive progress and adoption of ESG principles. The manager selectively participates in industry initiatives where it feels the initiative could be impactful for its own objectives as well as the industry, broadly.

In 2022 the manager joined the ESG Data Convergence Initiative (EDCI), hosted by ILPA, to signal its support for the standardization of ESG metrics in private markets. The current lack of metrics alignment has created industry-wide issues, and the manager supports efforts toward the quality, availability, and comparability of ESG data in private markets. Furthermore, the EDCI set of metrics includes GHG emissions, and climate change is a key pillar in the manager's ESG program.

Infrastructure

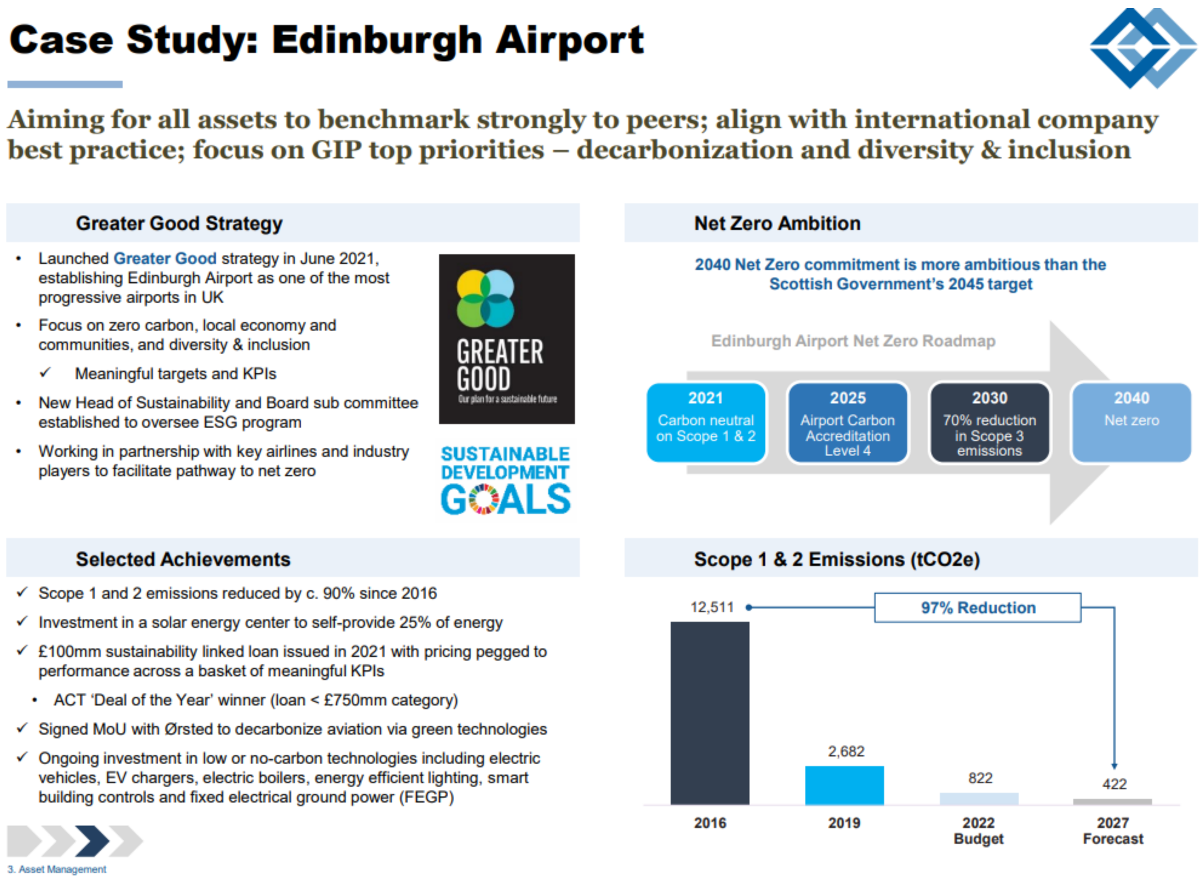
8.50 The Fund has two infrastructure investments one with Global Infrastructure Partners and one with LGPS Central, these equate to 5.25% of the Fund's benchmark as laid out in the strategic asset allocation under Principle 6.

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



Note the Fund has nearly exited GIP II with only three investments remaining in this fund.

8.52 An example of the ESG approach at Edinburgh Airport is provided showing clear progress made. Note Edinburgh Airport forms one of the three investments remaining in GIP II



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

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

8.54 The LGPS Central investment is a relatively new investments and funds are still being drawn down in 2022 with full deployment of capital expected over the next 18 months. The fund involves multiple managers all selected by LGPSC. The integration of ESG principles into manager selection has been covered earlier in this section.

Private Credit

8.55 The LGPS Central investment is a relatively new investments and funds are still being drawn down in 2022 with full deployment of capital expected over the next 12/18 months. The fund involves multiple managers all selected by LGPSC. The integration of ESG principles into manager selection has been covered earlier in this section.

Property Debt

8.56 The Funds property debt investments have a 1.5% benchmark as set out in the Strategic asset allocation under principle 6. This fund is about managing UK property debt and the fund manager looks for properties either with strong ESG foundations at the outset or a commitment to improve ESG credentials as a result of investment.

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

Project London Office Refurbishment

Loan Overview: Loan to refinance and refurbish an office in Clerkenwell, London, Located in a vibrant hub for technology and media companies.

Theme: Extension and refurbish of existing office asset.

Objectives:

- Refurbishment of an existing office to:
- Improve ESG credentials of the asset;
- Increase office area from 51,000 sqft to 72,350 sqft; and
- Provide high specification office space which is fit for purpose in the current office environment.

Engagement Activity:

- Refurbishment project was closely monitored by the Lender's monitoring surveyor.
- Construction milestones were in place to ensure the project was delivered on time.
- Significant cost overrun protection by way of (i) contingency in the budget and (ii) a cost overrun guarantee from the Sponsor.

Outcomes:

- Practical completion was achieved in May 2022.
- Embodied carbon was preserved given that this was the refurbishment of an existing structure.
- EPC B, BREEAM Excellent and Wiredscore Platinum achieved.
- Cross laminated timber (CLT) scheme which resulted in 43% carbon reduction and 70% reduction in lorry deliveries. The CLT came from sustainable forests.
- Clad in StoneCycling bricks, manufactured from 21 tonnes of recycled waste materials.
- 10,000 sqft of blue and green roof systems.

Property -Abrdn UK Property

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

1. Real Estate Multi-Manager Investment Process

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

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

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

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

2. New investment - Octopus Healthcare Fund (OHF)

Theme: Despite due diligence being initiated in the midst of the COVID-19 pandemic, our focus remained on sourcing opportunities exhibiting strong structural themes. Such themes rely on demographic factors and changing behaviours in the way we consume, work and live. The UK healthcare market provides a clear opportunity in terms of demographic trends, with OHF seeking to take advantage of this by providing exposure to high quality, predominately private-pay focused UK elderly care home and specialist healthcare real estate.

Objectives: The objective of our due diligence exercise was to a) establish whether the stated strategy would hold up under our scrutiny, b) better understand drivers of future performance, c) build out our relationship with the management team, and d) ensure the opportunity would be suitable for Shropshire's portfolio.

Engagement Activity: We created several bespoke, written questionnaires which were sent to Octopus for completion. The questionnaires covered various aspects from fund strategy, investment process, management team, assets, care home operators, through to matters such as governance and ESG. In addition to questionnaires, we held a number of Microsoft Teams meetings to interview members of the Octopus team (face to face meetings were not possible at the time due to the pandemic).

Outcomes: Having received answers to our questions we continued to delve further over a period of several weeks with follow up questions, until we were satisfied with the information provided. Upon receipt of initial Investment Committee approval we visited a number of assets (external visits only to protect the health and safety of residents) which enabled us to see their quality and location, and to speak to the care home operators. We presented our findings to the Investment Committee for final sign off, and subsequently proceeded with the investment.

Principle 8

Signatories monitor and hold to account managers and/or service providers

9.1 The Fund expects its appointed investment managers to ensure that our needs have been met by taking account of financially material social, environmental, and ethical considerations in the selection, retention and realisation of investments and believes that this forms part of the manager’s fiduciary duty to protect long term shareholder value.

9.2 This reflects the Fund’s commitment to ensuring that companies that it invests in adopt a responsible attitude toward the environment, adopt high ethical standards and behave in a socially responsible manner by considering the interests of all stakeholders. The Fund seeks to achieve this objective by raising issues with companies in which it invests and to raise standards in a way that is consistent with long term shareholder value and our fiduciary duty.

9.3 The Fund understands that regardless of this delegation, we retain overall responsibility for the stewardship and responsible investment of the Fund’s assets.

9.4 Specifically, managers are tasked with appropriately selecting the companies held in their portfolios based on mandates, intervening where necessary and reporting back regularly on engagement activities.

9.5 The reports from our asset managers detailing engagement activities are a key monitoring tool used by our Pensions Committee on a quarterly basis.

9.6 These are reviewed by both our independent investment advisor, Roger Bartley and our investment Advisors AON, who attend all Pension Committee meetings. Our advisor’s objectives were reviewed at the Pension Committee December 2022 and include assisting the Fund in the monitoring of its managers and producing a quarterly performance update for Committee which provides an overview of manager performance and raises any corporate, social or governance issues for consideration by the Committee. The Fund also monitors the performance of its investment advisors in compliance with CMA regulations and reports this to Committee every 12 months.

9.7 Each of the managers meets with officers of the Fund on a Quarterly basis and the Pension Committee can call mangers to appear as required. LGPS Central as the Fund’s Pooling Manager have attended Committee in 2022 together with Columbia Threadneedle Investments the Funds Engagement and Overlay Advisors. Going forward the expectation is that where possible all new investments will be placed through the pool and existing assets transferred as appropriate. To this end, the Pensions Committee have agreed in principle to moving the Absolute Return Managers to a new LGPS Central Absolute Return Fund, but this fund has not been launched in 2022. The position will be kept under review by the Pensions Committee and the Fund’s advisors. Additional meetings with managers may also be arranged on an ad-hoc basis according to need. In addition to the exempt performance reports for the Pensions Committee Manager performance is also reported publicly annually in the Fund's annual report which is published on the Fund's website and made widely available to stakeholders.

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

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

9.10 The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which has enabled us to develop our approach to shareholder engagement and responsible investment. Collective engagement through LAPFF enables us to maximise our influence.

9.11 Officers of the Fund regularly attend LAPFF business meetings, which include presentations from expert speakers and detailed updates on engagement and policy work. Furthermore, our membership of LAPFF enables us to benefit from their voting alerts service which highlights companies with material corporate governance failings. Full details of the alerts can be viewed on the LAPFF website in the members' area. An example of LAPFF engagement is provided under principle 9 at 10.2.

