Report Title:	**Responsible Investment**
Contains Confidential or Exempt Information	No - Part I
Lead Member:	Councillor Julian Sharpe, Chairman Pension Fund Committee and Advisory Panel
Meeting and Date:	Pension Fund Committee 4 July 2022
Responsible Officer(s):	Damien Pantling, Head of Pension Fund
Wards affected:	None

www.rbwm.gov.uk
Royal Borough of Windsor & Maidenhead

REPORT SUMMARY

Whilst responsible investing and ESG have always been guiding principles in the Fund's investment strategy, the decision to pool funds with LPPI from 1 June 2018 enabled more active monitoring and consolidation of its responsible investment outcomes.

The Pension Fund Committee agreed and released an Environmental, Social and Governance (ESG) public statement in late 2020 clarifying its commitment to long-term responsible investment of pension savings. Following this, the fund approved an updated Responsible Investment (RI) policy on 22 March 2021 supported by several values, principles, and priorities.

This report aims to update the reader quarterly on the Fund's responsible investment activities and outcomes through presenting an RI report and dashboard – noting that climate change is one of the underlying priorities in the Fund's RI policy and therefore carries material weight in this update. This report also seeks to provide the reader with a suite of key engagement activities undertaken on behalf of the Fund and the outcomes of these engagements.

In addition, this report seeks to update the reader on LPPI's latest shareholder voting policy and voting guidelines along with LPPI's approach to engagement.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That the Pension Fund Committee notes the report;

i) **Acknowledges the Fund's RI dashboard, RI report, active engagement report and achievement of associated outcomes, and;**

ii) **Acknowledges LPPI's latest shareholder voting policy, updated voting guidelines and engagement policy.**

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

2.1 Since 1 June 2018, all Fund investments have been pooled and are actively managed by the Fund's Investment Manager LPPI. Responsible investing is an underpinning principal of LPPI's investment approach and is documented by a suite of detailed RI policies and reports available on their website.

2.2 From December 2021, the Fund has reported publicly on its implementation and outcomes concerning responsible investment. The report and dashboard as at Q1 2022 (or Q4 2021/22) are included at Appendix 1 and Appendix 2 to this report.

2.3 Notably, the report shows full "green/brown" portfolio exposures to all of the Fund's equity assets (listed equity, private equity, and infrastructure) plus corporate bonds within fixed income. The key takeaways from this analysis are as follows:

2.3.1 Investments in brown sectors (extraction, transportation, storage, supply, and generation of energy from fossil fuels) make up just 1.10% of the portfolio.

2.3.2 Investments in green sectors (renewable energy generation, clean technology, and decarbonising activities) make up over 3.52% of the portfolio.

2.4 As illustrated above, the green exposure significantly outweighs the brown exposure within the identified portfolio, underpinning the principle of "net" zero. Further work is being undertaken by LPPI to report on the green/brown exposure of the whole Fund and this shall be reported in due course.

2.5 As detailed in the Fund's Responsible Investment policy, "the RCBPF considers engagement to be a route for exerting a positive influence over investee companies and encouraging responsible corporate behaviour." The Fund has appointed an engagement partner to ensure active engagement with companies across its credit and equity portfolios, seeking to improve a company's behaviour on ESG (Environmental, Social and Governance) related issues. The Fund's active engagement outcomes are reported as at Q1 2022 (or Q4 2021/22) at Appendix 3.

2.6 LPPI's engagement policy (published December 2020) has not yet been brought to the Pension Fund Committee for review and is being provided alongside the other key documents in this report for review as part of this RI update. This policy document was prepared by LPPI in response to EU Legislation SRD II, as adapted by the FCA for UK asset managers, however, SRD II is not yet a requirement under the LGPS investment regs and is provided for information purposes only in line with best practice, to provide context to the shareholder voting policy. Providing additional Responsible Investment policy documents that are not yet required under LGPS investment regulations demonstrates the Fund's commitment to RI and good governance. LPPI's shareholder engagement policy can be found at Appendix 4.

2.7 Since the last review of LPPI's shareholder voting policy in March 2021, there have been no material changes. However, LPPI have since published shareholder voting guidelines (August 2021) which compliments the voting policy document. Both the policy and the guidelines are appended to this report for review and comment (Appendix 5 & 6).

2.8 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require Fund's to set out their "policy on the exercise of their rights (including voting rights) attaching to investments" within the Investment Strategy Statement (ISS). The latest revision of the ISS (March 2022) prescribes that these responsibilities are delegated to LPPI. Consequentially, LPPI's shareholder voting policy indirectly applies to the Fund and should therefore be reviewed at regular intervals by the Fund. The last date of review was March 2021

2.9 The Pensions Regulator also expects the Fund to have voting and engagement as key themes within its RI policy. The RI policy is currently under review by the Responsible Investment working group (the task and finish group), however, the position surrounding the adoption of LPPI's policies is unlikely to change in the short term. Any deviation from this position will require a further review of the Fund's ISS and extensive consultation.

3. KEY IMPLICATIONS

3.1 The Fund are receiving a growing number of Freedom of Information (FOI) requests regarding how the Fund's investment assets are being managed and invested responsibly. Moreover, the recent focus has been on environmental factors concerning carbon emissions and fossil-fuel exposure. The Fund's RI dashboard acts as a public document to be updated quarterly and aims to address the majority of public requests for information.

3.2 Responsible Investment is attracting increasing public, professional and regulatory interest. Failure to adopt and maintain a fit-for-purpose shareholder voting and engagement policy is likely to attract increasing criticism from the public, members of the Pension Fund, and the Pensions Regulator.

3.3 Whilst the Pension Fund Committee already agreed LPPI's shareholder voting policy in March 2021, the Committee since approved an updated ISS (March 2022) which set out the Fund's policy to fully delegate all shareholder voting and engagement to LPPI. Therefore, the policy documents appended to this report are for review and comment only as they have already been adopted and are in place.

4. FINANCIAL DETAILS / VALUE FOR MONEY

4.1 Net-zero strategy development and LPPI's recent decision to exclude extractive fossil fuel companies from its global equities fund has involved divesting from a relatively small opportunity set. However, these investments consumed disproportionate stewardship resources and the associated costs of maintaining these. Exclusion of these assets enables attention to move to a broader range of sectors impacted by transition risk and are required to decarbonise, providing the fund with future opportunities and an improved framework to manage risk.

