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 and Advisory Panel – 13 March 2023
Responsible Officer(s):	Damien Pantling, Head of Pension Fund
Wards affected:	None

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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.

Following the release of an Environmental, Social and Governance (ESG) public statement in late 2020, the Fund approved a Responsible Investment (RI) policy on 22 March 2021 supported by several values, principles, and priorities. Since then, the Fund has been continuously improving its approach to RI and have been working towards an updated RI policy that was approved by the Committee on 12 October 2022.

This report aims to update the reader quarterly on the Fund's responsible investment activities and outcomes through presenting an RI report and dashboard as aligned with the Fund's RI policy – noting that climate change is one of the underlying priorities in the Fund's revised 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 covers the formal update on LPPI's net-zero commitment, and it's published interim targets.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That the Pension Fund Committee notes the report;

i) Approves the Fund's RI dashboard, RI report, active engagement report and achievement of associated outcomes for publication; and

ii) Acknowledges LPPI's net-zero interim targets as published in its roadmap to net-zero.

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

2.1 Since 1 June 2018, all Fund investments have been actively managed or overseen by the Fund's Investment Manager LPPI. Responsible investing is an underpinning principle 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 to Q4 2022 (or Q3 2022/23) are included respectively at Appendix 1 and Appendix 2 to this report.

2.3 Notably, the report and dashboard 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 1.76% of the portfolio.

2.3.2 Investments in green sectors (renewable energy generation, clean technology, and decarbonising activities) make up over 5.01% 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 (via LPPI) 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 related issues. The Fund's active engagement outcomes are reported at Q4 2022 (or Q3 2022/23) in Appendix 3 to this report.

2.6 Whilst a separate RI policy is not compulsory for LGPS Funds under the Regulations, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, Regulation 7 requires that the Authority's Investment Strategy Statement (ISS) must include the its policy on how ESG considerations are taken into account in the selection, non-selection, retention and realisation of investments. The Fund's ISS (presented for approval by the Committee on 13 March 2023) defines that a separate RI policy shall be in place with detailed guidance on the points within the Regulations, and that implementation of said RI policy would be undertaken by LPPI.

2.7 A decision was taken by the Pension Fund Committee on 6 December 2021 to set up a RI working group (the Task & Finish Group) of Officers, Committee members, Board members, Advisory Panel members, LPPI and independent Advisors. Terms of Reference were agreed and the group first met in April 2022. The Task & Finish group undertook various other meetings and discussions to develop a comprehensive revised RI policy that is modern, consistent with the current external environment, and that it reflects the values, principles and priorities of the Pension Fund Committee. The revised RI policy also serves as a position statement on the Fund's approach to RI.

2.8 The revised RI policy was approved by the Pension Fund Committee on 12 October 2022. LPPI have also given a professional opinion that the policy shall be implemented in practice and tailored reporting has been reflected in the relevant RI report and dashboard (appendix 1 and 2). The revised RI policy encapsulates several changes such as the focus on continuous improvement as well as specific priorities of the Fund within the Environment, Social and Governance categories. The policy is underpinned by the Fund's fiduciary responsibility to pay scheme members benefits as they fall due.

2.9 LPPI have advised that they have received formal confirmation from the IIGCC (Institutional Investors Group on Climate Change) that their first set of net zero targets have been accepted, which means they are in line with the Net Zero Asset Managers commitment previously made and advised in prior versions of this report. This represents an important milestone in the journey to net zero for the Fund, and is reflective of the significant amount of work undertaken by LPPI's Net Zero Project Team to get to this point.

2.10 Since receiving this IIGCC confirmation, LPPI have published a dedicated net-zero update document outlining its approved interim net-zero targets. This document, as attached in Appendix 4 to this report, provides further background and information on LPPI's approach to net-zero including how it will be achieved in practice. A full suite of information in addition to the "Roadmap to Net-Zero"(Appendix 4) can be found on LPPI's website here.

3. KEY IMPLICATIONS

3.1 The Fund is 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 report and dashboard acts as a public document to be updated quarterly and aims to address the majority of public requests for information.

3.2 The RI policy has undergone extensive review by the 'Task & Finish' group and has been confirmed by LPPI to be implementable in practice with no material changes to the Fund's investment activities or objectives.

3.3 The Fund seeks to achieve good ESG credentials whilst maintaining strong investment performance. Evidence suggests these two are not mutually exclusive, therefore, the Fund seeks to achieve both over the long run provided it can meet its fiduciary responsibility to scheme members and employers.

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 revised responsible investment policy outcomes. Therefore, the Fund's fiduciary duty and ultimate goal to pay pensions is not adversely affected by implementation of its revised RI policy but this shall be kept continuously under review.

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 requirement 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 (Regulation 7) which requires that the authority's investment strategy statement (ISS) must include the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments. The Fund's ISS (last approved by the Pension Fund Committee on 7 March 2022) defines that a separate RI policy shall be in place with detailed guidance on the points within the Regulations, and that implementation of said RI policy would be undertaken by LPPI. The revised RI policy is this compliant with the regulations.

6. RISK MANAGEMENT

6.1 The Pension Fund Committee review and approve a risk register on a quarterly basis, prepared in line with CIPFA's guidance on "managing risks in the LGPS – 2018". The latest risk register (including relevant actions and mitigations) has been prepared alongside the amendments within this report, with any relevant changes considered and documented as appropriate in the quarterly risk management report.

7. POTENTIAL IMPACTS

7.1 Failure to comply with pension legislation could result in the Administering Authority being reported to the Pensions Regulator where failure is deemed to be of a material significance.

7.2 Equalities: An Equality Impact Assessment is available at Appendix 5 to this report. The Equality Act 2010 places a statutory duty on the council to ensure that when considering any new or reviewed strategy, policy, plan, project, service or procedure the impacts on particular groups, including those within the workforce and customer/public groups, have been considered. There are no EQIA impacts as a result of taking this decision. Equality Impact Assessments are published on the council's website

7.3 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.

7.4 Data Protection/GDPR. GDPR compliance is included as a specific risk on the register in regard to processing and handling personal data, this is dealt with in the appendix along with the relevant mitigations.

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. Specific interim net-zero targets and plans are set out in the relevant appendices.

10. APPENDICES

10.1 This report is supported by 5 appendices:

- Appendix 1: Responsible Investment Report Q4 2022
- Appendix 2: Responsible Investment Dashboard Q4 2022
- Appendix 3: Active Engagement Report Q4 2022
- Appendix 4: LPPI roadmap to net-zero
- Appendix 5: EQIA

11. BACKGROUND DOCUMENTS

11.1 This report is supported by one background document available in the "policies and reports" section of the Pension Fund website

- Responsible Investment Policy (October 2022)

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	**17/02/2023**	
Emma Duncan	Deputy Director of Law and Strategy / Monitoring Officer	**17/02/2023**	
Deputies:			
Andrew Vallance	Head of Finance (Deputy S151 Officer)	**17/02/2023**	**23/02/2023**
Elaine Browne	Head of Law (Deputy Monitoring Officer)	**17/02/2023**	**02/03/2023**
Karen Shepherd	Head of Governance (Deputy Monitoring Officer)		
Other consultees:			
Cllr Julian Sharpe	Chairman – Berkshire Pension Fund Committee	**17/02/2023**	
Alan Cross	Chairman – Local Pension Board	**17/02/2023**	**27/02/2023**

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

This report has been prepared by LPPI for Royal County of Berkshire Pension Fund (RCBPF) as a professional client.

1. Introduction

This report on Responsible Investment (RI) is a companion to the LPPI RI Dashboard (Appendix 1) and the Quarterly Active Ownership Report (Appendix 2).

It covers stewardship in the period 1st October - 31st December 2022 plus insights on current and emerging issues for client pension funds.

[R] This symbol indicates a term explained in the reference section at the end of this report.

Key takeaways for the period:

- In Q4 2022 LPPI voted on 98% of company proposals, supporting 77% of these.
- Investments in Brown sectors (extraction, transportation, storage, supply, and generation of energy from fossil fuels) are 1.76% of the portfolio.
- Investments in Green sectors (renewable energy generation, clean technology, and decarbonising activities) are 5.01% of the portfolio.
- LPPI has applied to join the Net Zero Engagement Initiative (NZEI), a new engagement programme from the Institutional Investors Group on Climate Change (IIGCC[R]). It seeks to support collaborative engagement with carbon intensive companies that sit outside the top 166 largest emitters in the Climate Action 100+[R] universe.
- The PRI[R] recently released the results for the 2020/21 reporting cycle, with LPPI achieving over 70% in each module and scoring significantly higher than the peer group average.
- LPPI has recently released its Roadmap to Net Zero, which follows our formal submission to the IIGCC's Net Zero Asset Managers Initiative[R] in October.