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

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

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

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

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

9.16 External fund managers are monitored in order to ensure the ongoing application and efficacy of their approaches to RI and stewardship. Managers' report on a regular basis to LGPSC in respect of how engagement activities have been discharged during the period in review. In 2022, LGPSC's external managers conducted 272 direct engagements with companies held in the Global Equity Active Multi-Manager Fund and Global Sustainable Equities Fund.

9.17 Engagement undertaken by LGPSC's external managers in 2022 has been comprehensive and robust. These managers are all long-term investors with sizeable positions in their highest conviction portfolio holdings, giving them excellent access to company management which they used effectively to drive company change. There were a few occasions where the level of engagement disclosure was unsatisfactory, or where the link between an engagement and subsequent investment decision-making was not clear. In these instances, fund managers were marked down during our RAYG rating (red – amber – yellow – green) review and LGPSC discussed its concerns in the quarterly meetings.

9.18 **An example of LGPSC changing the RAYG rating occurred in Q2 2022**. Going into 2022, one of our managers was downgraded to a 'Yellow' rating due to concerns around the lack of evidence of ESG analysis on new additions to the fund. The issue persisted in Q1 2022 which prompted warning that the RAYG rating will be downgraded to an 'Orange'. LGPSC reiterated our expectations for managers' ESG integration activities during our quarterly review meeting with the manager. Following this, the level of disclosure greatly improved in Q2 and Q3 2022. The manager now provides a summary of their analysis of ESG risks and opportunities of new additions and flags new ESG issues in current investee companies. We are able to gain greater confidence that the ESG is integrated into their investment analysis. LGPSC will consider upgrading the integration rating to a green should improvement persist.

9.19 Examples of Engagements by LGPS Central during the year:

Active Equities

Nextera Energy, Inc (Global Equity Mandate & Global Sustainable Equities Mandate)

Theme: Climate Change

Objective: We expect companies, across sectors, to present a climate transition plan with an explicit net zero by 2050 target to shareholders for advisory voting at three-year intervals, as a minimum. Net zero strategies should be expressed in absolute emissions, not emissions intensity only, and cover the full lifecycle of emissions, as well as establish short and medium-term targets that demonstrate how net zero by 2050 can be achieved.

Engagement: As part of CA100+, we are engaging NextEra Energy (NEE) on their climate risk management and energy transition efforts. Considering our vote against the Chair at NEE's AGM in May, due amongst others to inadequate management of climate-related risks, it was very pleasing to see NEE announce a goal to achieve net zero by no later than 2045. This is presented in NEE's Real Zero plan which does not rely on offsets for Scope 1 and 2 emissions. CA100+ investors have expressed support for the plan, but we are seeking a meeting at board level to discuss gaps. Gaps include a clear pathway for absolute emission reductions, capex alignment with the Real Zero target and policy advocacy that directly supports the company's own net zero ambition.

Outcome: Lead investors for CA100+ held a meeting with the Company Secretary of NEE in August asking to discuss these gaps with the Lead Independent Director of the board. While NEE remains reluctant to allow dialogue with the board, CA100+ will continue pushing for this and a letter has gone out reiterating our request to discuss investor concerns directly with the board.

Booking Holdings Inc (Global Equity Mandate)

Theme: Human Rights (Conflict Areas)

Objective: We expect businesses that operate in areas of war and conflict to take particular care to respect human rights. The Israeli-Palestinian conflict poses clear human rights risks for companies, but the sensitive political situation makes engagement challenging.

Engagement: LGPSC has taken part in dialogue with Booking Holdings Inc, led by LAPFF. In a meeting held this quarter, we discussed steps that the company is taking to manage human rights risks from its operations in the Occupied Palestinian Territories (OPT). Booking has recently published a human rights statement which touched on the topic of conflict areas, although not specifically OPT. The company is working with a third-party consultant to understand their firmwide human rights risks and the consultant has helped with the drafting of the human rights statement.

Outcome: We are pleased that the company is willing to engage on this sensitive issue. Booking indicates that they have plans to undertake enhanced due diligence related to their businesses in OPT. It remains to be seen whether this will be shared publicly.

Passive Equity

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

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

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

9.21 Passive Equity is the largest single investment in the Fund with a benchmark of 28%. The Fund have quarterly engagement with LGIM to review Engagement performance and the review the Fund's equity protection strategy.

9.22 Examples of engagements by LGIM

Example 1 - BP

Sector & Theme Oil and gas - Climate

Issue identified Management-proposed ‘Say on Climate’ proposal, at a company with whom we have been engaging for many years. Summary of the resolution Resolution 3: Approve “Net Zero – from ambition to action” report AGM date: 12 May 2022

How LGIM voted For (in line with management recommendation) Rationale for the vote decision Following long-standing and intensive engagements, both individually and collectively through the CA100+, BP has made substantial changes to its strategy and approach. This is evident in its most recent strategic update where key outstanding elements were strengthened, including raising its ambition for net zero emissions by 2050 and halving operational emissions by 2030, as well as expanding its scope 3 targets and increasing its capex to low carbon growth segments. Nevertheless, we remain committed to continuing our constructive engagements with the company on its net zero strategy and implementation, with particular focus on its downstream ambitions and approach to exploration.

Outcome 88.5% votes were in favour of the resolution. Why is this vote ‘significant’? This year, we laid out our criteria for supporting management-proposed climate transition plans. The oil and gas sector is an integral component in the transition towards a net zero world and, as such, a great level of scrutiny is applied when assessing the credibility of climate proposals submitted to a shareholder vote this year by companies in this industry, with BP being one of them.

Example 2 - Universal Health Services Inc

Sector & Theme Healthcare facilities - Diversity

Issue identified Lack of ethnic diversity on the company board. Universal Health Services was included in our ethnic diversity campaign (further details can be found below) Summary of the resolution Resolution 1 – Elect Director Maria R. Singer Date of AGM: 18 May 2022

How LGIM voted Against the resolution (against management recommendation) Rationale for the vote decision LGIM began engaging on ethnic diversity with the largest companies in the UK and US in September 2020, with the expectation for one ethnically diverse person to be added to the board by the end of 2021. As part of the campaign, we set out that we would vote against the chair of the board or the chair of the nomination committee from 2022 where this expectation had not been met. Therefore, a vote against was applied because of a lack of progress on ethnic diversity on the board.

Outcome 63% of shareholders voted against Singer's election. The board acknowledged that Singer had not been re-elected by shareholders but that she brings [gender] diversity and relevant expertise to the board and therefore states that she will remain on the board. LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress. Why is this vote 'significant'? LGIM considers this vote to be significant as it is in application of an escalation of our vote policy on the topic of ethnicity on the board (escalation of engagement by vote)

Example 3 - Toyota

Sector & Theme Motor Manufacturers – Climate and Diversity

Issue At Toyota, we have identified their key issues to be:

I. capital allocation decisions (cross-shareholdings and insufficient investments in zero-emissions vehicles and related infrastructure)

II. II. board independence, diversity and effectiveness

Engagement We originally started our engagement with Toyota in September 2021, alongside fellow shareholders. Our second meeting was held earlier this year to discuss climate change, board composition and capital allocation. We spoke with TMC's Chief Sustainability Officer. Throughout these meetings, which were attended by Toyota's investor relations team and chief sustainability officer, we expressed our concerns around the company's cross shareholdings, the lack of supervisory function at the board level given the low level of independence, and the company's climate transition strategy and related public policy engagements.

Outcome In September 2022, we spoke with one of the outside directors on the board and were able to have a candid conversation about how outside directors add value to the board and the quality of board discussions. Given the company's size and influence at Japan's largest business federation and in industry associations, we have always questioned the company's lobbying stance and its alignment with a 1.5°C world (this is also one of our red lines under sector guides for the auto sector in the Climate Impact Pledge). We are delighted to see improved transparency from the company as they published their views on climate public policy in December 2021. Nonetheless, we view corporate transparency to be the first step and we hope that this will enable us to have more in-depth conversations on its views on climate and how the company plans to shift its strategy. Given a recent controversy at one of Toyota's group companies (Hino*), we will continue to engage with the company on corporate governance issues and push for better practices both in terms of corporate governance and climate strategy.

Example 4 – Capricorn

Sector and Themes Energy – Climate and Governance

Issue The actions of Capricorn's board in 2022 in seeking to merge with other energy companies raised some concerns about the company's governance and decision-making process, given the potential negative impact such decisions would have on Capricorn's shareholders. As a smaller-scale oil and gas company, Capricorn's climate credentials had been reasonable and until the surprising announcements by the board and its subsequent actions, no material governance concerns had previously been raised.

Engagement The first proposed merger with Tullow Oil, an Africa-based oil company, was announced in June 2022. LGIM's Investment Stewardship and Climate Solutions teams spoke directly with Capricorn's management team and directors to voice our concerns about the proposed transaction, as it didn't seem to advance the energy transition strategy for Capricorn's shareholders, in light of the increased exposure to oil prices and geographical risks. Additionally, we believe that such merger would have resulted in increased financial leverage and dramatically elevate climate transition risks.

The second merger proposal with NewMed, an Israeli-based natural gas producer, was met with rising suspicion and even less support than the first and we met again with Capricorn to voice our concerns. We are not the only shareholder to have questioned the Capricorn board's actions, and one of its largest shareholders, Palliser Capital, became more vocal about its objections to the proposed NewMed deal.

Outcome In further conversations with Capricorn, we asked detailed questions about the process they had gone through in terms of deciding on this merger and whether other alternatives were considered. Nevertheless, despite mounting opposition from LGIM and other shareholders, Capricorn and Tullow initially proceeded with the merger before a decision was taken by Capricorn to abandon it, citing concerns about market conditions and external factors as the reason.

An EGM has been called for January 2023 to vote on a complete overhaul of the board. LGIM has declared its support for the restructure of the board. We believe that there has been a substantial breakdown in relations between the board and its shareholders, to such an extent that a change is now warranted.

ENGAGEMENT (Principles 9 to 11)

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

10.1 Alongside LGPSC's direct engagements, we have several partners that engage with companies on our behalf: Columbia Threadneedle Investments (CTI), the Funds responsible Engagement Overlay partner, EOS at Federated Hermes (Stewardship provider to LGPSC) and LAPFF. Through these partnerships, our Fund was able to engage more than 1,000 companies on material ESG related issues in the course of 2022.

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

Glencore

Theme: Human rights, bribery and corruption

Objective: Although LAPFF was keen to meet Anglo American, BHP, and Vale in relation to its Brazil visit, it wanted to share its findings and observations with other mining companies covered in LAPFF's mining and human rights report issued earlier this year. Therefore, Cllr McMurdo met with Glencore Chair, Kalidas Madhavpeddi, to talk about LAPFF's work in Brazil, to discuss concerns community members in Peru have raised about Glencore's activities in that country, and to discuss various bribery and corruption allegations against the company. Glencore's approach to climate was also discussed.