4.2 At present, the Fund's investment performance and expected returns are not mutually exclusive to the achievement of its responsible investment policy outcomes. Therefore, the Fund's fiduciary duty and ultimate goal to pay pensions is not adversely affected by implementation of its existing RI and ESG policies.

4.3 Well-governed companies are best equipped to manage business risks and opportunities, and this contributes to achieving optimum risk-adjusted returns over the long term.

5. LEGAL IMPLICATIONS

5.1 Reporting against RI metrics and making a net-zero commitment are not legal requirements. TCFD reporting requirements, when published, will be a legal requirements and legislated by DLUHC (Department for Levelling up, Housing and Communities). These requirements will likely involve penalties and levies by tPR for non-compliance. TCFD requirements shall be implemented in due course and the Fund shall monitor these developments carefully.

5.2 The Fund is compliant with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, by setting out its policy on the exercise of its rights (including voting rights) within the Investment Strategy Statement. The Fund's policy as prescribed in its ISS is to outsource this function to LPPI. Consequentially, LPPI's policies are indirectly adopted by the Fund making it compliant with the LGPS investment regs as well as other sets of underlying legislation that does not explicitly apply to the LGPS (such as the Shareholder Rights Directive II which focuses on shareholder engagement).

6. RISK MANAGEMENT

6.1 The below table relates to risk "PEN005" from the risk register considered and approved by Pension Fund Committee on 6 December 2021.

Table 1: Impact of risk and mitigation (PEN005)

Risk Description	Gross Risk Score	Mitigating Actions	Net Risk Score
Increased scrutiny on environmental, social and governance (ESG) issues, leading to reputational damage if not compliant. The administering authority declared an environmental and climate emergency in	**27**	1) Review ISS in relation to published best practice (e.g., Stewardship Code) . 2) Ensure fund managers are encouraged to engage and to follow the requirements of the published ISS. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and Pensions and Lifetime Savings Association (PLSA), which raises awareness of ESG issues and facilitates engagement with fund managers and company directors.	**18**

June 2019, effect on Pension Fund is currently unknown. TCFD regulations impact on LGPS schemes currently unknown but expected to come into force during 2022/23.		4) An ESG statement and RI Policy was drafted for the Pension Fund as part of the ISS and approved in March 2021. 5) Officers regularly attend training events on ESG and TCFD regulations to ensure stay up to date with latest guidance. 6) LPPI manage the fund's investments and have their own strict ESG policies in place which align with those of the fund.	

7. POTENTIAL IMPACTS

7.1 Equalities. Equality Impact Assessments are published on the council's website. There are no EQIA impacts as a result of taking this decision. A completed EQIA has been attached at Appendix 5 to this report.

7.2 Climate change/sustainability. This report is centred around the topic of climate change and sustainability and such impacts are documented in detail through the report and its appendices.

7.3 Data Protection/GDPR. There are no additional data protection/GDPR considerations as a result of taking this decision

8. CONSULTATION

8.1 The Fund's Investment Advisor LPPI was consulted in preparing this report.

9. TIMETABLE FOR IMPLEMENTATION

9.1 Responsible investment outcomes are not subject to any specific timeline and are instead ongoing.

10. APPENDICES

10.1 This report is supported by 7 appendices:

- Appendix 1: Responsible Investment Report Q1 2022 (TO FOLLOW)
- Appendix 2: Responsible Investment Dashboard Q1 2022 (TO FOLLOW)
- Appendix 3: Active Engagement Report Q1 2022 (TO FOLLOW)
- Appendix 4: LPPI Engagement policy
- Appendix 5: LPPI Shareholder Voting Policy
- Appendix 6: LPPI Shareholder Voting Guidelines

11. BACKGROUND DOCUMENTS

11.1 This report is supported by 2 background documents available at Pension Fund Policies | Berkshire Pension Fund (berkshirepensions.org.uk)

- Responsible Investment Policy (March 2021)
- Environmental, Social and Governance (ESG) Statement (December 2020)

12. CONSULTATION (MANDATORY)

Name of consultee	Post held	Date sent	Date returned
Mandatory:	*Statutory Officers (or deputy)*		
Adele Taylor	Executive Director of Resources/S151 Officer		
Emma Duncan	Deputy Director of Law and Strategy / Monitoring Officer		
Deputies:			
Andrew Vallance	Head of Finance (Deputy S151 Officer)		
Elaine Browne	Head of Law (Deputy Monitoring Officer)		
Karen Shepherd	Head of Governance (Deputy Monitoring Officer)		
Other consultees:			
Cllr Julian Sharpe	Chairman – Berkshire Pension Fund Committee		

13. REPORT HISTORY

Decision type:	Urgency item?	To follow item?
Pension Fund Committee decision	~~Yes~~/No	~~Yes~~/No

Report Author: Damien Pantling, Head of Pension Fund

Local Pensions Partnership Investments Ltd

Shareholder Rights Directive II
Engagement Policy

1. Introduction

This document presents the disclosures required of LPPI under Article 3g of the European Shareholder Rights Directive II (SRD II) which is implemented in the UK via Shareholder Rights Directive (Asset Managers and Insurers) Instrument 2019 (FCA 2019/68).

SRD II aims to promote effective stewardship and long-term investment decision making by the institutional investment community. It mandates enhanced transparency by investment firms through public disclosure on their approach to shareholder engagement.

2. Scope

LPPI is a regulated Alternative Investment Fund Manager (AIFM) investing on behalf of UK public sector pension funds. Our disclosures under SRD II relate to our investments in shares traded on regulated markets through our Global Equities Fund (GEF). The Fund invests across global equity markets through a combination of internally managed and third-party managed investments and is typically biased towards active management without constraints to invest according to any specific index construction.

Under SRD II we are required to disclose how LPPI:

1. integrates shareholder engagement within investment strategy
2. monitors investee companies on relevant matters, including:
    a) strategy
    b) financial and non-financial performance and risk
    c) capital structure
    d) social and environmental impact and corporate governance
3. conducts dialogues with investee companies
4. exercises voting rights and other rights attached to shares
5. cooperates with other shareholders
6. communicates with relevant stakeholders of investee companies
7. manages actual and potential conflicts of interests arising from its engagements.