2. RI Dashboard – Portfolio Characteristics

This section of the report shares key takeaways from the RI Dashboard at Appendix 1.

Asset class metrics (*Dashboard pages 1 and 2*) offer insights on the composition of the portfolio and its general characteristics. See the summary for Q4 2022 outlined below.

The Real-World Outcomes section of the dashboard features examples of socially positive investments and this quarter the focus is on Listed Equity. Pages 6-8 share information on a selection of investments within the RCBPF portfolio which are developing solutions in large, small and mid-cap companies.

Listed equities (Dashboard p1)

Sector Breakdown

Categorised by GICS[R] the largest sectoral exposures for the GEF are information tech. (26%), consumer staples (15%), and financials (14%).

Comparing the GEF with its benchmark (MSCI ACWI)[R] gives insight into how sector exposures for the fund differ from a global market index. The length of each horizontal bar indicates by how much exposures differ in total (+ or –) compared with the benchmark, which is the outcome of active managers making stock selection decisions rather than passively buying an index.

Top 10 Positions

The top 10 companies (10 largest positions) make up 22% of the total LPPI GEF.

In Q4 2022 Nestle moved up 1 position and is now the largest holding in the GEF. Visa and Microsoft remain in the top three, although Visa is now up 1 position and Microsoft is down 2 positions. Alphabet and Diageo have moved down 1 and 4 positions respectively, whereas, Accenture and Starbucks have moved up 1 and 4 positions respectively. Pepsico remained the same, whilst Intuit and Apple were replaced by LVMH and Colgate, which makes up the last positions in the top 10.

Portfolio ESG Score

The GEF's Portfolio ESG score has increased from 5.74 to 5.76 between Q3 and Q4 (dashboard chart is rounded). In the same period the equivalent score for the benchmark had not changed at 5.5.

Transition Pathway Initiative (TPI)

Monitoring against TPI[R] Management Quality ratings confirms the GEF continues its relatively low exposure to highly carbon intensive activities with minimal changes in ratings since Q3. By value, the coverage of the GEF represented within the globally high emitting companies under TPI assessment remained the same at 11%, between Q3 and Q4.

The number of GEF companies in scope of TPI scoring has increased by 1 since Q3 2022, changing from 30 to 31. This increase is a result of the new external manager Ballie Gifford, bringing 2 new companies from the TPI universe into scope, whilst elsewhere one in-scope company has left the portfolio.

Of the 31 companies in TPI scope:

- 92% (by value) are rated TPI 3 and above – demonstrably integrating climate change into their operational planning (TPI3) and into their strategic planning (TPI 4). This is down from 94% in Q3 2022, which is a general reflection of the additional companies bringing down the ratio.
- 8 companies are scored below TPI 3 and are under monitoring.

Governance Insights

These metrics provide insights on governance issues for the GEF using data from ISS DataDesk (Institutional Shareholder Services) our provider of shareholder voting services.

Women on the board: A measure of gender diversity confirming the average proportion of female board members for companies in the GEF (where data is available).

In Q4 2022, an average of 29% of board members were female in the GEF, which is unchanged from Q3. There was a coverage of 84% data availability (up from 83% in Q3), which was a result of several companies not being in scope of the ISS database.

Board independence: The average proportion of board members identified by ISS as independent. Please note independence expectations vary across markets with LPPI generally favouring greater independence as a route to an appropriate breadth of ideas, skills and experiences being drawn upon.

In Q4 2022, on average 68% of board members were independent in the GEF, which is down from 69% in Q3. There was a coverage of 84% data availability (unchanged from Q3), which was a result of several companies not being in scope of the ISS database.

Say-on-pay: The average level of investor support for the most recent say-on-pay vote at a company meeting. Please note not all markets require say-on-pay votes. A vote of greater than 20% against (support < 80%) is generally considered significant.

In Q4 2022, an average of 88% were in support for say on pay (unchanged from Q3), which indicates a high proportion of investors were supportive of the pay policies of investee companies. There was a coverage of 69% data availability (down from 72% in Q3), which was a result of several companies not being in scope of the ISS database.

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

Private Equity

The largest sector exposure continued to be in health care, although reducing down from 38% in Q3 to 37% in Q4 2022. The geographical exposure continued to have a strong presence in the United States (40%), increasing from 38% in Q3 2022.

Infrastructure

The geographical exposures to UK based infrastructure slightly decreased, moving from 52% exposure in Q3 to 48% in Q4. The largest sectoral exposure remained in traditional energy, renewable energy, waste, which makes up 40% of the portfolio.

Real Estate

The largest sectoral exposure continued to be industrial assets in Q4 2022, making up 36% of the portfolio. The portfolio continued to be largely deployed in the UK, although reducing from 76% in Q3 to 71% in Q4 2022.

Green & Brown Exposures

Calculation of the Fund's exposure to Green and Brown activities focusses specifically on equity assets (listed equity, private equity, and infrastructure) plus corporate bonds within fixed income. Figures give an indication, rather than a precise measure, as an assistance to reviewing the overall position.

Green activities are those directly contributing to real world decarbonisation, principally through renewable energy generation, but include other activities supporting lower emissions including district heating, and waste management. Brown activities are those directly involved with extracting, transporting, storing, and otherwise supplying fossil fuels, or using them to generate energy.

The dashboard presents information on the trend in Green and Brown exposures (commencing in Q2 2021). Quarterly changes in Green and Brown exposure reflect multiple factors at play including funds reaching maturity, assets being revalued, and investments being made and sold. The total value of the Royal County of Berkshire Pension Fund (RCBPF) portfolio (as the denominator) also affects Brown and Green % shares quarterly.

Compared with Q3 2022, Brown exposure has increased marginally from 1.69% to 1.76%. The biggest contributor to the increased exposure is from the GEF. This is a reflection of a mark-to-market increase, demonstrating the strong performance of Brown positions held in the GEF due to elevated oil and gas prices. This has increased the GEF's Brown exposure from 0.31% in Q3 to 0.45% of the portfolio in Q4. Other contributing factors have been from the infrastructure asset class, where there has been a small mark-to-market increase in the performance of Brown positions held in portfolio.

Compared with Q3 2022, Green activities have increased from 4.69% to 5.01% of the portfolio. The biggest contributors to the increased exposure are the infrastructure and private equity assets classes. The private equity figures reflect a full re-evaluation based on the current categorisation process, as we have done in other asset classes. This added some further companies within existing funds that have not previously been identified as Green, predominantly in the decarbonising and clean tech fund categories. This has increased private equity's Green exposure from 0.16% in Q3 to 0.25% of the portfolio in Q4. Infrastructure's contribution reflects a positive mark-to-market increase, demonstrating the strong performance of Green positions held in portfolio. This has increased infrastructure's Green exposure from 4.46% in Q3 to 4.72% of the portfolio in Q4.

Investments in renewable energy generation from wind, solar, hydro, and waste make up 60% of total Green exposure, and 94% of Green exposure is via infrastructure assets.

3. Core Stewardship

This section of the report gives an overview of stewardship activities in the last quarter. Client pension funds delegate day to day implementation of the Partnership's Responsible Investment approach to Local Pensions Partnership Investments Ltd (LPPI). Ongoing stewardship activities by LPPI include portfolio and manager monitoring and the exercise of ownership responsibilities via shareholder voting, and engagement.

Shareholder Voting - LPPI Global Equities Fund (GEF) *(Dashboard page 3)*

Shareholder voting is overseen centrally by LPPI rather than by individual asset managers. LPPI receives analysis and recommendations from an external provider of proxy voting and governance research. We follow Sustainability Voting Guidelines focussed on material ESG considerations and liaise with providers and asset managers as needed to reach final voting decisions.

Full details of all shareholder voting by LPPI are publicly available from the LPP website within quarterly shareholder voting reports.

The period 1st October – 31st December 2022 encompassed 40 meetings and 321 resolutions voted. LPPI voted at 98% of meetings where GEF shares entitled participation. The shortfall reflects the application of Do Not Vote to one Russian position that was not fully liquidated before trading restrictions were introduced.

Company Proposals

LPPI supported 77% of company proposals in the period.