Achieved: For a number of years, LAPFF had requested that Glencore undertake an independent assessment of the company's internal controls. This request stemmed from an investor collaboration spearheaded by Sarasin when details of Glencore's business relationships in the Democratic Republic of Congo raised concerns of bribery and corruption. Although Glencore does not appear to have heeded this request, the company has now entered settlements in numerous countries in relation to various bribery and corruption allegations. It is hoped that these settlements will place internal control requirements on Glencore to prevent the occurrence of future problems in this area.

In Progress: LAPFF is hearing concerns from community members affected by Glencore's operations in Peru that are eerily similar to those LAPFF encountered in Brazil, Colombia, Mexico, Papua New Guinea, and elsewhere. Namely, communities allege that mining companies have polluted, and are continuing to pollute, their water. The companies respond by stating that the water is naturally polluted. LAPFF needs to investigate to understand what is happening in these situations.

10.3 During 2022 LGPSC has continued engagement on four, core stewardship themes: climate risk, plastic pollution, fair tax payment and transparency and human rights risks. See Principle 5 for further detail on how these themes have been identified. Appendix 2 provides details of the Stewardship Strategy, measures of success, engagement highlights and case study for each of the 4 Themes

Engagement on themes and issues outside of Stewardship Themes by LGPSC

10.4 ITV PLC

Theme: Modern Slavery

Objective: We engage with companies for which we would like to get in-depth understanding of their approach to modern slavery risks, including modern slavery governance, policies, and mitigation. This helps us assess the underlying modern slavery risks of companies as well as its suppliers.

Engagement: Alongside Rathbones Group Plc, we held a meeting with ITV discussing the company's management of modern slavery risks. ITV has shown strong practice in setting policies on modern slavery risks, and we wanted to get more disclosure of its framework, which would allow us to engage with other related companies on issues of modern slavery more effectively. We discussed ITV's corporate governance process and asked whether there are any plans to link modern slavery targets to executive pay. We also discussed the company's practices on whistleblowing, past whistleblowing instances due to modern slavery, training, and the company's collaboration efforts to tackle the issue. We also asked the company about its supply chain and oversight for its suppliers, including identification of high-risk suppliers and conducting unannounced audits.

Outcome: We appreciate ITV's commitment to mitigate modern slavery risk. The company is compliant with the Modern Slavery Act and has published its sixth Modern Slavery Act Transparency Statement. In terms of modern slavery risk governance, the company's General Counsel is the executive sponsor and heads the steering committee which meets on an ad-hoc basis. The new Chair is also the chair of another company, which is generally more exposed to modern slavery, bringing relevant experience for robust risk management. ITV also provides appropriate modern slavery training to staff. The company has disclosed a comprehensive procurement policy 2021, stating that the company conducts supplier-risk mapping, due diligence questionnaires and periodic assessments.

10.5 44 FTSE 350 Companies

Theme: Human Rights (Modern Slavery)

Objective: Over the last two years, LGPSC has been a member of a collaborative investor-initiative convened by Rathbones Group Plc (Rathbones) that has successfully encouraged laggard FTSE 350 companies to meet the reporting requirements of Section 54 of the Modern Slavery Act 2015. According to the Act, companies with a turnover of more than £36 million per year must publish a modern slavery statement and ensure that the statement is approved by the board; signed by a director; and reviewed annually and published on the company's UK website.

Engagement: In the course of 2021, we engaged 61 FTSE350 companies asking for Modern Slavery Act compliance. As per end 2021, all companies have responded and are now compliant. Initial positive responses have given an opening for meetings to discuss companies' approaches to modern slavery. Following up on that success, we co-signed letters to 44 companies that have failed to meet the minimum reporting standards of the Modern Slavery Act 2015.

Outcome: As per end of June 2022, 40 of these companies are compliant with the Act. We are following up with further engagement and monitoring of progress.

Further example of LGIM engagement

10.6 An example of a recent engagement through LGIM relating to deforestation is cited below which is part of their Q4 ESG Impact Report 2022.

10.7 In the fourth quarter of 2022, we continued our deforestation engagement campaign with portfolio companies. Having communicated initially with around 300 companies in deforestation-critical sectors, we then followed up with direct engagements where requested. For instance, we met with Colgate-Palmolive* and Sime Darby Plantation* to discuss their deforestation policies and approaches. As communicated in our deforestation policy, we will be sanctioning companies for not meeting our minimum expectations of having a deforestation policy or programme from 2023 onwards. We will continue to work on achieving our milestones as part of the COP26 Commitment on Eliminating Agricultural Commodity Driven Deforestation from Investment Portfolios, which we signed in 2021.

10.8 In response to commitments made at COP26, LGIM joined with over 30 financial institutions as part of the Finance Sector Deforestation Action (FSDA) initiative to commit to use best efforts to eliminate agricultural commodity-driven deforestation from our investment portfolios by 2025. Through our involvement in the FSDA initiative, we are working with other investors to accelerate progress in key sectors and across value chains. This is a critical step towards reversing deforestation globally and aligning the financial sector with a Paris Agreement-compliant 1.5°C pathway. The initiative has set out investor expectations for companies around commitments, disclosure and actions related to deforestation. The FSDA has also identified key companies in deforestation critical sectors to engage with, and LGIM has taken the lead on four of these engagements. The FSDA initiative outlines a clear timeline to demonstrate 'best efforts', including:

1. By the end of 2022: complete an assessment of deforestation risk exposure associated with investments related to forest-risk agricultural commodities, adopt policies to address deforestation risk and deepen engagement with clients and holding companies.

2. By 2023: disclose deforestation risk exposure and mitigation activities associated with investment portfolios and continue engagement activities.

3. By 2025: publicly report on progress and incorporate engagement outcomes into investment decisions.

Example of Engagement by Columbia Threadneedle investments

10.9 Example Case Study – Compass Group

Background	Meagre, inadequate provisions of free school meal parcels in 2021. Horse meat scandal in 2013 Nutritional value of school meals in 2007
Action	Engagement focused on food quality and supply chain due diligence. Escalation of dialogues to the CEO and Annual General Meeting attendance
Verdict	Confirmation from the CEO that appropriate corrective actions had been taken Commitments to publish quality assurance measures and work with the Department of Education and the Marcus Rashford Foundation to improve food provisions for schools

Principle 10

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

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

11.2 LGPSC has continued active involvement in several strong investor collaborations that pursue better corporate standards across ESG issues, including for several Stewardship Themes, during 2022. The pool has also supported theme-relevant industry standards and benchmarks, which clarify investor expectations of companies and provide a mechanism for measurement of progress. For a list of initiatives that LGPSC actively supports and engages with, please refer to Appendix 1.

11.3 Examples of collaborative initiatives of particular importance to LGPSC's stewardship effort in 2022 are as follows:

DEPARTMENT OF ENVIRONMENT, FOOD AND RURAL AFFAIRS (DEFRA)

Theme: Plastic pollution (microfibers)

Objective: Through a microplastics engagement project led by First Sentier Investors, we seek to encourage domestic and commercial washing machine manufacturers to add filter technology as standard to all new washing machines produced by the end of 2023. This is to help combat microplastics pollution to the environment, a problem caused in large proportion by synthetic textiles which release microfibres (a type of microplastic) when washed. A first round of engagements with 13 target companies have been held during 2021. One company, Arcelik, has launched a machine under the Grundig brand with a filter fitted as standard in the UK (Fibrecatcher).

Engagement: As an escalation to the engagements, LGPSC co-signed a letter with First Sentier Investors and LGIM, on behalf of 29 investors with £5 billion AUM, to the ministers at DEFRA. In the letter, we emphasised our support for the recommendations of the "All Party Parliamentary Group on Microplastics" issued in 2021, specifically to mandate the installation of microfibre filters in new washing machines from 2025. We also highlighted Alberto Costa MP's Microplastic Filters (Washing Machines) Bill that would allow the government to take this legislation forward appropriately.

Outcome: The letter was sent in May 2022. We will seek direct dialogue with ministers at DEFRA and monitor the legislation, alongside further engagements with companies.

Lowe's Companies Inc.

Theme: Deforestation risk

Objective: We are a part of a recently established investor collaboration, Finance Sector Deforestation Action Group, that focuses specifically on commodity-driven deforestation. We aim to engage with portfolio companies that have exposure to such commodities like wood, palm oil, soy, beef, pulp, and paper to better map and mitigate deforestation in their supply chain.

Engagement: We engaged with the second-largest hardware retailer in the U.S., Lowe's Companies Inc. on their efforts to understand and mitigate commodity driven-deforestation in their supply chain, as well as human rights considerations of indigenous people.

We welcome Lowe's commitment to transparency on their forestry footprint and wood sourcing practices through a stand-alone Forestry Report (published December 2022). Lowe's published its first wood policy in 2000, has partnered with World Wildlife Fund (WWF) and last year set a net zero goal across its value chain by 2050 in accordance with guidelines from the Science Based Targets initiative (SBTi).

Outcome: Lowe's stated that Forest Stewardship Council (FSC) and other certification carries an administrative burden and increases costs, leading to a reduced demand. For traceability in its supply chain, Lowe's has a vendor code of conduct and carries out periodic supplier audits. However, a few suppliers show reluctance to disclose their wood sourcing as they think it would hamper their competitiveness, but the company is engaging with them to resolve this issue. Lowe's will be putting a grievance mechanism on its website, which strengthens the company's commitment towards human rights.

Deforestation given heightened attention during COP26

11.4 During COP26 negotiations in Glasgow in November 2021, LGPSC alongside 30 financial institutions, made a commitment to tackle agricultural commodity-driven deforestation and help drive the shift towards sustainable production and nature-based climate solutions. This commitment encourages a focus on active ownership and ongoing stewardship as the principle means to work towards portfolios that are free from forest-risk agricultural commodity-driven deforestation activities, as part of a global transition towards sustainable production, supply chains and associated investment and financing opportunities. The aim is to achieve "real world" impact in halting some of the most common causes of deforestation and, and will focus on high-risk sectors beef, soy, palm oil, pulp and paper. We are cognisant that the timeframe is tight and will require joint effort among investors to strive for elimination of deforestation caused by sourcing for those agricultural commodities from investment and lending portfolios by 2025. We continue our policy engagement with the Brazilian government, and along with lead engagers of the Investor Policy Dialogue on Deforestation (IPDD), have met with federal representatives, state representatives, congress members, and civil society in Brazil. IPDD has also held educational and knowledge sharing sessions, both in and outside of Brazil, and conducted outreach with investor coalitions, foreign representatives, and other relevant stakeholders.

Other Fund collaboration

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

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

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

LAPFF collaborative engagement examples

11.8 In addition to the support provided directly via LGPSC there are examples provided through LAPFF of the supported engagement activities undertaken. A few recent examples are detailed below with extracts from LAPFF 2022 fourth quarterly report.

11.9 National Grid

Objective: A meeting with National Grid representatives sought to ascertain why the company is not aiming to align with proposed ambitious US state policy for the decarbonisation of heat, and to follow-up on requests around policy disclosure.