As a long-term responsible investor, LPPI has existing policies in place which articulate an approach to responsible stewardship that applies to all the asset classes we invest in, these are publicly available from our company website.

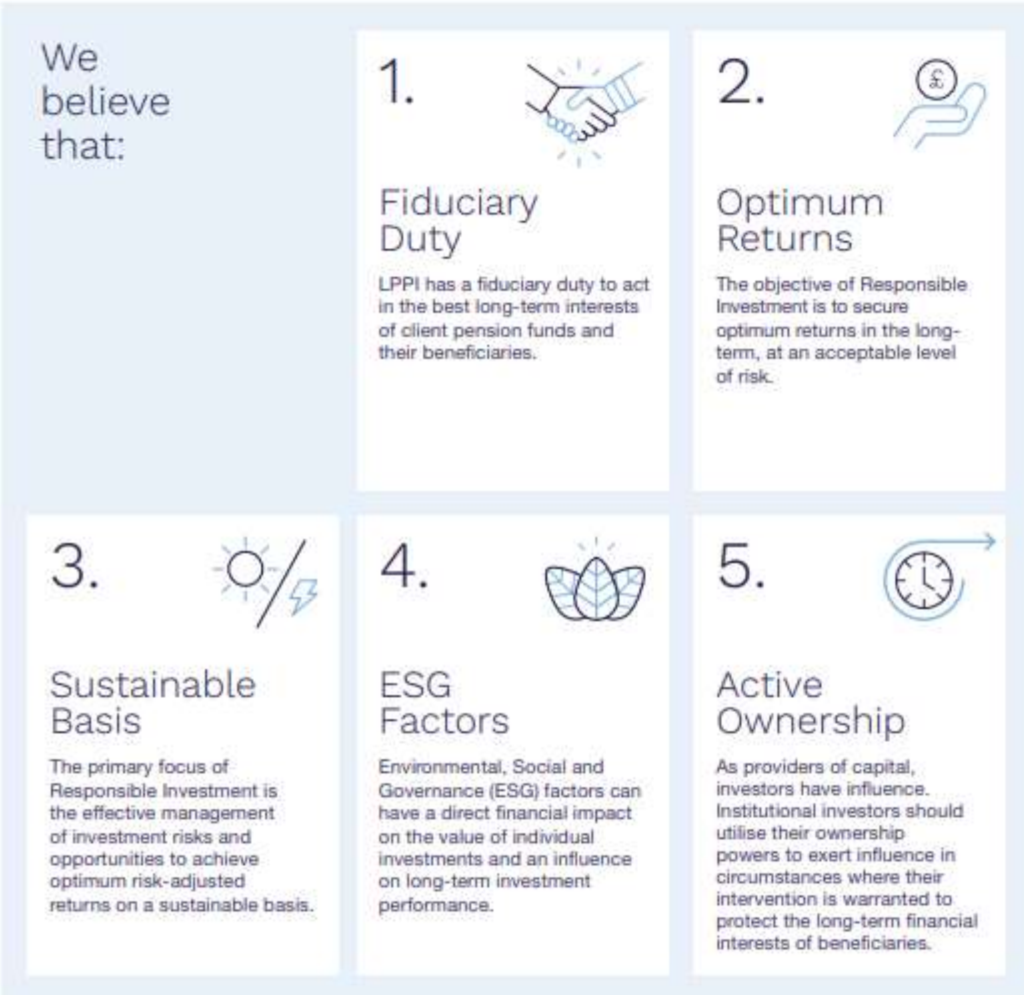
In focussing explicitly on listed equities here, we are inevitably condensing the detail and context explained more fully in our policies and in the disclosures we make on our stewardship activities as a signatory to the Principles for Responsible Investment and the UK Stewardship Code.

3. Disclosures

Integration of shareholder engagement

Our approach to stewardship applies to all the asset classes we manage on behalf of client pension funds and is explained in a Responsible Investment (RI) Policy and accompanying annexes which are publicly available from our website:

Our RI Policy explains the beliefs, standards, procedures, and activities that underpin LPPI's approach to stewardship. Our arrangements are a translation of 5 core RI beliefs:



We seek to ensure the assets under our management are subject to appropriate stewardship arrangements, either through our in-house investment teams, or through the standards we require of third-party managers and the service providers we select to work with us. Monitoring and engaging with investee companies is an integral part of our investment management approach and within listed equities, shareholder voting and engagement are a core part of our ongoing stewardship activities.

Monitoring investee companies

Encouraging strong corporate governance by investee companies and identifying issues that are cause for concern involves assessing and monitoring companies on an ongoing basis. Assets under management by LPPI are being continually monitored by members of our in-house Investment Team (where portfolios are internally managed) or by third party managers appointed and overseen by LPPI (where assets are externally managed). Investment Managers maintain detailed knowledge of the companies within their portfolios and have the most current understanding of the business risks and opportunities they face.

Investment teams and external managers gain and maintain insights into strategy, financial performance, and underlying business characteristics by monitoring companies, but also identify material ESG matters and how well these are being anticipated and managed as part of broader corporate governance by investee companies. Monitoring insights are direct inputs to the ongoing evaluation of each company's risk and sustainability profile.

Monitoring activity typically incorporates information from a range of sources including company reporting, news media, real time market metrics, and the insights of research and ratings providers. Wider insights from NGOs, trade unions, regulators and other representative groups are also referenced as appropriate. External managers are encouraged to share any material company insights gained from their review activities as part of regular monitoring calls with LPPI.

Portfolio and company monitoring influence the direction of LPPI's shareholder voting, the selection of priority engagement themes and the targeting of LPPI's participation in wider investor collaborations which are a route for influencing change.

Dialogue with investee companies

LPPI is committed to using ownership influence to encourage corporate decision-making aligned with the long-term best interests of our client pension funds as beneficial shareholders. Engagement is a time consuming and resource intensive activity and our approach acknowledges the challenges of fulfilling ownership responsibilities for a large, diverse portfolio incorporating both inhouse and external management.

Direct dialogue with investee companies is underway as part of the evaluation, monitoring, oversight, and portfolio management activities of our internal team and delegate asset managers. Their company specific and portfolio-focused dialogues are supplemented by a thematic engagement programme resourced through an external provider of engagement services. We meet with and receive detailed reporting on engagement activities underway and identify priority issues for our portfolio as part of a Client Panel which collectively influences future engagement themes and targets.