Voting against management captured:

- the election of directors: 35% of votes against (addressing individual director issues, overall board independence, and over-boarding).
- compensation: 11% of votes against (addressing inadequate disclosure of underlying performance criteria, use of discretion, and the quantum of proposed rewards).

Case Study – Director Related

LPPI voted against 23 director-related resolutions across nine companies. This was 13% of all director-related votes.

LPPI voted against three resolutions across two companies due to a lack of Board independence. Results: 5.7% - 17.8% Against.

LPPI voted against five directors across four companies due to the lack of diversity on the Board. Results (where disclosed): 0.2%-17.8% Against.

Case Study – Compensation

LPPI voted against seven compensation resolutions at seven companies. This was approximately 18% of compensation-related votes.

At Oracle Corporation (USA: Systems Software), LPPI voted against the say on pay. This was driven by poor disclosure, the use of entirely discretionary bonuses for some named executive officers, and modification to in-progress equity awards. Following multiple years of low support for the say on pay, ISS judged shareholder outreach to be insufficient and recommended voting against all incumbent board members as an escalation. LPPI shared concerns around the lack of responsiveness, but thought it was most appropriate to withhold support for members of the Remuneration Committee for this topic. Say on pay result: 33.1% Against. Remuneration Committee member results: 27.3% - 30.5% Against.

At Copart (USA: Diversified Support Services), LPPI voted against the say on pay. This was driven by a combination of poor disclosure, an overreliance on subjective metrics in the annual bonus, and a large front loaded equity award in the long-term incentive plan (LTIP) that was linked to metrics that reward short-term share price peaks. Result: 38.0% against.

At RPM International (USA: Specialty Chemicals), LPPI voted against the say on pay. This was driven by poor disclosure of performance metrics. Result: 33.4% Against.

Shareholder Proposals

LPPI supported 11 out of 14 (79%) shareholder resolutions over the quarter. Eight were management supported and related to routine corporate governance items at Chinese companies.

Microsoft Corporation (USA: Systems Software) faced six shareholder resolutions. LPPI voted against three. All were considered to be of low quality (e.g. requesting a report on the costs of diversity and inclusion initiatives to be published 18 days after the AGM, micro-managing retirement funds available to employees, and seeking disclosure which Microsoft has already produced). Results: 88.8% - 98.7% Against.

LPPI supported two resolutions seeking greater information regarding the risk association of government-related defence contracts. LPPI also supported a resolution seeking tax disclosure in line with the Global Reporting Initiative's Tax Standard. Results: 10.5% - 23.0% For.

Climate Voting (NEW)

This new section will capture climate-related votes arising from the updated Shareholder Voting Guidelines (SHVGs). It will also draw out coverage of any CA100+ linked shareholder resolutions.

During Q4 2022, no voting action on climate relating to the SHVGs or CA100+ linked resolutions occurred.

Case Study – Manager Engagement

In Q4 2022, LPPI's Infrastructure team engaged with an external manager on specific initiatives as part of ongoing portfolio monitoring. The first initiative was a review of their latest UN PRI[R] assessment score and areas for improvement to meet the criteria required for future assessments. This review was a collaborative process to exchange thoughts on key components of ESG processes such as resourcing, asset management and carbon reporting. The second initiative involved a deep-dive review of the same external manager, related to the latest investment in a conventional power asset in the US. This review sought to understand key ESG risks and opportunities of this investment, namely balancing the exposure to fossil fuel (natural gas) against supporting the energy transition of several coal-reliant US states. Further, in Q4 2022 the LPPI Infrastructure team met with the manager's private markets ESG team in person, which provided the opportunity to discuss ESG initiatives such as physical climate risk assessment tools and integration of ESG initiatives in business plans.

4. Robeco Summary

Engagement (Public Markets): Robeco *(Dashboard page 4)*

This section of the dashboard outlines the engagement activities undertaken by Robeco in the public markets by topic, sector, method, and region (indicating the number of companies engaged / geographical distribution). Robeco currently engages with 32 companies in the GEF, accounting for 24.6% of the total GEF portfolio.

Engagement (Public Markets): Robeco *(Dashboard page 5)*

Engagement progress by theme, also shown on page 2 in the Robeco Active Ownership report, summarises their engagement activity for our portfolio over the quarter and breaks them down into sub-sectors, where they are rated on success/progress (shown as a %). The data outlined in our dashboard is specifically related to the companies in LPPI's portfolio and the engagements Robeco undertake on our behalf.

Robeco's New Themes

Each year in Q4, Robeco clients submit engagement priorities to inform new themes to be created for the year ahead. These suggestions are aggregated and presented at the annual client panel for further discussion. The three new engagement themes selected for 2023 are below and will be rolled out across the year. Modern slavery and tax were LPPI-identified priorities which we were pleased to see incorporated. In addition to the new themes, Robeco confirmed that they will also expand coverage of the climate change and biodiversity themes given the long-term, systemic nature of these topics.

Forced Labour and Modern Slavery

Background
Over 50 million people globally are trapped in modern slavery. Roughly 28 million people are victims of forced labour, and half of those are in the Asia-Pacific region. Governments and regulators are paying growing attention to modern slavery risks, and investors have a responsibility to respect human rights, as outlined in the UN Guiding Principles on Business and Human Rights.

Engagement focus
Robeco's engagement will focus on companies predominantly linked to the Asia-Pacific region operating in sectors highly exposed to forced labour risks, such as Consumer Discretionary, Consumer Staples, Technology and Healthcare.

Just Transition

Background

The ‘Just Transition’ as a concept is about greening the economy in a way that is as fair and inclusive as possible to everyone impacted. Robeco believe that emerging markets are where the battle against climate change will be won or lost, as issues of transition are most acute across Africa and Asia.

Engagement focus

The engagement will focus on companies in emerging markets that are enabling and/or contributing to the just energy transition.

Tackling Tax Transparency

Background

Taxation is increasingly a topic for debate for regulators and progressively seen as a key ESG topic. Due to recent regulatory developments, Robeco believe that 2023 is a good time to start engaging on this topic.

Engagement focus

This theme will focus on improving the transparency of companies over their tax status, and what they actually pay to the governments of the countries in which they operate.

Robeco Active Ownership Report: Content Overview

The below information is a summary of Robeco Active Ownership report, from page 3 onwards, which covers case study insights from across the workload that they have chosen to give an update on this quarter. All information represents Robeco’s findings for their entire assets under engagement. Although it is still relevant to LPPI, it is not specific to the companies that are under engagement for LPPI. These insights can refer to companies inside and outside our portfolio, depending on our specific exposure to the given theme being highlighted.

Social Impact of Artificial Intelligence

As Robeco close their Social Impact of Artificial Intelligence (AI) engagement theme, they reflect on some of the key trends, opportunities and challenges around this technology. From 2019 to 2022, Robeco engaged with 10 companies on behalf of all clients from across the Information and Communication Technology (ICT) sector with the aim of promoting best practices in the development and responsible use of AI.

Robeco concluded their Social Impact of AI engagement program and successfully closed 40% of engagement cases across all assets under engagement. They learned that companies are gradually aligning internal practices to principles of responsible AI, and many address topics like inclusiveness, fairness, and transparency. However, ethical principles on their own do not ensure the responsible development and deployment of AI. Businesses require robust governance mechanisms to effectively implement their principles. Robeco observed that transparency around AI governance and implementation remained low, as most companies’ public disclosures lacked clarity about how such principles translate into practice.

The alignment of AI technologies with ethical values and principles will be critical to promote and protect human rights in society. Even though much work has been done in this area, the implementation of AI principles and management of AI risks remains a critical area for improvement.

Social Impact of Gaming

In Q1 2021 Robeco started engaging the global video gaming industry on its social impact. They selected six of the largest listed gaming companies located in the US, South Korea and China, with objectives that address the social impacts felt both behind and in front of the screen. For the consumers playing the games, companies are expected to develop strategies that prevent harassment occurring between players. Each studio has developed and integrated preventative tools on a game-by-game basis, though Robeco have encouraged companies to learn from each other and create a more general application of harassment-prevention tools.

Research into disruptive player behaviour has also been conducted by the industry, but has yet to be leveraged in game design. This integration will be encouraged by Robeco in the coming months. Other elements of player behaviour that warrant attention are the money and time spent within games. At least half of the companies have implemented a ban on spending abilities for accounts below an early-teen age group, however, age restrictions and time restraints are largely implemented through the consoles and must be set by parents.