Achieved: In the meeting, as ever, the divergence between the US and UK businesses was apparent. The north eastern US states where National Grid operates have set policies for 100% electrification of households in the decarbonisation of heat by 2050. It appears that the company wishes to keep the benefit of existing gas infrastructure. Cllr Chapman attended the meeting and highlighted comments made by the company, which LAPFF shares, that there is no long-term future in gas and that the future is in electrification.

In Progress: Engagement continues to identify and unlock potential policy barriers for National Grid's decarbonisation strategy. LAPFF and other CA100+ investors are interested in partnering with the company in calling for the necessary policies that can unlock the barriers to fast and decisive climate action.

11.10 Responsible Mineral Sourcing

Objective: LAPFF has continued its engagement with electric vehicle manufacturers to gain a better understanding of how they are addressing the risks associated with sourcing the minerals they need to produce the batteries for their vehicles. LAPFF met with Renault and General Motors on this issue for the first time this quarter and with Mercedes for the second time.

Achieved: An overview of Renault's work on risk assessments for the minerals it sources and contingent reporting was discussed. LAPFF also raised the potential benefits of membership of the Initiative for Responsible Mining Assurance (IRMA). The discussion with Mercedes provided an in-depth view of the work the company was doing with regards to risk assessment of minerals and some of the work the company was doing in the Democratic Republic of the Congo. General Motors laid out new additions to its board and the skills they would bring in the transition to electric vehicles. The company also spoke about the aspirations it had with its risk assessment process, audit programme and its dialogue with suppliers on the IRMA.

In Progress: LAPFF is continuing to seek engagements with electric vehicle manufacturers, impressing upon them the benefits of transparent reporting and enhanced due diligence, whilst seeking to better understand what work companies are doing and how they are managing a just transition

Columbia Threadneedle Investments (CTI) Collaborative Engagement example

11.11 **Objective:** Chemicals companies have had serious adverse impacts on the environment and are a major contributor to GHG emissions that are responsible for climate change. The chemical industry's final energy consumption is the highest of any industrial sector; its operations cause substantial runoff of pollutants into the local environment, air and waterways; and many chemical sector products – e.g. plastics and fertilisers – are also causing serious harm to the environment.
Over a 3-year period, this project will engage with the 20 largest chemicals companies by market cap, focusing on the following targets as we look towards a sustainable transition within the chemicals sector:

1) Reducing GHG emissions – ensuring Paris-aligned climate strategies are in place; lessening reliance on fossil fuels; and exploring alternative less carbon-intensive feedstocks (bio-based and recycled raw materials; green hydrogen);

2) Minimising harmful effects on local communities – improving waste management practices; enhancing EHS systems to avoid toxic waste infiltrating local waterways; and minimising toxic emissions (VOCs, SO_2);

3) Reducing plastic waste – phasing out single use plastics; increasing recyclability of polymers; and investing in recycling technologies to "close the loop" on plastic waste by creating a circular economy.

This project would complement work done in tandem with ShareAction's Chemicals Working Group, which is a workstream of the Investor Decarbonisation Initiative. Initial focus for this initiative in 2021-22 is on decarbonisation (GHG emissions) only, rather than wider environmental topics such as toxicity and biodiversity, though these issues will no doubt come into consideration in later years.

Project Summary: This engagement project is looking to promote a sustainable transition within the chemicals industry. At the very core of this are two interconnected issues:

1) Reducing GHG emissions and

2) Product stewardship.

Through the former we expect to see Paris-aligned climate strategies, whilst the latter should see the transition to a greener and safer portfolio of chemicals. During the first half of the year we reached out to 20 of the largest chemicals companies globally, based on market capitalisation.

Our project companies span a range of different sub-industries, from industrial gases and specialty chemicals to commodity and diversified chemicals. Each of these sub-industries comes with its own unique set of challenges regarding the transition. Overall, receptiveness to our engagement has been positive.

Across the industrial gases, climate strategies are predominantly focused on reducing emissions within own operations (Scopes 1 and 2) – forming the bulk of overall emissions. Both Linde and Air Liquide have submitted emissions reduction targets to the SBTi – the latter having them approved just in May. The transition from grey to blue hydrogen, and the scaling up of green hydrogen projects, is key to reducing Scope 1 emissions. Beyond CCS technology, other nascent technologies could play a role in the future such as solid oxide electrolyser cells (SOEC) and methane pyrolysis.

Within specialty chemicals, we spoke with two paints and coatings companies, PPG Industries and Sherwin Williams. The key theme here was embedding sustainability by design. Both companies track the sustainability of their product portfolio through internal metrics (covering issues such as toxicity, circularity and durability) and disclose of the proportion of these deemed “sustainably-advantaged”. We recommended each to set public targets towards increasing this percentage to encourage the transition and to ensure they are feeding their pipelines with new product development carrying enough sustainable technology.

Our conversations with Lyondellbasell (LYB), grouped into commodity chemicals, have come in the form of collaborative discussions both as part of ShareAction’s Chemicals Working Group and as a support investor with Climate Action 100+. Scope 3 emissions form the majority of LYB’s total emissions, but disappointingly we are yet to see a reduction target here. That said, LYB will play an integral role in the transition towards a circular economy as some of its product portfolio comprises polymers which are made using renewable raw materials, such as vegetable oil and oil wastes, as well as advanced molecular and mechanically recycled materials.

Issues around the assessment of Scope 3 emissions have shown to be industry-wide through our engagements so far, exacerbated by data scarcity and reliability upstream and limited product visibility downstream. This is even more of a concern when you consider that analysis by CDP has shown that 77% of the Chemical industry's emissions fall within Scope 3. We will continue to monitor how this develops over the course of the project as industry working groups look to formulate an industry standard.

Principle 11

Signatories, where necessary, escalate stewardship activities to influence Issuers

12.1 The responsibility for day-to-day interaction with companies is delegated to fund managers and LGPSC, including the escalation of engagement. Their guidelines for such activities are anticipated to be disclosed in their own statement of adherence to the Stewardship Code and may include the following activities:

• Additional meetings with management

• Intervening jointly with other institutions – e.g., fund managers have shown support for LAPFF alerts by publishing their voting intention online prior to AGMs

• LGPSC escalation • Writing a letter to the board or meeting the board

• Submitting resolutions at general meetings and actively attending to vote

• Divestment of shares

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

12.3 Any concerns with the managers are added for discussion in the Pension Committee as part of our quarterly investment updates and where there are specific concerns, the relevant managers will be invited to discuss concerns. Concerns around the Fund's minor exposure to Liability Driven Investments resulted in the Fund exiting this investment in 2022.

12.4 The Fund employs the services of both AON as investment consultants and an independent investment advisor, who, along with officers of the Fund, closely monitors the performance of the Fund's managers. The Investment advisors will attend Committee meetings and assist the Committee in the questioning of the managers and in the discussions that follow, helping the Committee by providing any guidance they need to help them to make the right decisions for the Funds interests. Further details are contained within the ISS which is available on the Fund's website.

12.5 Our advisor's objectives were reviewed at the Pensions Committee in December 2022 and include assisting the Fund in the monitoring of its managers and producing a Quarterly Performance Update for Committee which provides an overview of manager performance and raises any corporate, social or governance issues for consideration by the Committee. The Fund also monitors the performance of its investment advisor in compliance of CMA regulations and reports this to Committee annually.

12.6 The Fund has only divested from shares in the past on the grounds of investment performance and has principally used engagement to influence companies through fund managers to escalate activity. Divestment is not currently the Fund's policy, it could be considered in the future if a particular manager or company was not making any attempt to comply with our Fund's stated policies.

12.7 A large proportion of the Fund's assets[2] are invested in passive pooled products managed by Legal & General Investment Management (LGIM) and are voted according to the voting policies of LGIM. An escalation example is detailed below:

LGIM escalation example

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

12.9 LGIM have strengthened their approach by expanding the coverage of their pledge from 80 to 1000 companies in climate critical sectors, with potential exclusions applied to £87 billion of assets. Furthermore, climate ratings for c.1000 companies are publicly available under a 'traffic light' system to allow companies to address gaps in strategy and disclosures. Our approach also includes a new engagement model – focused on large companies with poor scores relative to their scale – to help raise standards across the market. LGIM disinvested from two companies in 2022 for failure to respond to engagement approaches.

LGPSC escalation example

12.10 Shell Plc

Theme: Climate Change

Objective: We expect companies to set clear, reasonable, and measurable climate action targets aligned with the Paris Agreement. We also compare those targets with the company's industry peers, as well as Paris-aligned sector pathways, and engage with the company in case of any major deviations.

Engagement: In November 2022 LGPS Central sent a letter to the Chair of the Board at Shell, outlining why we voted against the company's Energy Transition Strategy in the 2022 AGM. The letter outlined the strategy's misalignment with the Paris Agreement; a lack of targets which would facilitate the achievement of the Strategy; and questioned whether Shell's capital expenditure plans are genuinely aligned with a 1.5˚C temperature rise scenario. Following receipt of this letter, a 1-1 meeting was scheduled between LGPSC and the head of Investor Relations at Shell.

[2] Passive investment benchmark in 2022 was 28% of Fund assets.

This meeting allowed a detailed discussion on Shell's climate strategy, highlighting the risks and opportunities the company has focussed on ahead of the energy transition. We were happy to hear that Shell recognises the key role it must play in addressing climate risk on a global level and were encouraged by the company's progress in decreasing its oil production. However, Shell expressed a reluctance to set absolute short- and medium-term Scope 3 targets for its upstream emissions. Shell also stressed the fact that it believes it is currently a leader in the global transition, and that now the responsibility must shift towards governments and consumers to continue progress towards net zero.

Outcome: We very much appreciate Shell's desire to have a meaningful and open dialogue with its shareholders, and it is clear that Shell is a sector leader in the climate transition. However, significant doubts remain regarding the feasibility and robustness of Shell's transition strategy, evidenced by a lack of meaningful targets which detail how Shell will achieve its long-term goals. We are therefore considering further engagement or escalation in early 2023. In February, the environmental charity ClientEarth filed a derivative claim against the Board of Directors at Shell, stating that the Board is mismanaging climate risk, evidenced by an insufficient Energy Transition Strategy and a fundamental misalignment with the goals of the Paris Agreement.

Following a thorough assessment of the potential risks and benefits associated with supporting the claim, LGPS Central provided a copy of a recent engagement with Shell to the Court as evidence of our concerns. This escalation was made in recognition of the significant overlap between the points raised in the ClientEarth claim and our own engagement objectives for dialogue with Shell.