Our partnership with an external provider augments our internal stewardship capacity. Experienced staff and established processes, relationships, and data infrastructure expand our engagement resources and assist the co-ordination of data on engagement activities which enhance our reporting capabilities.

Exercise of voting rights attached to shares

The voting rights for shares held by the GEF are retained and exercised centrally by LPPI rather than being delegated to third party external managers. This facilitates an objective approach consistent across the equities held by the fund whilst allowing voting to be responsive to company context.

Shareholder voting and our reporting on voting activities are overseen by LPPI's Responsible Investment Team in accordance with a clear policy on shareholder voting for the GEF which is publicly available from our website. Voting activity is reviewed quarterly by our Stewardship Committee whose membership includes our CEO, Chief Investment Officer (Chair) and Head of Public Markets.

We use our best efforts to vote every shareholder meeting we are entitled to participate in, but sometimes it may be impractical for us to do so. For example, in international markets where share blocking applies, we typically may not vote due to liquidity constraints.

Our overriding aim is to ensure that:

- Our voting rights are exercised appropriately
- Our voting process is consistent, efficient, and auditable
- Voting decisions are congruent with our investment beliefs and reflect the long-term financial interests of our clients
- Voting activity reflects our commitment to responsible investment.

We employ an external provider of proxy voting services to oversee ballot management and vote execution and receive detailed analysis and voting recommendations ahead of each company meeting. We liaise with our asset managers, engagement partner, and proxy voting provider as needed to reach final voting decisions.

Voting recommendations are in accordance with Sustainability Proxy Voting Guidelines which focus on identifying material ESG considerations and support our commitments as a signatory to the Principles for Responsible Investment. Sustainability Voting Guidelines are reviewed and updated annually and LPPI participates in the Global Policy Survey which informs policy development.

We publish summary voting headlines and detailed quarterly reports on all shareholder voting activity for the GEF on our website.

Cooperation with other shareholders

A central pillar in our RI approach is the recognition that effective partnerships build strength and influence through scale, consensus, and a collective voice. Achieving influence as a minority shareholder can often include collaboration with other shareholders to build critical mass.

LPPI actively seeks opportunities to work with other responsible investors on identified shared priorities. The concentration of collective stewardship resources and unified shareholder support for appropriately framed and clearly articulated outcomes can achieve a reach and influence greater than acting alone.

Examples of organisations LPPI regularly works with on a collaborative basis include the Principles for Responsible Investment (PRI), Institutional Investor Group on Climate Change (IIGCC), Local Authority Pension Fund Forum (LAPFF) Pensions and Lifetime Savings Association (PLSA), Transition Pathway Initiative (TPI), Local Government Pension Scheme Cross Pool Responsible Investment Group, UK Pension Schemes RI Roundtable, Workforce Disclosure Initiative (WDI) and Climate Action 100+.

Communication with broader stakeholders

It is one of our 5 RI beliefs that as providers of capital, investors have influence.

We recognise that in addition to using the rights of share ownership to communicate with companies, our oversight should incorporate the way in which investee companies impact upon customers, clients, employees, stakeholders, and wider society. This acknowledges the interdependency of the companies we invest in and the cultural, economic, political, and environmental contexts they operate within.

We do not restrict our stewardship activities to direct dialogue with investee companies or conference with fellow shareholders. We are active within a wider network of responsible asset owners and asset managers discussing broad priorities and sharing thinking on issues of common concern. Our stewardship and engagement activities consider wider circumstances and contexts for the companies and sectors we invest in and can involve us in dialogue with a broad range of stakeholders including government departments and regulators, industry and special interest groups, NGOs, and community groups.

Where they relate to issues material for our portfolio, we will consider signing investor letters, publicly giving support to investor initiatives, submitting responses to focussed consultations and sharing feedback. Our stewardship reporting routinely includes examples of our participation in networks and initiatives where broader engagement activities are focussed on priority issues and themes.

Conflicts of Interest

LPPI conducts its business in accordance with the Financial Conduct Authority's 8th Principle of Business which requires the Firm to manage conflicts of interest fairly, both between the Firm and its clients as well as between one client and another client.

The Firm's policy is to take all appropriate steps to maintain and operate effective organisational and administrative arrangements to identify and prevent or to manage potential and actual conflicts of interest in the Firm's business.

Our Conflicts of Interest Policy sets clear parameters for good governance in the management of actual and potential conflicts of interest and includes a section on stewardship which identifies that conflicts may arise in the exercise of the ownership rights which attach to companies we invest in.

In overseeing, protecting and exercising rights and relationships in this respect, LPPI is conscious of the potential for conflicts of interest and always seeks to act in accordance with sound principles of good stewardship and specifically in line with standards prescribed by the UK Stewardship Code.

Examples of instances where the potential for conflict arises include decision-making on the direction of shareholder voting for the GEF, decision-making on participation in shareholder litigation and decision-making on the focus of engagement actions.

In all such stewardship considerations, LPPI consistently seeks to promote the long-term value and success of the companies we invest in for the benefit of all clients, and to engage with relevant stakeholders to enable this outcome.

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No other person or entity may rely or make decisions based on the content of this document whether they receive it with or without consent and this disclaimer is repeated fully in respect of such third party.

This information may contain 'forward-looking statements' with respect to certain plans and current goals and expectations relating to LPP Group's future financial condition, performance results, strategic initiatives and objectives. By their nature, all forward-looking statements are inherently predictive and speculative and involve known and unknown risk and uncertainty because they relate to future events and circumstances which are beyond LPP Group's control. Any projections or opinions expressed are current as of the date hereof only.

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Document Title: Shareholder Rights Directive II Engagement Policy

Version No.	Description of change	Owner	Approval	Date of Approval	Date of Issue
1.0	First version for approval	FD	Stewardship Committee	Nov 2020	
1.0	First version for approval	FD	Board	Dec 2020	

Distribution List

All Staff and Company Website

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Local Pensions Partnership Investments

Local Pensions Partnership Investments Ltd

Shareholder Voting Policy

1. Introduction

Local Pensions Partnership Investments Ltd (LPPI) is committed to achieving sustainable investment returns over the long term through an approach to stewardship which embraces responsible investment principles and practice.