Depictions of violence within games has had less attention from the industry but is acknowledged as material by the companies. However, Robeco have yet to see examples of clear policies that guide what imagery is appropriate outside of regulation, and it is widely seen to be a creative rather than a risk-aligned decision. In-game diversity has had attention in the US-based studios but has had less traction in other markets. Companies have highlighted extended character appearance options that allow for diverse avatars, however, this is considered a creative decision that is determined by project teams and is influenced by the diversity levels of the teams themselves.

Since the launch of the engagement, the issue of diversity and inclusion on the work floor has only continued to rise in prominence within the gaming sector. Allegations of toxic workplace cultures, enabling sexual harassment and discrimination, continued into 2021, triggering legal and employee action. Western companies have appointed leads for diversity, installing training and development programs, while remaining defensive of the view that allegations are the result of systemic issues. Companies in other regions however approach diversity primarily from the gender perspective, and are less responsive to the issue overall.

All companies under engagement now publish annual ESG reports, when at the beginning of the engagement, three had yet to do so. The reports highlight initiatives that relate to many of Robeco’s objectives, and largely conform to frameworks that include metrics that they deem important for transparency, in particular those that are related to the workforce.

Biodiversity

Nature is critical to meeting the UN Sustainable Development Goals (SDGs) and limiting global warming to 1.5 degrees. In an active effort to live up to their clients' environmental and social responsibilities, in 2020 Robeco set up an integrated and multi-layered engagement approach to address biodiversity loss.

Addressing biodiversity loss requires urgent action from both governments and companies. Investor action on biodiversity has been limited, with data barriers and capacity limitations keeping them from integrating biodiversity into their investments, engagement and voting decisions at scale. Robeco has set out to create a holistic, multi-layered and scalable engagement approach towards biodiversity. As such, they are not only engaging the various relevant stakeholders, but also exploring how stewardship efforts can be scaled through collaborative engagements. Robeco's engagement initially started off with a focus on biodiversity loss linked to deforestation among companies exposed to high-risk commodities. However, as of Q4 2022, it has now expanded to other drivers of biodiversity loss, from pollution to overfishing.

Robeco expect companies to assess their biodiversity impacts and dependencies, and set a biodiversity strategy. They also expect companies to report key impact indicators following recognised reporting frameworks such as Taskforce for Nature-Related Financial Disclosures. The theme will, among others, cover companies engaged as part of the new RobecoSAM Biodiversity Equities Fund, which directs financial flows towards biodiversity solutions providers.

Seeking further collaborative engagement opportunities, Robeco have recently signed the Business for Nature statement calling for mandatory corporate reporting for nature by 2030, as well as joining the letter campaign and ESG data provider engagement by the Finance Sector Deforestation Action. Robeco has also recently been part of the core investor group that launched the Nature Action 100 initiative during the UN Biodiversity Conference in Montreal in December 2022.

Shifting to the sovereign level, Robeco continues to be actively involved in the Investor Policy Dialogue on Deforestation (IPDD) initiative since it was formally set up in July 2020. Currently, the coalition is comprised by 65 institutional investors from 19 countries, with USD 10 trillion in assets under management. Robeco considers sovereign engagement as a necessary and powerful step to encourage governments that are significantly exposed to deforestation risk to implement relevant policies and contribute to a positive change.

Corporate Governance Standards in Asia

Robeco have two broad streams of engagement in Asia. Firstly, focusing on working with regulators and policy stakeholders in Japan, South Korea, and to a lesser extent in China, to ensure an improved and level playing field for ESG issues. Secondly, working constructively with companies in Japan and South Korea to improve their disclosure, communication and financial performance.

Their policy engagement included a virtual meeting with Japan’s Ministry of Economy, Trade and Industry. Raising issues on the disclosure timing of annual reports, and noting the importance to investors that these be released prior to the annual general meetings. They also become co-signatories of a letter to Japan’s Financial Services Agency and the Tokyo Stock Exchange on two pathways to address the low rate of female participation, looking to change the listing rules via Japan’s Corporate Governance Code.

The markets of Japan and South Korea have large valuation discounts compared to other developed markets in Europe and the US. These discounts have widened in the year to date with the strong relative appreciation of the US dollar. The companies under engagement were also trading at valuation discounts compared to their global industry peers, which Robeco attribute partly to broad governance issues in Japan and South Korea, but also to the lack of robust financial strategies and inefficient balance sheets.

Robeco believe in two key principles for good corporate governance: transparency and accountability. They ask companies to improve transparency by publishing narrative reporting on their corporate strategy and having a distinct financial strategy. There is much to celebrate given the increased emphasis on reporting on material environmental and social (E&S) issues, including setting targets on greenhouse gas emissions reductions. However, there are still significant opportunities for companies to improve reporting of their financial strategy and to give robust explanations on specific targets that would support their business strategy.

5. Collaborations and Partnerships

LPPI participates in a range of investor groups and partnerships which provide opportunities for shared learning and a platform for collective action. The following are headlines for Q4 2022.

IIGCC's Net Zero Engagement Initiative

LPPI applied to join the Net Zero Engagement Initiative (NZEI), a new engagement programme from the Institutional Investor Group on Climate Change (IIGCC[R]). It seeks to support collaborative engagement with carbon intensive companies that sit outside the top 166 largest emitters in the Climate Action 100+[R] universe. The NZEI seeks to capture smaller companies which represent the long tail of greenhouse gas emissions with the view of supporting investors in meeting their Net Zero Investment Framework engagement targets (used by LPPI). Further information and the commencement of engagement is scheduled for Q1 2023.

Principles for Responsible Investment (PRI) Consultation

As a PRI[R] signatory, LPPI participated in a dialogue and submitted a response to a formal consultation on the future direction of PRI which closed on 27th Jan 2023.

The consultation, PRI in a Changing World, was issued on the conclusion of a programme of signatory workshops in key markets which explored the context, started the conversation, and introduced key themes. LPPI’s Head of Responsible Investment attended the UK event at PRI Head Office in London in November 2022.

The consultation posed questions in the following seven areas:

1. What does responsible investment mean today?
2. Expectations about signatory progression
3. The role of responsible investors in the financial system, and in influencing policy change; and barriers to signatory action on sustainability outcomes.
4. The PRI's response to signatory needs – globally and locally – and the challenges signatories face
5. The PRI's strategy setting approach and governance
6. The PRI's mission statement
7. Signatories' engagement and satisfaction with the PRI

The questions reflect that in the period since PRI launched in 2006 there has been a significant shift in market practice and expectations. These need acknowledging and reflecting in the PRI's strategy, planning, and resourcing and in requirements placed on signatories going forward.

LPPI's response to the consultation (by confidential online questionnaire) communicated the value we place on a robust external good practice standard for stewardship incorporating ESG integration. We voiced support for a clearer set of signatory requirements that builds-in an expectation of progression over time and a focus on disclosure being proportionate and useful rather than exhaustive. Increasing pressure is arising from the expansion of stewardship-focussed reporting introduced by regulation which extends compulsory disclosures without co-ordination with other reporting regimes. Disclosure standards are similar but not aligned, reporting periods and deadlines overlap, and there is insufficient dispensation for equivalency despite the same activities being the subject of multiple disclosure requirements. The consultation will provide direct insights which can tighten the PRI's focus on how to accommodate the asset owner and asset manager context in planning how to support signatories achieving stewardship good practice and demonstrating this to their stakeholders.

Asset Owner Diversity Charter (AODC)

As a signatory to the AODC, LPPI has committed to encouraging our managers to fill in the AODC questionnaire once a year. To make this process more efficient, the AODC have begun an initiative with CAMRADATA, a data analysis firm, to provide a centralised database where each manager can submit their responses once, which all signatories to the Charter can then access. LPPI identified 18 of our largest managers across the portfolio to target in a first round of requests. Together with CAMRADATA we sent out the latest version of the questionnaire, requesting each manager to complete it. So far, we have received responses from all but one of our managers and all but 4 of these used the new CAMRADATA platform and template. Outside of this priority group, 6 of our managers have already completed the questionnaire on the database. Our response rates were shared with the AODC team who are working on compiling these and other insights from the data itself into a 'year in review' progress report for the initiative. The report will include case studies to support ongoing engagement on this important topic and be published in the coming months.