12.11 The stewardship themes that we have identified as priority areas for engagement are all long-term and systemic in nature. Against that backdrop, we will often use escalation tactics to enhance the chances of achieving long-term engagement outcomes. However, a decision to escalate, and the form or sequence of subsequent escalation will be particular to the engagement in question. Examples of how we might escalate include, but are not limited to:

- Additional meetings with the management or the directors of an investee company
- Escalating the dialogue from the executive to the board of directors or from one board member to the Chair and/or a more amenable board member
- Collaboration with fellow investors and/or with partnership organisations
- Public statement
- Voting against management, e.g., against the annual report, the appointment of directors or the auditors
- Co-filing shareholder resolutions
- Attendance and raising questions at the company AGM.

Columbia Treadneedle Investments (CTI) Escalation

12.12 The Responsible Engagement Overlay service (reo®) allows investors to receive market leading corporate engagement on equity and corporate bond holdings, and proxy voting services. CTI engage with 940 companies on assets of £954 billion.

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

Compass Group Case Study

- **Background**
  Meagre, inadequate provisions of free school meal parcels in 2021
  Horse meat scandal in 2013
  Nutritional value of school meals in 2007
- **Action**
  Engagement focused on food quality and supply chain due diligence
  Escalation of dialogues to the CEO and Annual General Meeting attendance
- **Verdict**
  Confirmation from the CEO that appropriate corrective actions had been taken
  Commitments to publish quality assurance measures and work with the Department of Education and the Marcus Rashford Foundation to improve food provisions for schools.

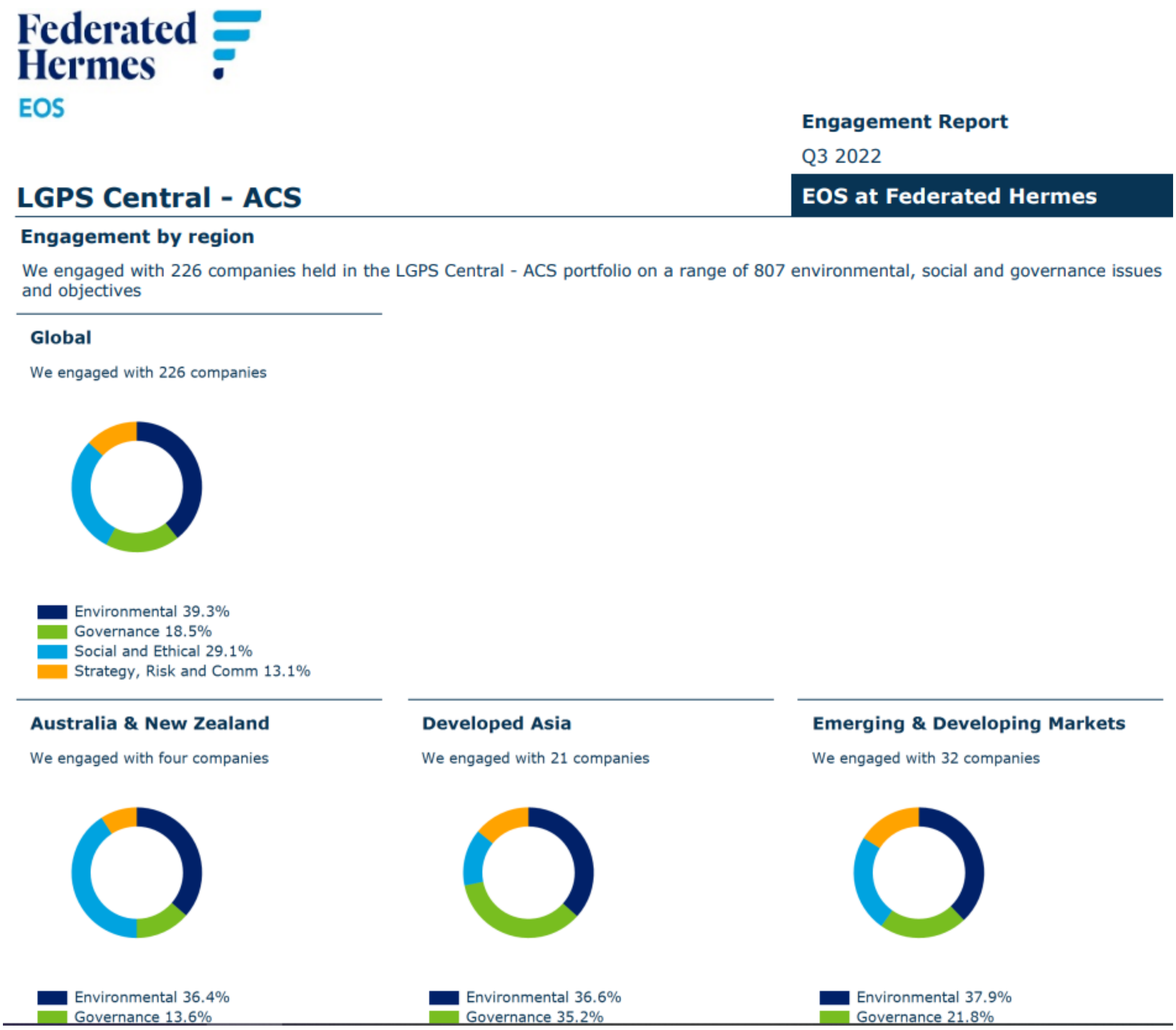
Principle 12

Signatories actively exercise their rights and responsibilities

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

13.2 As described in Principle 10 we monitor our engagement with companies and how the proxy voting of these investments is cast, reporting this to Pensions Committee meetings using geographical, and company name analyses. Over the year EOS made voting recommendations at 832 meetings and engaged with companies on 3,503 environmental, social and governance issues and objectives. An example of the voting and engagement statistics provided is detailed below for quarter 3 of 2022.

Example LGPSC Geographical Engagement


Federated Hermes
EOS

Engagement Report
Q3 2022

LGPS Central - ACS

EOS at Federated Hermes

Engagement by region

We engaged with 226 companies held in the LGPS Central - ACS portfolio on a range of 807 environmental, social and governance issues and objectives

Global

We engaged with 226 companies

Australia & New Zealand

We engaged with four companies

Developed Asia

We engaged with 21 companies

Emerging & Developing Markets

We engaged with 32 companies

Example LGCPC Company Engagement

LGPS Central Limited

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

Meeting	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation
20/07/2022	Link Real Estate Investment Trust	Annual	All For		
26/07/2022	Lenovo Group Limited	Annual	Against	5,7 3e	Issue of equity raises concerns about excessive dilution of existing shareholders Insufficient/poor disclosure Overboarded/Too many other time commitments
24/08/2022	China Power International Development Limited	Special	All For		
26/08/2022	SJM Holdings Limited	Extraordinary Shareholders	All For		
29/08/2022	Hua Hong Semiconductor Ltd.	Extraordinary Shareholders	All For		
30/08/2022	Vitasoy International Holdings Limited	Annual	Against	4D 2A2 4A 4C	Apparent failure to link pay and appropriate performance Concerns related to approach to board gender diversity Insufficient/poor disclosure Issue of equity raises concerns about excessive dilution of existing shareholdersInsufficient/poor disclosure
30/09/2022	China Travel International Investment Hong Kong Limited	Extraordinary Shareholders	All For		
28/07/2022	Ain Holdings, Inc.	Annual	Against	2 3.1,3.9,3.10,3.11	Concerns related to shareholder rights Lack of independence on board
28/07/2022	ITO EN, LTD.	Annual	Against	3.1	Concerns related to approach to board gender diversity
04/08/2022	ASKUL Corp.	Annual	All For		
09/08/2022	GMO Internet Group, Inc.	Special	All For		
10/08/2022	TSURUHA Holdings, Inc.	Annual	Against	4	Apparent failure to link pay and appropriate performance
18/08/2022	Kusuri No Aoki Holdings Co., Ltd.	Annual	Against	2.6	Lack of independence on board
23/08/2022	COSMOS Pharmaceutical Corp.	Annual	Against	2	Concerns related to shareholder rights
23/08/2022	Oracle Corp Japan	Annual	All For		
26/08/2022	Daiwa Office Investment Corp.	Special	Against	2,4.1,4.2	Concerns related to approach to board gender diversity
26/08/2022	Nippon Prologis REIT, Inc.	Special	All For		
30/08/2022	Sansan, Inc.	Annual	Against	4	Apparent failure to link pay and appropriate performance
27/09/2022	NTT UD REIT Investment Corp.	Special	Against	2,4.2 4.1,5	Concerns related to approach to board gender diversity Lack of independence on board
28/09/2022	Lasertec Corp.	Annual	All For		
28/09/2022	Pan Pacific International Holdings Corp.	Annual	Against	3.1 3.8	Concerns related to approach to board gender diversityLack of independence on board Lack of independence on board

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

Voting approach and objectives

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

- Support the long-term economic interests of our stakeholders.
- Ensure boards of directors are accountable to shareholders.
- Encourage sustainable market behaviour across companies and sectors.

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

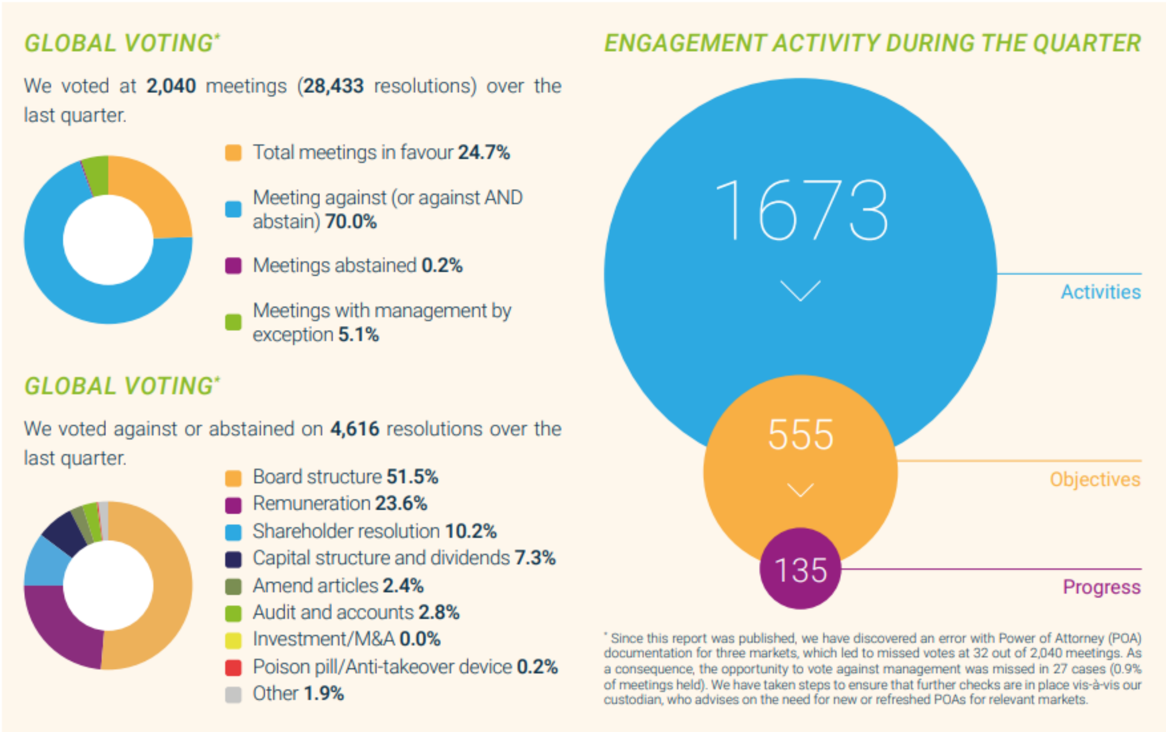
- Adhere to essential standards of good governance for board composition and oversight.
- Be transparent in their communication with shareholders.
- Remunerate executives fairly.
- Protect shareholder rights and align interests with shareholders.
- Promote sustainable business practices and consider the interests of other stakeholders.