We believe that well-governed companies are best equipped to manage business risks and opportunities, and this contributes to achieving optimum risk-adjusted returns over the long term.

We encourage strong governance and sustainable business practices through our oversight and engagement activities. These feature company monitoring and dialogue (directly and via the third-party managers we select to work with us) representation on investor groups and shareholder voting. We support and participate in wider collaborations and frequently work alongside other investors as part of initiatives that build consensus and seek to use collective influence to encourage positive change.

In this document we articulate our approach and arrangements for shareholder voting.

2. Policy Objectives

We aim to ensure that:

- Our voting rights are exercised appropriately;
- Our voting process is consistent, efficient and auditable;
- Voting decisions are congruent with our investment beliefs and reflect the long-term financial interests of our clients;
- Voting activity reflects our commitment to responsible investment

3. Voting Arrangements

The listed equities we manage fall within the LPPI Global Equities Fund (GEF) which comprises an internally managed portfolio supplemented by segregated external mandates.

The voting rights for stocks within the GEF are retained and exercised centrally by LPPI rather than being delegated to third party external managers. We use our best efforts to vote each shareholder meeting we are entitled to participate in. However, in some circumstances it may be impractical or impossible for us to vote. For example, in international markets where share blocking applies, we typically may not vote due to liquidity constraints.

Where LPP participates in securities lending, procedures are in place to assess the appropriateness of recalling lent stock ahead of shareholder meetings in order to ensure the ability to vote. In each case, the direct monetary impact of recalling shares will be considered against the discernible benefits of exercising voting rights. Decisions will reflect the significance of items on the ballot and whether LPP has actively supported reform of the company's governance practices via engagement or other coordinated efforts including shareholder proposals.

The day-to-day management of our shareholder voting activities is undertaken by the Responsible Investment Team which overseen by the Head of Responsible investment. The process is supported by services from an external provider, Institutional Shareholder Services (ISS).

- A web-based voting and research platform (ISS ProxyExchange);
- Voting recommendations in line with a designated voting policy;
- Access to governance data, research and analytics;
- Ballot administration and vote execution;
- Monitoring and reporting functionality

Voting recommendations are made in accordance with the ISS Sustainability Proxy Voting Guidelines. These guidelines are designed to reflect the requirements of investors who have made commitments to the integration of environmental, social and corporate governance (ESG) issues and to responsible investment practices in line with the Principles of Responsible Investment. The Sustainability Guidelines are reviewed and updated annually to ensure they reflect changes in norms and standards as well as new academic research, empirical studies, and market commentary as appropriate.

As part of ongoing oversight, the Responsible Investment Team identifies upcoming company meetings with votes on priority themes and reviews the related ISS analysis and recommendation. Where resolutions are complex or contentious, the Responsible Investment Team will discuss the issue with the internal investment team to agree an appropriate stance. They may also seek insight from a third-party manager who has been in direct dialogue with the company as part of an engagement programme.

As warranted, the Head of Responsible Investment will seek the views of the LPP Stewardship Committee which is chaired by the Chief Investment Officer. Collectively, the Stewardship Committee is the ultimate arbitrator on stewardship matters.

In cases where a decision is taken to depart from the ISS voting recommendation, the underlying voting rationale is recorded for reporting purposes.

The Stewardship Committee receives and reviews voting statistics quarterly.

4. Reporting and Disclosure

To protect confidentiality and remove the opportunity for undue influence as a result of external intervention or duress, LPPI will not enter dialogue about voting intentions in advance of company meetings taking place.

Pre-disclosure may be considered for specific resolutions in exceptional circumstances subject to authorisation from the Stewardship Committee. Generally, we would only pre-disclose where there was a pre-existing commitment to working collaboratively with other investors as part of an initiative agreed in advance.

LPPI provides regular reports to client pension funds on shareholder voting activity for the GEF as part of information on wider stewardship and responsible investment activities.

LPPI publicly discloses summary information on voting activity through quarterly reports published retrospectively on the company's website.

Our approach to asset selection (for internally managed assets) and to manager selection and monitoring (for assets managed by external managers) is built around detailed risk analysis and an up-to-date understanding of context as part of due diligence. This approach suits the complexity and multi-dimensional nature of climate change and the challenge it poses for strategy integration.

5. Voting Philosophy

In our view, shareholder voting is not a route to micro-manage companies or impose formulaic standards. We use voting to encourage companies to adopt best practice standards but recognize that pragmatism is needed to accommodate local circumstances and scenarios.

We have no management bias and will consider voting against management where companies lag consistently behind accepted norms of good governance, are resistant to dialogue or fail to show evidence of sufficient progress. In circumstances where we use voting to voice concerns, we will seek to target the individual, committee or proposal most directly associated with the specific issue. For example, a failure to provide adequate disclosure in compliance with applicable standards is most likely to be addressed through voting on the annual report and accounts or other statutory publications.

We assess shareholder proposals on their individual merits. We will consider giving support to resolutions which provide an impetus for positive change on matters of significance to institutional shareholders where they;

- Are carefully drafted and proportionate;
- Are accompanied by an appropriate system of checks and balances;
- Are protective of the best interests of long-term investors;
- Do not seek to negate the responsibilities of Board.

Shareholder resolutions are most likely to be viewed sympathetically when they introduce proposals that are proportionate to the underlying issue, are not unnecessarily complex or onerous and have implementation costs which are reasonable in light of the scope of the benefit to be produced.

LPP I will consider co-filing shareholder resolutions with other investors where this offers an appropriate route for active engagement on issues of stewardship priority.

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Document Title: Best Execution Policy

Version No.	Description of change	Owner	Approval	Date of Approval	Date of Issue
1.0	First version	FD	Stewardship Committee	August 2018	August 2018
2.0	Annual review	FD	Stewardship Committee	November 2019	December 2019

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Local Pensions Partnership Investments

LPPI Shareholder Voting Guidelines

August 2021

LPPI Shareholder Voting Guidelines

Introduction

Shareholder voting is an important channel for exercising the rights and responsibilities of share ownership on the collective behalf of client pension funds who invest in the Local Pensions Partnership Investments Ltd (LPPI) Global Equities Fund.