6. Other News and Insights

PRI Results

Module	LPPI Scores	PRI Median Scores
Investment and Stewardship Policy	4* (87%)	3* (60%)
Direct – Listed Equity – Active Fundamental Incorporation	5* (96%)	4* (71%)
Direct – Listed Equity – Active Quantitative – Voting	4* (72%)	3* (54%)
Direct – Listed Equity – Active Quantitative – Voting	4* (72%)	3* (61%)
Indirect – Listed Equity - Active	4* (87%)	4* (67%)
Indirect – Real Estate	5* (91%)	3* (62%)

The PRI[R] recently released the results for the 2020/21 reporting cycle, with LPPI achieving over 70% in each module and scoring significantly higher than the peer group average. With the reporting and scoring framework undergoing a number of changes from the previous reporting cycle, we are pleased to have maintained such high scores across the board. LPPI has scored above the median threshold for all assessed modules against both immediate asset owner (10-50B) and asset manager (10-50B) benchmarks (Europe) and against all PRI signatories (Global).

Since the PRI submission, our philosophy, tools and frameworks around ESG integration have moved on substantially. We continue to improve ESG integration across our asset class teams and will be looking to showcase these improvements in the next PRI submission.

PRI Advance Launch

The PRI has officially launched Advance, the engagement programme which aims to support institutional investors to collaborate and take action on human rights and social issues. At launch, LPPI was one of 220 investors endorsing the initiative, representing $30tn in assets under management.

DLUHC Consultation: LGPS governance and reporting of climate change risk

The Department for Levelling Up, Housing and Communities issued its long-awaited consultation on proposed requirements for climate change governance and reporting by LGPS pension funds on 1st September 2022. This ran until 24th November 2022 and DLUHC are currently analysing responses.

The consultation sought views on proposals to require LGPS administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD[R]). The consultation was comprehensive and sought responses to 12 questions.

LPPI's detailed consultation response incorporated insights on the proposed requirements from the perspective of asset manager and pooled investment provider as well as from the context of our clients as administering authorities. As an assistance to those planning their own submissions, LPPI's consultation response was shared privately with our client funds in early November.

Key points raised in LPPI's response included

- The importance of partnership between administering authorities and their pools in making a decisive start despite incomplete data and imperfect tools
- The ambitious timetable and scope for the first reporting year to be a pilot which surfaces shared learning
- The gap between what is ideal and what can be achieved in practice currently given gaps in data, tools and established approaches for modelling climate-related risks for complex portfolios
- Limitations in what the provider market has developed at this point to support implementation for a diversified portfolio of assets
- The importance of detailed guidance stipulating a specific approach wherever consistency is required for the purposes of comparison or aggregation across pensions funds
- The opportunity for encouraging convergence around strong standards whilst maintaining flexibility to embrace evolving discipline and practice
- The requirement for TCFD reporting periods and disclosure deadlines to reflect dependency and reliance between asset managers, pools and pension funds
- The underestimation of resourcing and implementation costs for pools and funds.

DLUHC are due to issue the guidance which implements applicable requirements by April 2023.

Shareholder Voting Guidelines Update

The latest iteration of LPPI's Shareholder Voting Guidelines (SHVGs) has been published, incorporating material changes to how matters relating to climate change and board gender diversity are captured in the execution of shareholder voting rights for holdings in the Global Equities Fund.

On climate, LPPI has increased the scope of companies to which climate-related voting actions are applicable as well as enhanced the standards to which company management is held. Previously, votes were cast against companies within the Transition Pathway Initiative (TPI) universe with a Management Quality score less than three (indicating they have not publicly set any greenhouse gas emissions reduction targets or disclosed emissions data).

The updated SHVGs expands the universe to cover all companies in sectors identified as high impact in the IIGCC Net Zero Investment Framework, and applies the more rigorous Climate Action 100+ benchmark (where a company is in coverage) or, alternatively, LPPI's internal assessment of net zero alignment using MSCI® and other data sources. LPPI's internal assessment uses the IIGCC's Net Zero Investment Framework categorisation of corporate alignment and was discussed with IIGCC staff during the research phase.

LPPI will vote against management at companies that are assessed to be in the bottom two tiers of "Not Committed" or "Committed to Aligning". This captures companies that have not set a long-term ambition to decarbonise ("Not Committed") and those that have set the ambition but not followed-up with disclosure on carbon footprints or targets ("Committed to Aligning"). Adverse votes will also occur when companies have not met minimum standards in the TPI or CA100+ benchmarks.

On board gender diversity, LPPI has expanded the scope of companies that are expected to have at least 30% women to include the Russell 3000 index of US companies, in addition to the FTSE 350. LPPI will vote against the Chair of the Nomination Committee where women make up less than 30% of the board, unless the firm has disclosed a plan to meet the 30% standard within a year.

Roadmap to Net Zero

LPPI has recently released its Roadmap to Net Zero, which follows our formal submission to the IIGCC's Net Zero Asset Managers Initiative[R] in October. LPPI has voluntarily made a public commitment to the goal of aligning our portfolio with Net Zero emissions by 2050. We also aim to have 100% of assets under management in scope of our Net Zero target setting over time. This roadmap outlines our Net Zero approach, and draws out our aims, targets and specific metrics used to measure our progress in reaching our goal.

For Reference

GICS - Global Industry Classification System
The most widely used approach to categorising activities into industry sectors. The main standard in use for public markets with growing use for other asset classes. For more information on GICS and the activities that fall into each sector, please see:
https://www.spglobal.com/marketintelligence/en/documents/112727-gics-mapbook_2018_v3_letter_digitalspreads.pdf

Climate Action 100+
Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

Paris Agreement
The Agreement is a legally binding international treaty to tackle climate change and its negative impacts. The Agreement includes commitments from all countries to reduce their emissions and work together to adapt to the impacts of climate change. It entered into force on 4 November 2016.

The Agreement sets long-term goals to guide all nations to:

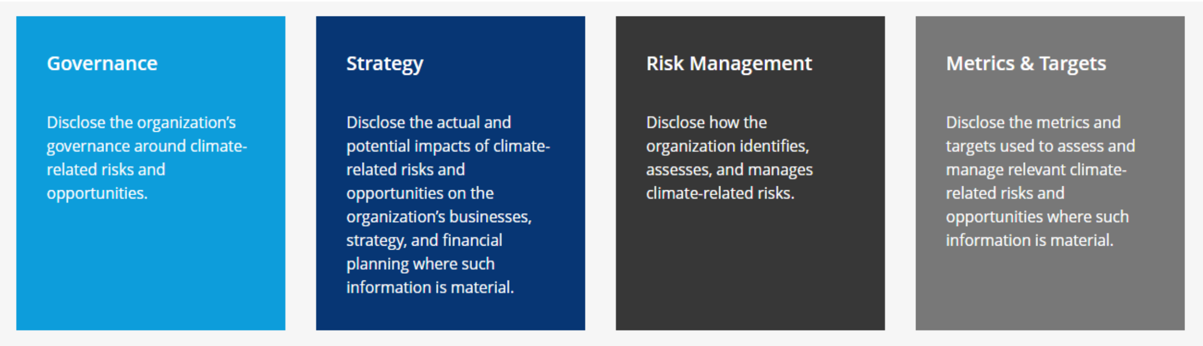
- substantially reduce global greenhouse gas emissions to limit the global temperature increase in this century to 2 degrees Celsius while pursuing efforts to limit the increase even further to 1.5 degrees,
- review countries' commitments every five years,
- provide financing to developing countries to mitigate climate change, strengthen resilience and enhance abilities to adapt to climate impacts.

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

MSCI ACWI - MSCI All Country World Index
A stock index designed to track broad global equity-market performance. The LPPI Global Equity Fund's benchmark.

MSCI - **Morgan Stanley Capital International**
A global index provider.

TCFD - Taskforce on Climate Related Financial Disclosure
The Financial Stability Board created the Task Force on Climate-related Financial Disclosure (TCFD) to improve and increase reporting of climate-related financial information by companies and investors.
Recommendations include annual disclosure under 4 pillars:



TPI - **Transition Pathway Initiative** https://www.transitionpathwayinitiative.org/
The TPI assesses the highest emitting companies globally on their preparedness for a transition to a low carbon economy. 368 companies are rated TPI 0-4* for Management Quality based on 19 separate datapoints. TPI Management Quality scores provide an objective external measure of corporate transition readiness.

NZAMI – Net Zero Asset Managers Initiative https://www.netzeroassetmanagers.org/
The Net Zero Asset Managers Initiative launched in December 2020 and aims to galvanise the asset management industry to commit to a goal of net zero emissions.

IIGCC
Institutional Investor Group on Climate Change. LPPI is a member.