13.6 In situations where companies are faced with a market-wide crisis that cause unprecedented disruption, uncertainty and challenges to their business models, operations, workforce and finances – such as 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).

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

13.8 **Stock-lending:** LGPSC has an active securities lending programme that was revised during 2022. The revision means that we fully restrict certain securities from lending at the start of voting season. This is to ensure that we maximise our voting impact, e.g., in relation to critical, ongoing engagements that we expect to escalate through shareholder resolutions or other forms of voting (e.g., votes against Board members). Among critical engagements are companies identified as high risk relative to climate change through Partner Fund Climate Risk Reports and that sit within the scope of Climate Action 100+. We considered the cost implications of excluding all companies in our Voting Watch List from lending and concluded that a more targeted approach would be the most proportionate and efficient response. This targeted approach entails a restriction of lending on a sub-set of companies that we view as critical engagements ahead of each voting season. Ahead of voting season 2022, 12 companies on our Voting Watch List (of 50 companies) are restricted from lending. The restriction will be lifted once relevant AGMs are held.

13.9 **Voting reinforcing engagement:** As far as possible, we aim to use voting to reinforce and promote ongoing engagements, whether carried out directly through LGPSC, through collaborative initiatives or through our external stewardship provider EOS at Federated Hermes. This means that we regularly raise issues concerning environmental sustainability, including climate change, and broader social issue like human rights risk oversight and management through our voting. Many votes against management concern good governance (board composition, board oversight and skill sets, remuneration etc.) – these votes are often an expression of underlying concerns with lack of expertise and or/oversight at board level on issues like climate change or human rights. We also know that strong governance increases the likelihood of companies dealing well with environmental and social risks. The graphic below shows a summary of voting during April – June 2022 (high voting season).



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

Voting Strategy

13.11 **Ensuring that Voting Principles are applied:** LGPSC have set up a structure whereby EOS at Federated Hermes provides voting recommendations based on our voting principles which are input on the ISS voting platform prior to the vote deadline. The voting recommendations are then cast as voting instructions if there is no further intervention, except in the case of share-blocking votes. We currently hold approximately 2,900 companies through our ACS equities funds. With this voting structure, we have confidence that votes are cast according to our voting principles across a voting universe that under no circumstance could be checked manually at each individual company level. In minority cases where a company we are engaging and/or that the Local Authority Pension Fund Forum has issued a voting alert for falls outside EOS' main engagement, we often consult ISS research directly.

13.12 **Voting Watch List:** It is not feasible to do in-depth research into all proxies that will be voted at each of the companies we hold through our ACS equity funds. To prioritise, we establish a "Voting Watch List" annually that consists of approximately

50 companies which cover larger holdings and/or core engagements in and outside of our stewardship themes. Votes at these companies will be given particular scrutiny ahead of the AGM. While it is not feasible to attend all these companies' AGMs, we would aim to attend AGMs virtually (if permissible) for core Climate Action 100+ engagements and for any company with which we have filed a shareholder resolution. The Voting Watch List serves a further purpose, in allowing us to test whether our votes are generally cast in alignment with our voting principles.

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

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

• LGPSC meets with each external manager annually ahead of the voting season for a dedicated voting-related discussion

• External Managers will be kept up to date on any changes to LGPSC Voting Principles, and vice-versa.

• We will share with each external manager our Voting Watch List with an explicit incentive to communicate their views on companies on this list that are held in their portfolio.

• We may reach out on an ad-hoc basis in cases where we would like to elicit views on contentious issues in core holdings or key engagements that can supplement views from EOS.

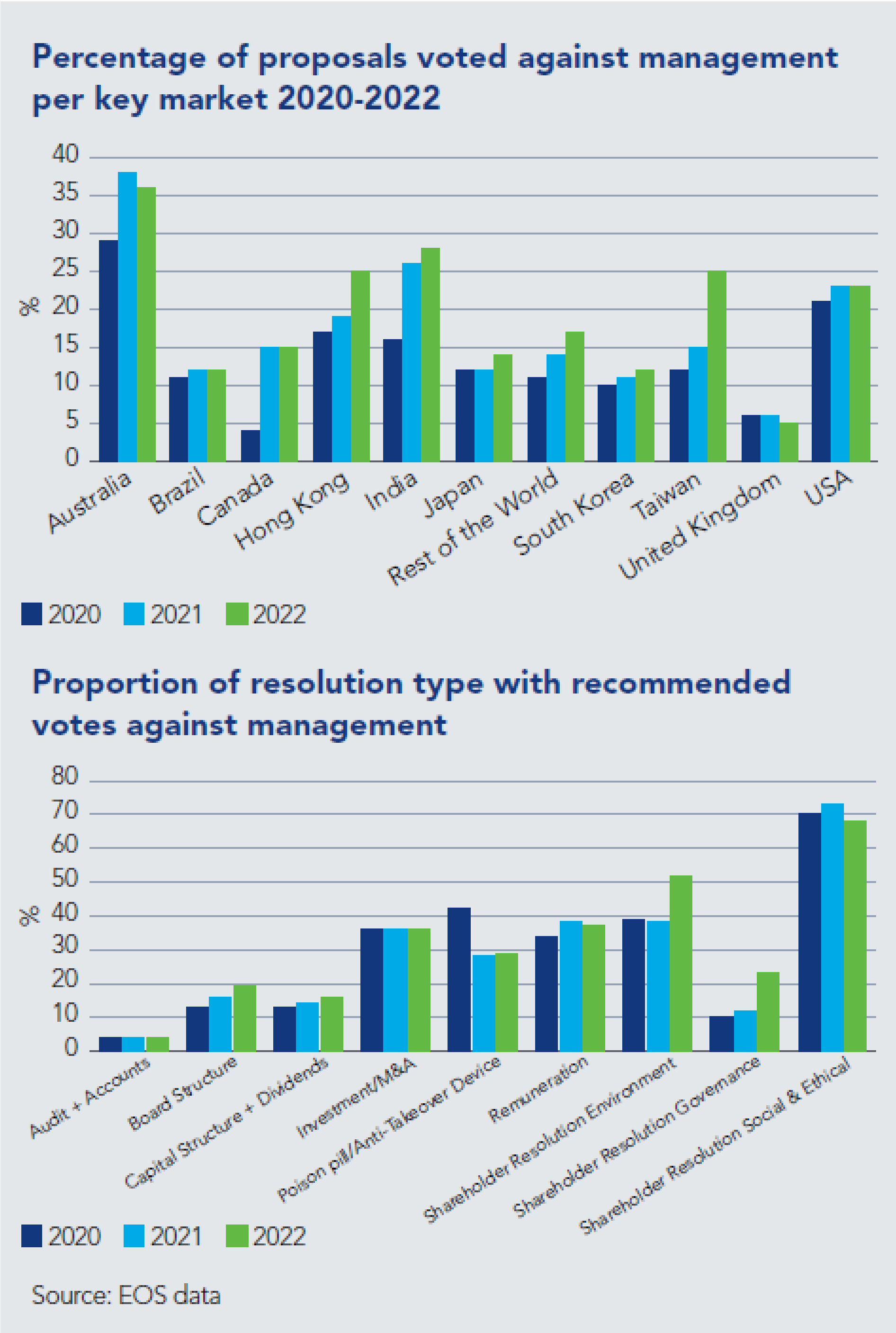
Voting Highlights and Outcomes 2022

Proportion of shares votes during 2022

13.15 The 2022 shareholder meeting season saw social issues rise up the agenda with resolutions on issues ranging from animal welfare to paid sick leave and reproductive rights. With soaring inflation eroding purchasing power, investors pressed for living wages for struggling workers. 2022 was also the second year for formal shareholder votes on companies' responses to climate change, with a steep rise in management Say on Climate proposals, including for Anglo American, Barclays, BP and Rio Tinto. Glencore, Shell and TotalEnergies were among companies that also offered shareholders the opportunity to vote on the progress achieved on climate transition plans presented to the 2021 AGM.

2022 Voting Statistics

- Voted at 3,443 meetings
- 42,538 resolutions
- Attended virtual AGM of Shell
- EOS attended 66 AGMs on our behalf
- Voted against management and abstaining, for one or more resolutions at 62.2% of meetings



Voting Outcomes

13.16 **Case Study: General Mills**

Theme: Plastic pollution

Objective: Plastics pollution is one of LGPSC's Stewardship Themes and we leverage collaboration opportunities to deliver progress in the form of reduction, re-use and replacement of fossil-fuel based plastics in the economy. Voting is engagement led, and we will 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).

Vote decision and rationale: We supported a shareholder proposal at General Mills' 2022 AGM on Absolute Plastic Packaging Use Reduction. The proposal required the company to report absolute reduction in its use of plastic packaging. In the company's 2022 Global Responsibility Report, it has set a 2030 goal for 100 percent of its packaging to be recyclable or reusable, and it reports that 89 percent of its packaging by weight currently meets this goal. It has also been invested in a flexible film recycling facility, expected to open in spring 2023.

However, the company is lagging its peers like Kellogg's and Mondelez International, which have established goals to reduce absolute plastic use and have joined the Ellen MacArthur New Plastics Economy Global Commitment. Multiple states in the US have started enacting legislation requiring companies to be responsible for post-consumer package waste handling and describes adopting minimum recycled content standards.

We believe that additional disclosure from General Mills as per the proposal would assist shareholders to assess the risk management with regards to its plastic packaging.

Outcome: This resolution passed with 56.5% votes which signifies the concerns of shareholders related to plastic packaging risks that the company faces. Following up on the same (in early 2023), our stewardship provider EOS was a part of a collaborative engagement with General Mills, and it was welcoming to know that the company is prioritising this issue. General Mills is a signatory of the UK and French plastic pact and has a commitment to have 100% recyclable or reusable packaging by 2030. However, General Mills explained about technological challenges for its plastic commitments.