These Voting Guidelines have been developed to support the consistent and transparent application of our Shareholder Voting Policy and to communicate a clear stance to investee companies and wider stakeholders on our approach, reflecting our beliefs, expectations, and priority themes.

A multiplicity of issues arise at company meetings each year. Rather than an exhaustive handbook, these Guidelines set out the core considerations and standards that influence the stance we will generally take on key issues. Whilst we routinely integrate material environmental, social and governance (ESG) considerations, differences in country, culture, company size, and corporate context will also have an influence. Our voting decisions are ultimately made on a case-by-case basis.

Voting Philosophy

As part of our stewardship of listed equity assets, shareholder voting focusses on encouraging arrangements likely to increase long-term, sustainable value creation and corporate resilience, contributing to the objective of preserving and growing our clients' capital over the long-term.

Our voting approach is informed by the following beliefs:

- Strong ESG characteristics tend to be identifiers for quality companies. Well managed organisations with effective corporate governance systems are more likely to identify pertinent ESG risks and deliver long-term sustainable value creation for shareholders.

- Company Boards incorporating diverse experience and alternative perspectives into decision-making on corporate strategy are more likely to identify and manage business risks and opportunities successfully.

- Shareholder voting is not a route for micro-managing investee companies. Voting rights provide the opportunity to support strategy which evolves good corporate practice and confers a responsibility to register concern where a company is judged to be falling short.

- Shareholder voting forms part of engagement and should reinforce dialogues directly underway with companies by LPPI and via our delegate managers, our engagement provider, or investor initiatives we are supporting.

- The use of voting rights to signal shareholder concern should target the most appropriate resolution (or combination of resolutions) available. Voting against standard items of business or supporting a shareholder proposal calling for specific actions are equally appropriate (in some cases simultaneously).

- LPPI strongly supports the "one share, one vote" principle and will encourage companies to avoid mechanisms designed to prevent a change of control, unless in exceptional circumstances. It is essential that companies have scope to achieve a balance between measures which protect the long-term interests of the company, its shareholders and stakeholders, and measures which prevent hostile takeover bids.

- Companies should be given adequate time to respond to shareholder concerns and to plan and implement appropriate solutions. Where a company consistently lags behind accepted norms of good practice, is resistant to dialogue, or fails to show evidence of sufficient progress, further escalation is appropriate. Dependent on circumstances, this could progressively lead to a focus on the individuals most directly responsible, for example, the Chair of the Remuneration Committee on matters relating to executive pay, or ultimately to voting against a whole Committee where warranted.

Voting Arrangements

To ensure we apply a consistent approach, shareholder voting for the LPPI Global Equities Fund is overseen centrally by LPPI's Responsible Investment Team, rather than delegated to individual asset managers.

We receive analysis and voting recommendations for each company meeting from an external provider of proxy voting and governance research. Voting analysis and recommendations reflect our provider's Sustainability Voting Guidelines which explore material ESG considerations and provide a foundation for our review and decision-making process. On a case-by-case basis, we determine whether we are in consensus with voting recommendations or hold an alternative view that leads us to depart from them, for example, when we favour additional stretch on priority issues or where we take a more nuanced view. We liaise with our asset managers, engagement partner, and proxy voting provider as needed to reach final voting decisions.

For the internally managed mandates within LPPI's Global Equities Fund, our internal Portfolio Managers retain voting discretion and apply detailed knowledge of individual companies to reach their voting decisions. This incorporates consideration of the research and voting recommendations received from our external provider and their judgement on the stance which supports the best interests of our clients.

We disclose shareholder voting information for our Global Equities Fund on a quarterly basis via our website, sharing both summary statistics and a detailed report on all resolutions voted. We make further information and insights available through our reporting on stewardship and responsible investment including our annual disclosure to the Principles for Responsible Investment.

Priority Themes

We have identified the following priority themes as further context for our decision-making. We consider each company's current position and performance against them in determining whether to support the relevant resolutions.

Adequate Transparency

To make informed judgements on the quality of investee companies' practices, shareholders need adequate information on their standing. Companies are required to publish a range of prescribed information under applicable laws and regulations (which vary by jurisdiction) but the scope, format, and detail of the disclosure required is frequently open to interpretation. On issues of material importance to LPPI, we will consider whether a company has released sufficient information to support shareholder insight on the adequacy of their approach and assurance on reasonable outcomes. Where companies provide insufficient information on issues shareholders and wider stakeholders consider material, they should expect to be urged to improve.

Appropriate Remuneration

The individuals leading a company (its Chair, Board members and Executive Committee) set corporate culture and hold ultimate responsibility for generating sustainable, long-term value. Attracting and retaining high calibre individuals and ensuring their interests and performance align with long-term company success is critical.

In assessing compensation policies, our focus is principally on how the incentives are structured rather than the absolute quantum of the compensation. Large awards are acceptable only in cases where such incentives are aligned with shareholder's interests and our principles. We prefer that performance measures are at least to some degree based upon long-term trends in returns on capital, and that long-term executive compensation should be linked to measurable performance goals that are under the direct influence of the individual.

Effective Management of Climate Change

LPPI views climate change as a systemic risk arising from the effects of sustained changes in weather patterns due to global warming (physical) and human interventions to manage these changes or adapt to new circumstances through regulation, technological innovation, or other societal shifts (transition). Climate change has the potential to destroy value where business risks are not being recognised and integrated into effective strategic planning, but also presents opportunities for products and services to be developed which solve problems and address societal needs.

Company meetings provide an avenue for engaging with investee companies on their management of the risks and opportunities arising from climate change. LPPI will use shareholder voting rights to encourage companies to align their activities with the achievement of targets for global decarbonisation under the Paris Agreement and will apply frameworks including the Taskforce on Climate Related Financial Disclosures (TCFD), the Transition Pathway Initiative (TPI), and Climate Action 100+ to assess their approach and performance.

LPPI has signalled support for guidance produced by the Institutional Investor Group on Climate Change (IIGCC) which provides a clear framework for assessing net zero alignment disclosure by companies. We will seek to apply these guidelines in the use of our voting rights.