PRI - **Principles for Responsible Investment** https://www.unpri.org/
A United Nations-supported international network of financial institutions working together to implement its six aspirational principles, often referenced as "the Principles".

Responsible Investment Dashboard Q4 2022

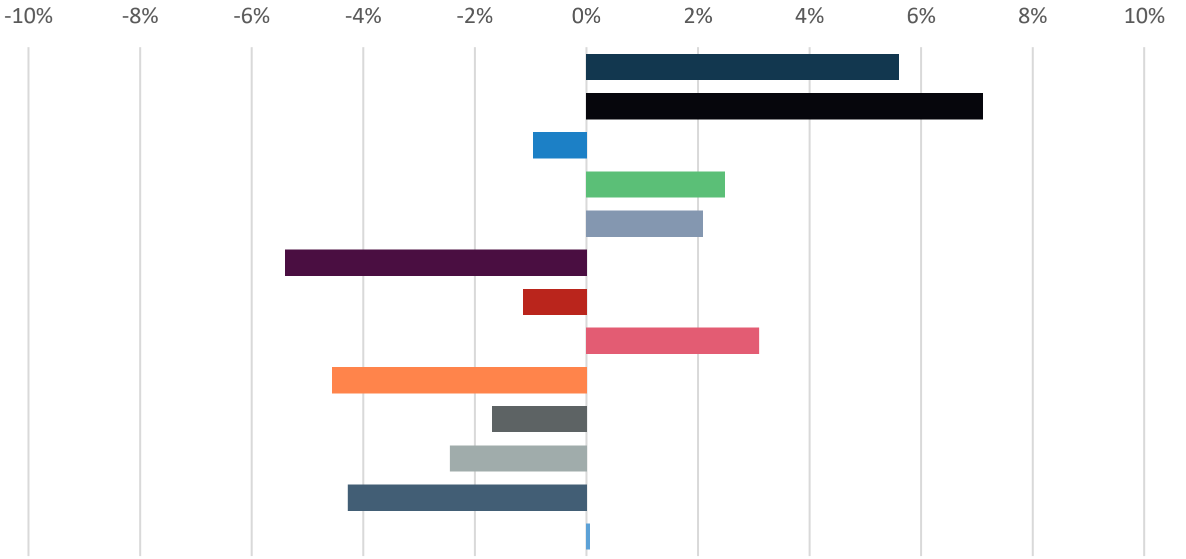
1. Portfolio Insights

Listed Equities (LPPI Global Equities Fund)

Sector Breakdown (%)

Information Tech.	25.6
Consumer Staples	14.9
Financials	14.2
Consumer Discretionary	12.9
Industrials	12.3
Health Care	8.0
Communication Services	5.6
Cash	3.1
Energy	1.0
Real Estate	0.9
Utilities	0.7
Materials	0.7
Others	0.1

LPPI Global Equities Fund Sector Weights vs MSCI ACWI ND



Top 10 Positions

	Portfolio (%)
1. Nestle	3.1
2. Visa	3.0
3. Microsoft	3.0
4. Accenture	2.2
5. Alphabet	2.1
6. Starbucks	1.7
7. Lvmh Moet Hennessy	1.7
8. Pepsico	1.7
9. Colgate-Palmolive	1.7
10. Diageo	1.6

Governance Insights (ISS DataDesk)

Women on the Board (Average)

29%

Coverage of GEF

84%

Board Independence (Average)

68%

Coverage of GEF

84%

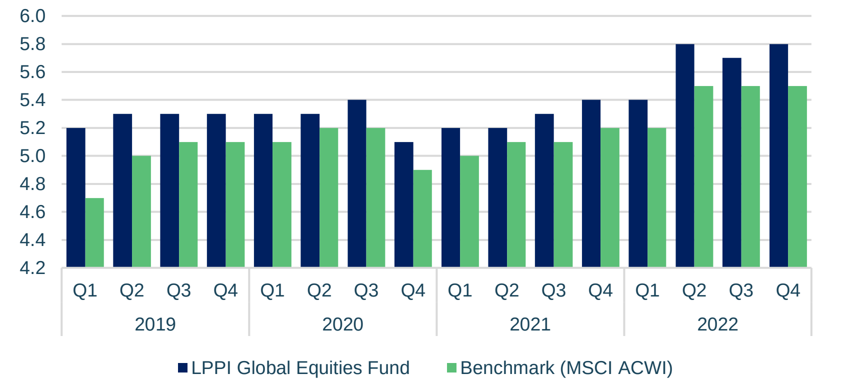
Support for Say on Pay (Average)

88%

Coverage of GEF

69%

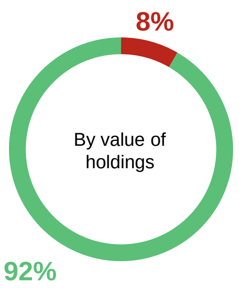
Portfolio ESG Score (MSCI ESG Metrics)

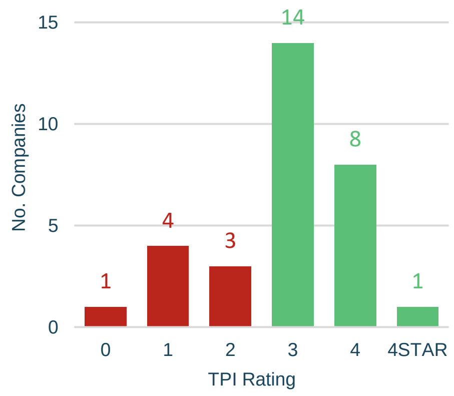


Transition Pathway Initiative – Management Quality Headlines

11.0%

GEF covered by TPI analysis (Q4 2022)





TPI Management Quality Ranking

0 - Unaware
1 - Aware
2 - Building capacity
3 - Integrated into operational decisions
4 - Strategic assessment

Responsible Investment Dashboard Q4 2022

1. Portfolio Insights

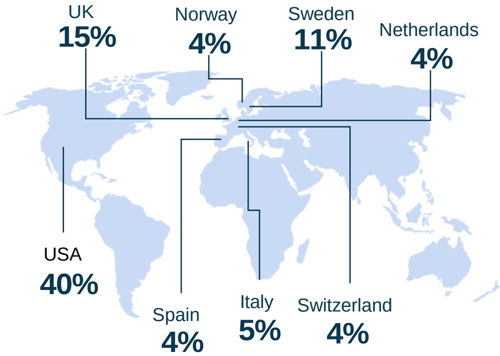
Other asset classes

Private Equity

Industry Breakdown (%)

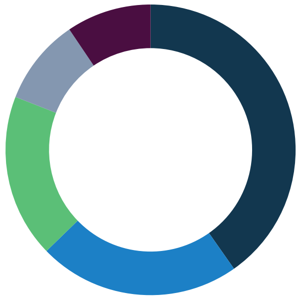
Health Care	37	Consumer Staples	4
Information Technology	25	Communication Services	4
Industrials	12	Remaining Industries	3
Consumer Discretionary	8	Financials	3
Other	4		

Region Breakdown (%)



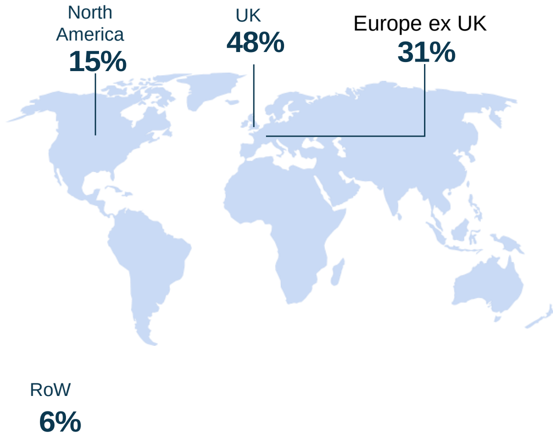
Infrastructure (LPPI Global Infrastructure Fund)

Industry Breakdown (%)



Traditional Energy, Renewable Energy, Waste	40	Regulated Assets	18
		Social (incl PFI)	10
Transport and Distribution	22	Other	9

Region Breakdown (%)



Real Estate (LPPI Real Estate Fund)

Sector Breakdown (%)

Industrial	36	Living	12
Retail	16	Alternative	11
Office	15	Agriculture	9

Geographical Exposure (NAV %)