13.17 **Case Study: Meta**

Theme: Human rights

Objective: We ask companies to make adequate disclosures of their human rights policies, as well as to follow best practices to ensure that those policies are effectively implemented. For technology companies, we require that they manage a broad spectrum of human rights related risks diversity and inclusion, freedom of expression, data protection, content moderation and other industry-specific issues.

Vote decision and rationale: At the AGM of Meta in 2022, we supported several shareholder resolutions that in our view will enhance the companies' ability to manage and mitigate material human rights risks that are directly linked to its business strategy and operations. These included requests for a report on the enforcement of policies to moderate problematic content; a human rights impact assessment of targeted advertising; and a report on the trade-offs between privacy rights and child protection.

On our behalf, EOS participated in a joint investor call with the chief diversity officer and the head of human rights and asked about eliminating emotional bias from artificial intelligence. As the company's revenue is highly corelated with the amount of clicks, likes, and shares, we asked how its algorithms determine the dissemination of paid and labelled political content throughout its user base and address any related "echo chamber" effects. The company also discussed its progress with statistics of its five-year representation targets set in 2019. We encourage Meta to acknowledge tensions between freedom of expression and issues like hate speech, bullying, misinformation, as well as to enhance its child safety practices to also include protection from mental health, device addiction, and other emerging issues.

Outcome: We welcome Meta taking actions to enhance disclosure on human rights through publication of a standalone Human Rights Report (July 2022), however, there could be more disclosure on whether its business model contributes to the spread of problematic content on its platforms. In EOS' view, the report falls short of the highest standard for user privacy rights. Meta acknowledges significant interest from investors on the human rights impacts of the metaverse, which LGPS Central has expressed directly to the company in a letter after the AGM in May. Meta has improved disclosure on children's rights, which we requested, but we still lack metrics and targets that show the effectiveness of its substantial efforts.

13.18 **Case Study: Microsoft Corporation**

Theme: Responsible tax behaviour and tax transparency

Objective: We recognise the importance of companies being accountable for and transparent about their tax practices. We expect portfolio companies to have a tax policy that outlines the company's approach to taxation and how it aligns with the overall business strategy. We also expect companies to have a robust tax governance and management framework in place, to pay taxes where economic value is created and to provide country-by-country reporting.

Vote decision and rationale: We supported a shareholder proposal at the 2022 AGM requesting Microsoft's Board of Directors to issue a tax transparency report, at reasonable expense and excluding confidential information, in accordance with the

Global Reporting Initiative (GRI), including country-by-country reporting. Country-by-country reporting would amongst others help ensure that multinational enterprises are taxed where their economic activities take place, and value is created, rather than shifted away and reported in a low tax jurisdiction. According to the proponents of the proposal, the practice of profit shifting by corporations costs the US Government approximately $70-$100 billion annually. Microsoft does provide extensive tax information in the company's reporting in the US through Form 10-K in the Annual Report and many of the company's subsidiaries file statutory reports that are publicly available. This means that there should is negligible increased reporting burden in order to comply with the GRI Tax Standard. In October 2022, KPMG published results of a survey of the disclosure practices of the world's biggest 250 companies by revenue and stated that 78% of the G250 companies adopt the GRI Standards for reporting (up from 73% in 2020).

Outcome: The proposal failed to pass but received a significant 23% support from shareholders. Microsoft expects to comply with the EU public country-by-country reporting requirements as required effective for fiscal year 2025. Microsoft is on LGPSC's Voting Watch List, and we look forward to monitoring the situation. Our stewardship provider EOS is engaging with Microsoft on this and in a meeting in early 2023, the company said that it is awaiting relevant EU and OECD regulation, stating that it is confident that it pays more taxes. EOS is seeking further dialogue with Microsoft on this issue, and we look forward to continuing monitoring the situation.

13.19 **Case Study: Barclays Plc**

Theme: Climate change

Objective: We expect companies to set clear, reasonable, and measurable climate action targets aligned with the Paris Agreement. We also compare those targets with the company's industry peers, as well as Paris-aligned sector pathways, and engage with the company in case of any major deviations.

Vote decision and rationale: Barclays published its updated climate strategy, targets and progress report for an advisory vote at its AGM on 4 May 2022. Following an analysis of the report as well as a review of our long-standing engagement with the bank, LGPSC decided to vote against the resolution. While Barclays has taken some positive steps on climate, our analysis shows that the bank has yet to fully align with a 1.5C trajectory. We were concerned with the bank's target ranges for emissions intensity for several high emitting sectors which in our view were not aligned with IEA NZE and may not lead to absolute emission reductions. The bank's planned exit from US coal power generation is also later than the limit set by IEA NZE. Further, our analysis shows that despite setting a reasonably robust net zero ambition, some of Barclays' restrictive sector policies (e.g., on financing for oil sands production) are insufficient making the bank an outlier among European peers. Given our own net zero ambition, we believe that supporting the "Say on Climate" vote would run counter to our ambition and send the wrong signal to our stakeholders.

Outcome: Following the AGM, we sent a letter to Barclays explaining why we voted against their Climate Strategy, Targets and Progress 2022 report and subsequently engaged on the same alongside a group of other investors. We appreciate Barclays' positive approach towards engagement. While the company initially set a 2035 timeline for phasing out financing of US thermal coal power generation, we greatly welcome their recent commitment to prepone this deadline from 2035 to 2030. This took effect at the time of Barclays' 2022 year-end climate update and aligns with the company's approach in the UK and the EU. We will continue our engagement with the company on their climate transition efforts, including on targets to reduce absolute emission in the period to 2030.

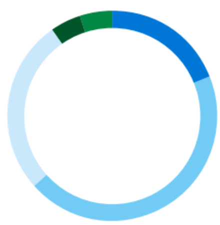
13.20 Our passive pooled products managed by LGIM are voted according to the voting policies of LGIM. LGIM believes in using its scale and influence to bring about real, positive change to create sustainable investor and produces a [quarterly ESG impact report](#) that includes a regional voting summary (see example below).

Regional updates

UK - Q4 2022 voting summary

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	56	0	0
Capitalisation	262	12	0
Directors related	543	28	0
Remuneration related	106	17	0
Reorganisation and Mergers	25	3	0
Routine/Business	270	3	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Directors Related	0	0	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	0	0	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	0	0	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	1262	63	0
Total resolutions	1325		
No.	82		
No. EGMs	34		
No. of companies voted	107		
No. of companies where voted against management /abstained at least one resolution	36		
% no. of companies where at least one vote against management (includes abstentions)	34%		

Votes against management



- Anti-takeover related - 0
- Capitalisation - 12
- Directors related - 28
- Remuneration-related - 17
- Reorganisation and Mergers - 3
- Routine/Business - 3
- Shareholder Proposal - Compensation - 0
- Shareholder Proposal - Corporate Governance - 0
- Shareholder Proposal - Directors related - 0
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 0
- Shareholder Proposal - Other/Miscellaneous - 0
- Shareholder Proposal - Routine/Business - 0
- Shareholder Proposal - Social/Human Rights - 0
- Shareholder Proposal - Social - 0

Number of companies voted for/against management

- No. of companies where we supported management
- No. of companies where we voted against management

LGIM voted against at least one resolution at 34% of UK companies over the quarter.

LGIM received a 5* ranking from the UN PRI for investment stewardship and Policy. The Pensions Committee is satisfied that LGIM's approach to shareholder voting is sufficiently robust and aids in the delivery of the Fund's RI objectives. LGIM's voting policy is based on a set of corporate [governance principles](#). Previous engagement with an investee company also determines the manner in which voting decisions are made and cast. Voting activity is combined with direct engagement with the investee company to ensure that the investee company fully understands any issues and concerns that LGIM may have and to encourage improvement. LGIM utilises the voting information services of ISS and Institutional Voting Information Services (IVIS) to conduct thorough analysis and research on investee companies. Examples of the voting undertaken by LGIM in 2022 across the ESG environment are detailed below:

Environment

Significant votes

Company name	BHP Group Limited*
ISIN	AU000000BHP4
Market cap	£128 billion (source: Salesforce, as at 23 December 2022)
Sector	Metals and mining
Issue identified	Climate-policy advocacy and climate disclosure, both of which LGIM considers to be material to the net zero transition. LGIM considers shareholder proposals on an individual basis.
Summary of the resolution	Resolution 14: Approve Policy Advocacy Resolution 15: Approve Climate Accounting and Audit AGM date: 10 November 2022
How LGIM voted	These were both shareholder-proposed resolutions and LGIM voted in favour of both (i.e. against management).
Rationale for the vote decision	Resolution 14 was a request that the company proactively advocate for Australian policy settings that are consistent with the Paris Agreement's objective of limiting global warming to 1.5°C. A vote in favour of this proposal was applied as LGIM believes positive climate-related advocacy is in the best interest of the company and its shareholders. We also note that nothing in this resolution was designed to limit the board's discretion to take decisions in the best interest of the company. Resolution 15 requested that, from 2023, the notes to the company's audited financial statements include a climate sensitivity analysis which includes a scenario aligned with limiting global warming to 1.5°C, presents the quantitative estimates and judgements for all scenarios used, and covers all commodities. While we consider the company to be a leader with respect to its climate-related disclosure, a vote for this proposal was applied as LGIM believes that further quantitative disclosure in the company's financial statements around the impact of climate change scenarios on BHP's material commodity portfolio is important.
Outcome	These resolutions received 12.7% and 18.7% support, respectively, from shareholders. We continue to engage with BHP and, more broadly, to support proposals that are aligned with LGIM's net zero aims and beliefs.
Why is this vote 'significant'?	These votes were significant because of their importance within our climate change engagement.

Social

Significant votes

Company name	AVEVA Group plc*
ISIN	GB00BBG9VN75
Market cap	£10 billion (Source: Salesforce, 14 December 2022)
Sector	Technology
Issue identified	The UK-listed software company, AVEVA Group plc, is 59% owned by Schneider Electric. In September, the AVEVA board recommended a takeover by Schneider Electric. LGIM and several other shareholders were not satisfied with the bid, as we believed it to significantly undervalue the company, particularly given that the AVEVA business was in a period of transition. The initial EGM (Extraordinary General Meeting) was set for 17 November; however, following shareholder concerns about the deal and a raised offer from Schneider Electric, the meeting was adjourned to 25 November.
Summary of the resolution	Resolution 1 – Approve matters relating to the recommended cash acquisition of AVEVA Group plc by Ascot Acquisition Holdings Limited. EGM date: 25 November 2022.
How LGIM voted	Against the proposal (and against management recommendation)
Rationale for the vote decision	LGIM joined the collaborative engagement established and led by the investor forum. Our Stewardship team also engaged internally with LGIM's investment teams regarding this proposed deal. LGIM voted against the resolution as we considered the proposed acquisition to significantly undervalue the company.
Outcome	The bidder was forced to increase its offer by 4% in order to gain sufficient support, despite an AVEVA board recommendation. This case illustrates that potential takeover deals are not a foregone conclusion and that target boards are prepared to recommend a bid and then hand the decision over to their shareholders. It also illustrates the power of collaborative shareholder engagement, where the bidder increased their offer due to shareholder dissatisfaction. Given the acquirer, Schneider Electric, already controlled 60% of the AVEVA share capital, there was little chance of the deal not being approved. The deal was approved and the acquisition is expected to close in the first quarter of 2023.
Why is this vote 'significant'?	Mergers and acquisitions – this vote demonstrates the power of collaborative shareholder engagement in a takeover situation where we believed the original offer undervalued the company significantly.