Where LPPI has set performance benchmarks which are not being achieved (a minimum TPI score for Management Quality for example), or corporate disclosure and target-setting are mis-aligned with the Paris Agreement goals, LPPI will signal concern. Depending on context we may vote against:

- the adoption of the annual report and accounts;
- a Board member with lead responsibility for climate change;
- the Chair of the Board (holding them ultimately accountable).

We are likely to support appropriately framed shareholder proposals pressing for improved disclosure, clear targets for decarbonisation, and ambition in strategic and operational planning.

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Voting Guidelines

The opportunity voting affords for giving support, signalling concern, and urging improvement arises via highly orchestrated meetings between a company and its shareholders. Meeting agendas are routinely dedicated to gaining approval for company proposals on standard aspects of business and corporate governance, including the adoption of financial statements, election of directors, and appointment of auditors. The voting guidelines that follow reflect matters which typically arise at company meetings and indicate the primary considerations that will influence how LPPI is likely to vote.

In some instances, we may vote in specific company meetings in a manner that is not in accordance with the following Guidelines, provided the decision is consistent with the best interests of our clients and our objective of maximising long-term investment returns.

1. Statutory reporting

The provision of adequate information through corporate disclosure is a critical foundation for enabling shareholders and stakeholders to make informed judgements about the current standing and future positioning of a company.

LPPI will consider voting against the adoption of the annual report and accounts where reporting practices fall below acceptable market standards regarding detail, transparency, and frequency.

In addition to reporting on corporate strategy, financial performance, and key risks (within ‘typical’ corporate publications) LPPI expects reasonable disclosure on the company’s identification and management of material ESG risks and opportunities, recognising that disclosure standards vary by industry and geography.

2. Board composition

A cohesive Board operating in accordance with effective procedures is central to good corporate governance. The calibre, character, and effectiveness of a Board derives from the collective experience and expertise of its members, and on operating practices which recognise, optimise, and deploy these capabilities effectively.

Voting rights give shareholders influence over the appointment of individuals to the Board and its key committees. They are also an avenue to express concerns at processes perceived to be weak, or responsibilities judged to be poorly executed. Through the implementation of these guidelines, LPPI is ultimately aiming to encourage desirable governance characteristics.

Board – Independence Expectations

LPPI has a strong preference for independent boards. We expect a majority of independent board members in all developed markets and at least one third independent members in emerging markets. LPPI will consider voting against management where:

- we believe that Board independence is insufficient;
- non-independent directors are nominated to sit on the major Committees;
- the election of further non-independent directors to a board contributes to a level of independence below what is deemed acceptable for the given market.

We generally do not view long board tenure alone as a basis to classify a director as non-independent, although we consider lack of board turnover and need for a fresh perspective as important factors in deciding how to vote.

Board Chair

It is our preference for the Board Chair and CEO roles to be held separately. An independent Chair contributes to the balance of power on the Board and avoids the conflicts of interests that can arise through the integration of the two roles. We recognise there are circumstances (e.g. transition periods) and markets in which the practice of a joint role is more common, and in these instances, we expect a strong lead independent director to be identified as a counterbalance.

We hold the Chair of the Board ultimately responsible for poor corporate governance and we will vote against them to signal our concern at:

- instances of exceptionally poor management (e.g. fraud);
- board and committee composition and practices that fall below appropriate standards; (e.g. where major committees are not held or function inappropriately).

We may also vote against the Chair as an appropriate escalation where broader shareholder concerns remain unacknowledged or have not been suitably addressed after dialogue and a reasonable period of due consideration.

Election of Directors

LPPI will generally vote in line with management recommendations where the appointment of nominated candidates contributes to attaining or maintaining desirable Board characteristics. Our support is dependent on being able to ascertain the benefit of the recommended nominees through a clear and convincing rationale.

LPPI will consider voting against management recommendations where poor governance outcomes will arise from (or be perpetuated by) the election of proposed candidates. Examples of weak practices include, but are not limited to:

- Inadequate or untimely disclosure about nominees;
- A poor record of attendance (<75%) by nominees who are existing Board members without sufficient justification;
- Overboarded directors (informed by best practice in the local market);
- Specific concerns regarding an individual director, for example, convictions relating to corruption.

Nomination Committee

The Nomination Committee has responsibility for refreshing the composition of the Board and identifying how to sustain and improve its effectiveness through the selection of appropriate skills and experience.

LPPI has a strong preference for majority independent Nomination Committees and an expectation this standard will be met across all markets. LPPI will consider voting against members of the Nomination Committee when:

- A non-independent director is nominated for election to the Nomination Committee;
- There are concerns around overall board composition;
- Board diversity falls below the standards outlined in these guidelines.

In line with our belief in the benefits of having a variety of voices, backgrounds, expertise, and experience to call upon, LPPI will seek to hold the Chair of the Nomination Committee accountable where nominations fail to reflect an appropriate regard for diversity (assessed through discernible characteristics including gender, ethnicity, age, and experience). Specifically, if the Board has no female directors and all director nominees are male, and the company does not recognise or have a clear strategy for addressing this issue, LPPI is likely to vote against the Chair of the Nomination Committee or an appropriate alternative.

For FTSE350 companies, LPPI will vote against the Chair of the Nomination Committee where women make up less than 33% of the Board, unless the firm has a plan to meet the 1/3 standard within a year. Where the Chair of the Nomination Committee is not subject to re-election, or is not identified, LPPI will consider voting against other (and potentially all) existing members of the Nomination Committee who are subject to re-election.

LPPI expects the recommendations of the Parker Review into the ethnic diversity of UK Boards to be implemented, and will begin to vote against the Chair of the Nomination Committee (or Nomination Committee members subject to re-election) where FTSE100 companies do not have at least one ethnically diverse Board member by 2022. The same expectation (at least one non-white director by 2022) is also considered an appropriate standard for FTSE350 and Russell 3000 companies.

Remuneration Committee

As a core standard (applicable to all markets), LPPI expects Remuneration Committees to be majority independent and to have no executive director members. In addition, we expect the Committee to consider shareholder interests, for example, by being responsive to shareholders and by conducting outreach in the event of high levels of shareholder dissent on remuneration proposals.

LPPI will consider opposing the election or re-election of Remuneration Committee members where:

- An executive director is nominated to join the Committee;
- The Committee fails to meet acceptable standards for independence;
- Remuneration policy and practices persistently fall below market standards and the appropriate expectations of shareholders;
- There is poor responsiveness to shareholder concerns in the event of a significant vote against remuneration proposals.