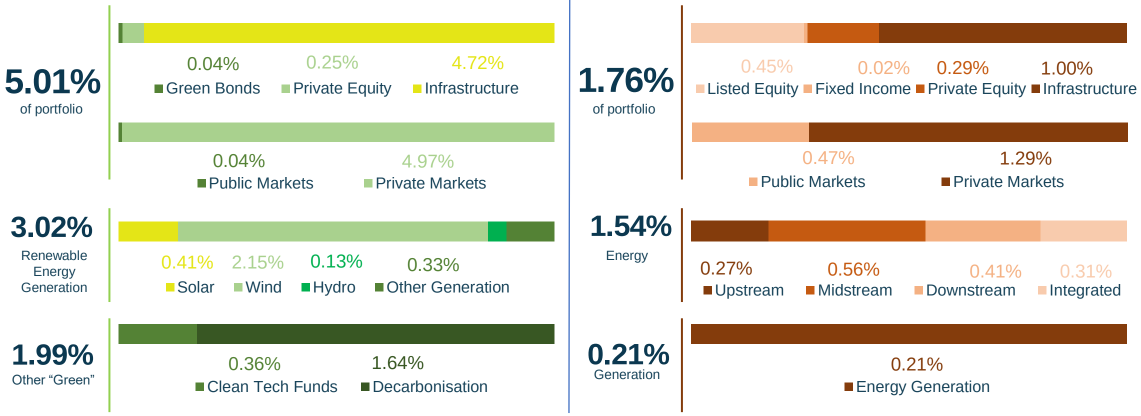
Green & Brown Exposure

Green

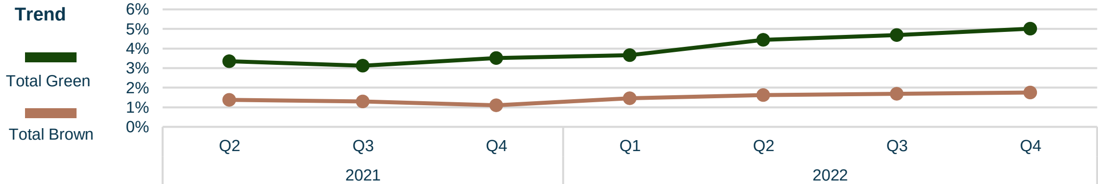
Investments in businesses directly contributing to the global transition to a lower carbon economy, expressed as a % of the total value of the pension fund.

Brown

Investments in traditional energy (based on fossil fuels) expressed as a % of the total value of the Pension Fund.



Trend



The above Green and Brown metrics apply to parts of the portfolio which have exposure to a specific set of activities as per our definition of Green and Brown, and which are quantifiable at the time of publication (please see appendix). LPPI's Responsible Investment team endeavours to provide clients with the most expansive picture of exposure possible.

Responsible Investment Dashboard Q4 2022

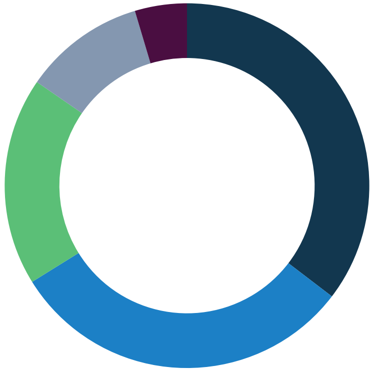
2. Stewardship Headlines

Shareholder Voting

Shareholder Voting Statistics (LPPI Global Equities Fund)

Headlines

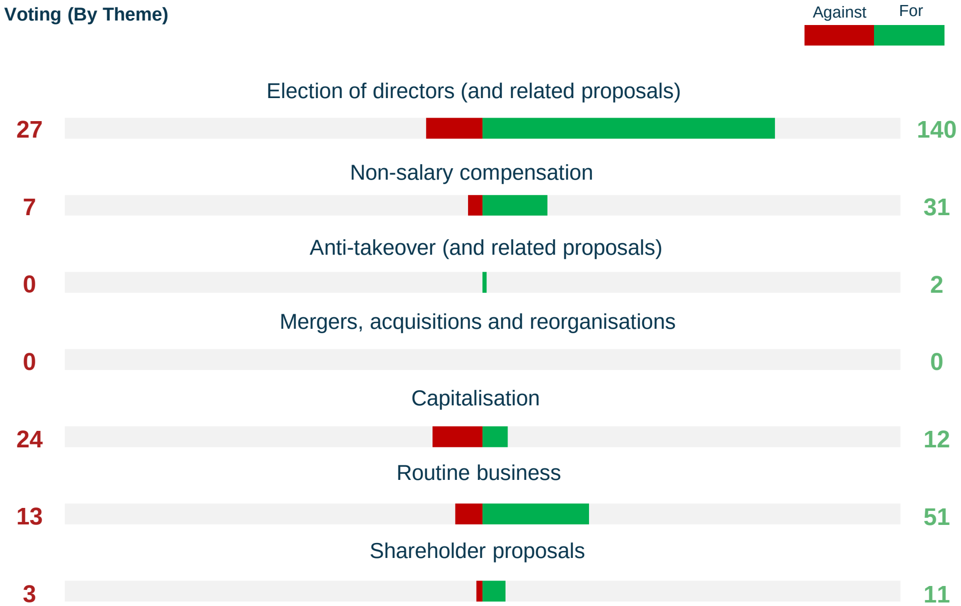
		Supported 77%	Supported 79%	
39	**321**	**307**	**14**	**46%**
Meetings Voted	Proposals Voted	Company Proposals	Shareholders Proposals	Meetings with a vote against Management



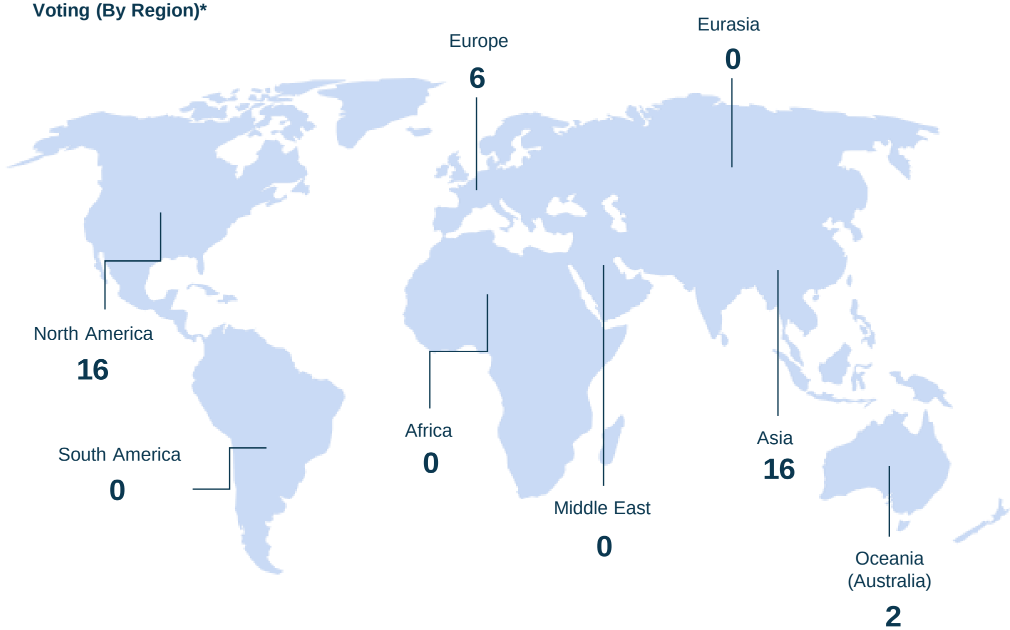
Votes Against Management (By theme)

Election of Directors (and related)	23
Capitalisation	20
Routine business	12
Compensation	7
Shareholder Resolutions	3
Mergers, acquisitions and reorganisations	0
Anti-takeover (and related proposals)	0

Voting (By Theme)