Governance

Significant votes

Company name	Microsoft Corporation*
ISIN	US5949181045
Market cap	£1,528 billion (source: Salesforce, 22 December 2022)
Sector	Technology
Issue identified	In 2021, without seeking prior shareholder approval, Microsoft took the decision to recombine the roles of chair and CEO, which had previously been separate for many years.
Summary of the resolution	Resolution 1.4: Elect Director Satya Nadella AGM date: 13 December 2022
How LGIM voted	We voted against the resolution (against management recommendation).
Rationale for the vote decision	LGIM expects companies to have a separate chair and CEO on account of risk management and oversight considerations, and also because the roles are substantially different and require different skills. Previously, in Microsoft's 2021 AGM, we voted against both the re-election of the chair and of the board nomination committee chair/lead independent director, and we have conveyed our disappointment at this change.
Outcome	94.8% shareholders voted for the resolution (for the re-election of Satya Nadella). Nevertheless, we maintain our belief in the importance of the separation of the chair and CEO roles, on account of the different skillsets and different responsibilities of these roles. We were disappointed that Microsoft took the decision to recombine these roles, and will continue to engage with them on this and other topics.
Why is this vote 'significant'?	LGIM believes that, within the broader topic of board effectiveness, the roles of chair and CEO should be separate.

Appendix 1

Principle 4: Overview of initiatives that LGSPC is an active member of, which includes a brief assessment of the efficiency of the initiative and outcomes during 2022

Organisation/Initiative Name	***About the organisation/initiative***	***Efficiency and outcomes***
PRI PRI Principles for Responsible Investment	Largest RI-related organisation globally. Helps with research, policy influence and collaborative engagement. During 2021, LGPSC Head of Stewardship has been a member of the PRI Plastics Working Group and the PRI Tax Working Group	PRI is a standard bearer of good practice for RI. 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) IIGCC The Institutional Investors Group on Climate Change	Influential asset owner and asset manager group. Useful for climate change research and policy influence. During 2022, LGPSC Head of Stewardship has been a member of 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 with policy makers in the lead-up to COP27
Cross-Pool RI Group within LGPS	Collaboration group across the LGPS pools and funds. Includes funds and pool operators. LGPSC Head of Stewardship was Chair of the group during 2022.	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, including net zero commitments for investors, human rights risks, biodiversity etc.
The Local Government Pension Scheme Advisory Board Local Government Pensions SAB England and Wales	LGPSC Head of Stewardship is a member of an RI Advisory Group to SAB that was formed at the start of 2021. Discussions are held on RI relevant policies and standards that will have direct or indirect implications for LGPS funds and pools	Discussions during 2022 have centred around themes such as just transition, impact investing and DLUHC's work to introduce TFCF aligned reporting across LGPS Pools and Funds.
Transition Pathway Initiative (TPI) Transition Pathway Initiative	Analysis of companies based on their climate risk management quality and their carbon performance. TPI analysis (by research team at LSE Grantham Research Institute on Climate and the Environment) is highly regarded and carries industry influence. LGPSC Head of Stewardship was a member of the Board to TPI Limited during 2022.	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+ over the last years in the roll-out of the Benchmark Framework which allows evaluation of company progress against Paris alignment on key parameters (targets, actions, disclosures). We support the planned expansion of TPI research through the establishment of a Climate Transition Centre
CDP CDP DISCLOSURE INSIGHT ACTION	CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.	Our membership of CDP is in support of ongoing work for carbon emissions reporting across companies and sectors, and to tap into analysis and research. We welcome CDP's work on deforestation, including a "Forest champions programme", which we aim to tap into for our current and future engagement on deforestation.

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 2022, 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.	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 sustainable and 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 2022 on human rights risks that stem from operating in conflict zones such as Palestinian/Israeli territories.
Climate Action 100+	Engagement collaboration of more than 700 investors with a combined $68 trillion assets under management. Engaging 166 companies on climate risk that are responsible for 80% of global industrial GHG emissions. LGPSC Head of Stewardship is a member of the Mining and Metals Sector Group.	This is a targeted and robust investor collaboration which LGPSC views as highly value adding relative to climate change risk management. The CA100+ Benchmark Framework introduced in March 2021, 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 during 2020-2021. The overarching goal of this project is to help

		companies achieve and maintain zero pellet loss across their pellet handling operations. The first industry standard specification for plastic pellet handling was published in July 2021

Appendix 2

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

1) Climate Change

BARCLAYS GROUP PLC

Objective: We expect companies to set clear, reasonable, and measurable climate action targets aligned with the Paris Agreement. We also compare those targets with the company's industry peers, as well as Paris-aligned sector pathways, and engage with the company in case of any major deviations.

Engagement: During the quarter, we sent a letter to Barclays explaining why we voted against their Climate Strategy, Targets and Progress 2022 report at the May 2022 AGM and subsequently engaged on the same alongside a group of other investors. The company has been open to shareholder engagement and has made efforts to establish a net zero pathway for its business. Barclays has started using the International Energy Agency's Net Zero by 2050 Roadmap for the Energy Sector (IEA NZE2050) analysis as a reference and has set specific 2030 sector emissions intensity targets for energy, power generation, cement, and steel. These are very welcome developments. However, the target ranges for emissions intensity for these sectors are not fully aligned with IEA's NZE analysis. Analysis has also shown that despite setting a robust net zero ambition, some of Barclays' restrictive policies are insufficient. For example, the bank does not exclude financing for oil sands production, making the bank an outlier among European peers.

Outcome: We appreciate Barclays' positive approach towards engagement. While the company initially set a 2035 timeline for phasing out financing of US thermal coal power generation, we greatly welcome their recent commitment to prepone this deadline from 2035 to 2030. This will take effect at the time of Barclays' year-end climate update and aligns with the company's approach in the UK and the EU. We will continue our engagement with the company on their climate transition efforts, including on targets to reduce absolute emission in the period to 2030.

2) Plastics

PRI WORKING GROUP ON PLASTICS WITH ELLEN MACARTHUR FOUNDATION (EMF)

Objective: We seek to engage with companies that are directly or indirectly involved in plastic pollution or with companies that could contribute to the path of a circular economy. Apart from companies, we also engage with various working groups, and our stewardship provider, EOS at Federated Hermes participated in a Principles for Responsible Investment (PRI) working group on plastics with the Ellen MacArthur Foundation (EMF). The EMF is a charity that provides research and engages with companies, on matters related to creating a circular economy, in order to solve global challenges like climate change and biodiversity loss.

Engagement: The Global Commitment is an initiative led by the EMF in collaboration with the UN Environment Programme. This has united more than 500 organisations in a commitment to develop the circular economy by reusing, recycling and composting plastics. However, the progress to date towards eliminating plastic has been driven by recycling, with more effort needed in terms of redesign and reuse. The EMF explained that best practice in plastics reporting is to disclose the full scope of plastic packaging and the weight. From the investor side, we view it as critical that companies establish robust strategies to eliminate plastic. There are concerns around flexible packaging, a growing plastic type that is not easily recyclable and is a big source of ocean pollution. EOS asked the EMF if targets beyond the Global Commitment for 2025 had been developed and understood that it needs to do more work on this. EOS also asked about the impact of the forthcoming UN treaty on plastic pollution.

Outcome: The EMF has a positive outlook on this treaty because it analyses the lifecycle of plastics, and its legally binding aspect will have an impact. It was reassuring to hear that the use of virgin plastics has peaked for the companies that signed up to the Global Commitment. Investors will continue to expect clear strategies from companies on plastic, monitor plastic reporting, and push for companies to replace flexible packaging with more sustainable materials.

3) Fair Tax Payment and Tax Transparency

EXPERIAN LTD.

Objective: We aim for positive interactions at senior levels of target companies encouraging robust tax governance and acknowledgement of lack of tax transparency as a business risk, along with commitments to strategies or targets to manage those risks.

Engagement: In Q2 2022, Experian published its first standalone tax report following engagement with LGPS Central and four other institutional investors over the last year. We provided feedback to Experian on the report during this quarter. We expect companies to disclose tax-relevant Country-by-Country-Reporting (CBCR), which would facilitate our analysis of their tax behaviour. The report should show jurisdiction-wise activities of a company and disclose how the activities correspond to tax paid. The underlying aim is to ensure that multinational enterprises are taxed where their economic activities take place, and value is created. We encouraged Experian to disclose a tax contribution report, including CBCR, which would enhance the company's practice of reporting. We suggested that they consider using the Global Reporting Initiative (GRI) Tax Standard 207, which provides guidance on approach to tax, tax governance/controls/risk management, stakeholder engagement and CBCR. We think that the company is well on its way to meet core elements of the standard, while there is further scope related to CBCR.

Outcome: We appreciate the company's effort in disclosing a tax contribution report. Experian has found our collective feedback constructive and has expressed its plans to take our feedback into account in their tax report next year.

4) Human Rights

META PLATFORMS, INC.

Objective: We ask companies to make adequate disclosures of their human rights policies, as well as to follow best practices to ensure that those policies are effectively implemented. For technology companies, we require that they manage a broad spectrum of human rights related risks including freedom of expression, data protection, content moderation and other industry specific issues.

Engagement: During the quarter, LGPSC's stewardship provider EOS at Federated Hermes sent a letter to share feedback on the company's new human rights report and requested a follow-up meeting. The report provides some helpful information on policies and procedures, but we would like to see improvement in the user privacy rights. Following this interaction, EOS participated in a joint investor call in which investors asked about eliminating emotional bias from artificial intelligence. As the company's revenue is highly corelated with the amount of clicks, likes, and shares, we asked how its algorithms determine the dissemination of paid and labelled political content throughout its user base and address any related "echo chamber" effects. We encourage Meta to acknowledge tensions between freedom of expression and issues like hate speech, bullying, misinformation, as well as to enhance its child safety practices to also include protection from mental health, device addiction, and other emerging issues.

Outcome: We welcome the company taking actions to enhance disclosure on human rights, however, there could be more disclosure on whether its business model contributes to the spread of problematic content on its platforms. In EOS' view, the report falls short of the highest standard for user privacy rights. Meta acknowledges significant interest from investors on the human rights impacts of the metaverse, which LGPS Central has expressed directly to the company in a letter after the AGM in May. Meta has improved disclosure on children's rights, which we requested, but we still lack metrics and targets that show the effectiveness of its substantial efforts.

Stewardship Code

Final Audit Report 2023-05-16

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Stewardship Code application

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