Audit Committee

The Audit Committee has responsibility for ensuring the interests of shareholders are properly protected in relation to financial reporting and internal control.

LPPI has a strong preference for fully independent Audit Committees and, as a minimum in all markets, expects the Audit Committee to be majority independent. In addition, we expect the Committee to be responsive to shareholder questions and to address concerns raised.

LPPI will consider opposing the election or re-election of Audit Committee members if:

- A non-independent director is nominated for Audit Committee membership;
- There has been a material failure of process or control;
- Process failures have not been recognised and adequately addressed and rectified;

- More than 50% of the audit fee relates to non-audit services without adequate explanation or justification;
- The Auditor has been in place for more than 20 years (and the company has not held a tender for their auditor at least every 10 years).

3. Remuneration

LPPI favours remuneration policies that incentivise long-term value creation through transparent performance metrics that are appropriate and not overly complex.
We prefer approaches that build an alignment of interests between management and shareholders, through appropriate incentives, encouragement of share ownership and sufficient risk mitigation (e.g. through strong clawback policies). In addition, we will generally support remuneration arrangements that encourage management to consider shareholder and wider stakeholder value through a transparent incorporation of ESG metrics.

Due to the unique circumstances surrounding each company's renumeration policy and the wide range of renumeration plans, LPPI will consider each compensation plan on a case-by-case basis. Typically, LPPI will consider voting against remuneration policies in instances including, but not limited to:

- The structure and application of incentives is misaligned with performance in the interests of long-term shareholders.
- Incentives are based on outputs (e.g. share price growth or total shareholder return) as opposed to inputs that encourage management to make decisions that will create shareholder value over time, i.e. long-term trends in returns on capital.
- The overall quantum of pay is excessive, either in absolute terms or relative to an appropriate peer group.
- Transparency is poor (e.g. performance measures within long-term incentives are not disclosed, or are only disclosed after awards have been granted).
- There is a lack of risk mitigation (e.g. clawback mechanisms and requirement for post-retirement shareholding).
- Long-term incentives are linked to short term metrics, for example, those that include annual review periods.

In markets where remuneration reports are presented for approval annually (the 'say on pay'), LPPI will consider the outcomes of the remuneration policy being implemented in practice. Factors that may lead to a vote against the say on pay include:

- Excessive or poorly explained use of discretion by the Remuneration Committee.
- Excessive pay increases without sufficient transparency and justification.
- Performance measures and incentives clearly misaligned with the interests of long-term shareholders.
- Lack of appropriate stretch in performance incentives, for example, by awarding the maximum pay out for performance which could be considered as business as usual.

4. Appointment and remuneration of Auditor

Investors rely on high-quality independent audits to receive a true and fair view of the status and financial health of a company.

LPPI will generally support the re-election of auditors and proposals relating to auditor fees where the incumbent meets high standards for independence and audit quality.
LPPI will consider voting against proposals in instances where:

- There are serious concerns about the effectiveness of the auditors, for example, where the lead audit partner has been linked to a significant auditing controversy.

- Disclosure is poor.
- More than 50% of the audit fee relates to non-audit services without adequate explanation and justification.
- The lead audit partner(s) are affiliated with the investee company.
- The auditor has been in place for more than 20 years.

5. Capital Allocation

The effective deployment of capital is fundamental to generating sustainable, long-term value for shareholders. Through internal and external managers, LPPI generally selects high quality, well run companies whose management understand the importance of capital allocation. Company proposals regarding capital allocation will be examined on a case-by-case basis as they are a natural extension of an investment decision. Where we believe a corporate restructure or M&A activity is not in the best interests of our clients, we will generally abstain or vote against management.

Allocation of income and dividends

LPPI expects investee companies to disclose clear dividend policies where applicable. Notably, we do not wish to sanction excessive dividend policies which would be to the detriment of the company's solvency or its ability to invest in its business over the long term.

Share buyback authorities

LPPI expects the use of share buybacks to contribute to the best outcomes for long-term shareholders. LPPI favours buybacks considered an investment, i.e. when shares are trading at a price management believes undervalues the intrinsic value of the company. Buying back shares without reference to the prevailing market price can lead to shareholder value destruction.

LPPI will generally support resolutions to authorise the market purchase of ordinary shares where the authority requested complies with levels permitted under market listing rules, and the period covered is less than 18 months. Where performance measures like EPS inform remuneration, LPPI expects the impacts of share buybacks to be excluded when assessing executive performance.

Mergers and Acquisitions

We will consider votes to approve M&A activity on a case-by-case basis and taking into consideration the specific circumstances of each proposal to determine what action we believe is in the best interests of clients.

In considering each M&A proposal, LPPI's Investment and RI teams will consider the fundamental and ESG implications of the proposal before a voting decision is made, for example, the impact on corporate governance practices, and the consideration of the impact on the workforce.

6. Shareholder resolutions

Shareholder proposals are non-binding recommendations to management proposing or supporting a specific course of action. Proposals are an opportunity for shareholders to signal they hold common concerns and are a basis for establishing or escalating a focussed dialogue with management.

LPPI assesses shareholder proposals on their individual merits given company context. Shareholder resolutions are most likely to be viewed sympathetically when they introduce proposals that are proportionate to the underlying issue, are not unnecessarily complex or onerous, and have implementation costs which are reasonable in light of the scope of the benefit to be produced.

When drafted appropriately and communicated effectively, shareholder resolutions can contribute to delivering positive outcomes which benefit the company, its shareholders, and broader stakeholders. LPPI is minded to support shareholder proposals that strengthen the rights of minority shareholder and seek greater transparency on materially relevant topics including, but not limited to:

- The management of climate change;
- Human rights due diligence policy and practices;
- Gender and ethnic pay gaps, and median pay ratios;
- Political contributions/lobbying;
- Biodiversity and natural capital management;
- Tax transparency.

Shareholder rights & takeover defences

LPPI will generally favour proposals that are likely to promote shareholder rights and/or increase shareholder value. Proposals that seek to limit shareholder rights, such as the creation of dual classes of stock will generally not be supported.

Measures that impede takeovers or entrench management will be evaluated on a case-by-case basis, taking into consideration the rights of shareholders.

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