Voting (By Region)*



*Total votable meetings

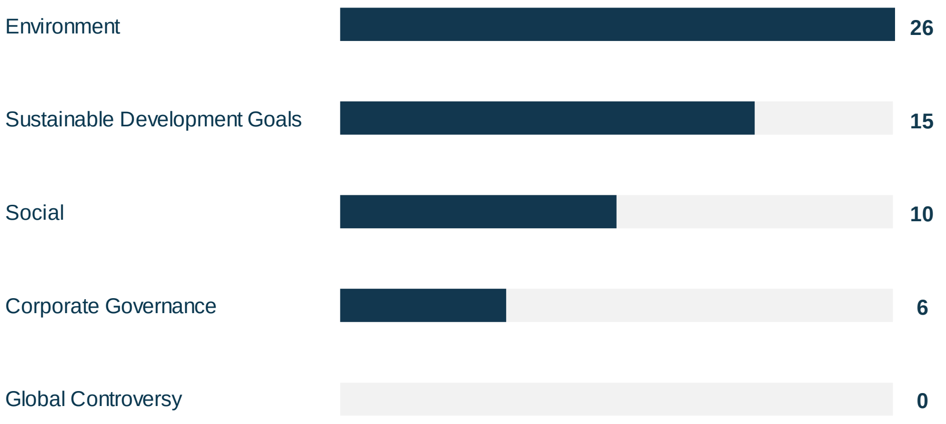
Responsible Investment Dashboard Q4 2022

2. Stewardship Headlines

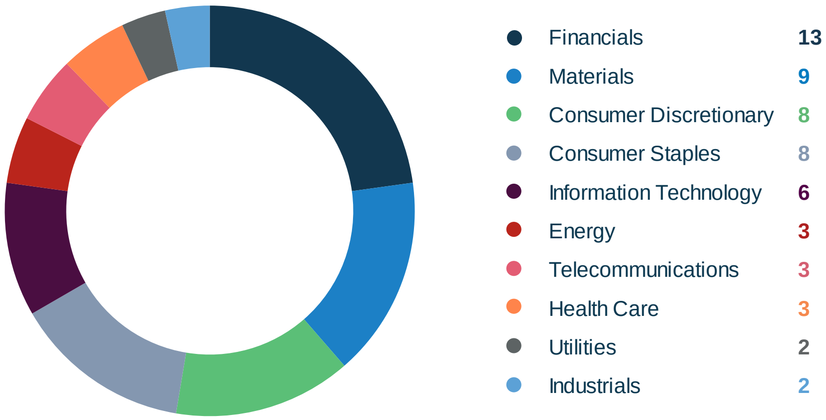
<u>Engagement (Public Markets): Robeco</u>

The following data is specifically related to the companies in LPPI's portfolio and the engagements Robeco undertake on our behalf.

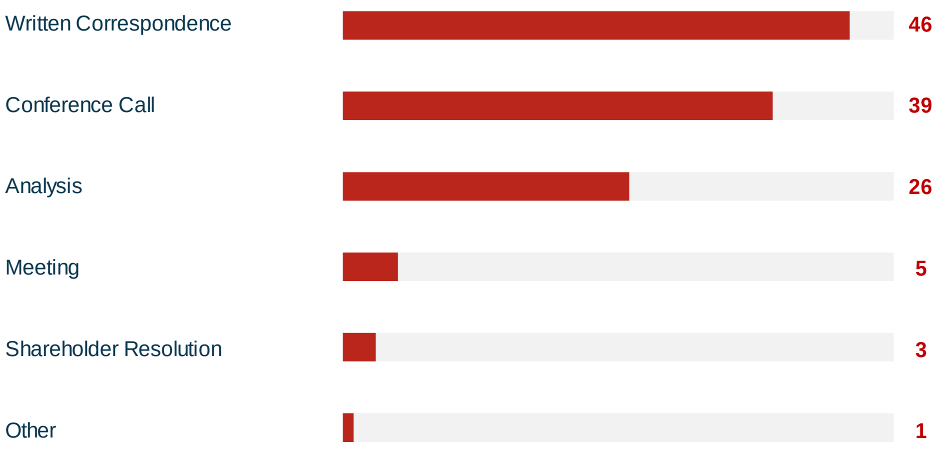
Activity (By Topic)



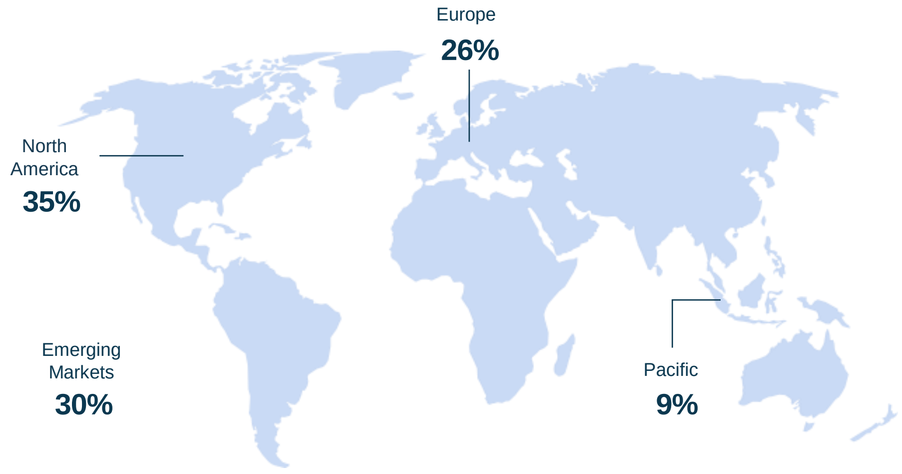
Activity (By Sector)



Activity (By Method)



Activity (By Region) (%)



Source: Robeco Active Ownership Report Q4 2022

Responsible Investment Dashboard Q4 2022

2. Stewardship Headlines

Engagement (Public Markets): Robeco

The following data is specifically related to the companies in LPPI's portfolio and the engagements Robeco undertake on our behalf.

Engagement Results (by Theme)

Source: Robeco Active Ownership Report Q4 2022

Waters™

Waters is one of the world's largest life sciences companies, and is the world leader in the niche specialty measurement techniques of liquid chromatography and mass spectrometry.

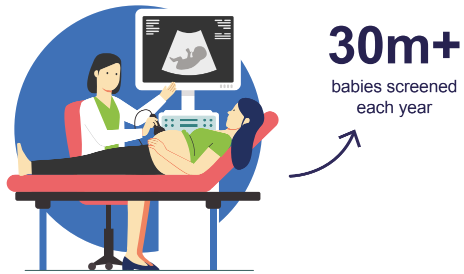
Its mission is to deliver scientific insights to improve human health and well-being through the application of high value analytical technologies and industry-leading scientific expertise. In doing so, the firm helps customers drive advancements in clinical diagnostics and medicines, as well as ensuring access to safe and secure food and water supply.

Drug development

From early-stage discovery through to **development and manufacturing quality assurance**, the company's products are embedded within the fundamental processes of the **top 50 global pharmaceutical firms** (by revenues).

Food and drink - quality and safety standards

This involves **analysing how food changes under different temperatures, evaluating labelling requirements** and **nutritional value against the safety standards**, as well as assessing quality/safety of the water supply. Major customers include the US Food and Drug Administration (FDA) and the US Environmental Protection Agency (EPA).

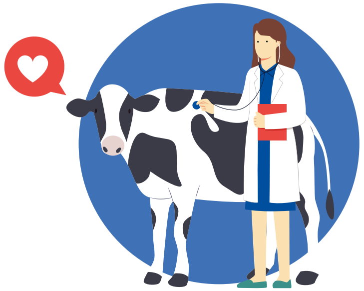


Advanced screening techniques

Other use cases include modern **new-born screening techniques**, such as tandem mass spectrometry, which can diagnose serious conditions within the first few days of a child's birth. The company's new-born screening instruments, **capable of screening for more than 30 inborn disorders** from a single dried blood spot sample, are used in **testing the majority of >30m babies screened globally each year.** Waters have been developing this technology in new-born screening since 1997, when they acquired Micromass, a UK-based company specialising in this industry.

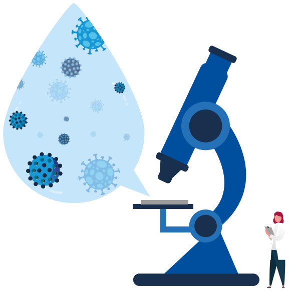
Idexx Labs is a global life sciences provider specializing in serving the pet and livestock, poultry and dairy markets, alongside a smaller business in water testing.

The firm is a market leader within the veterinary diagnostics market, with dominant positions in point-of-care diagnostic analysers, reagents, and vet laboratory services. The company's stated purpose is "to keep pets and people healthy and safe", through a combination of supporting longer and fuller lives for pets, as well as protecting life's essentials, such as clean drinking water.



Monitor the health of herd and flock animals

Through the Livestock, Poultry and Dairy business, Idexx provide **diagnostic tests and services used to monitor the health of herd and flock animals** globally, improve producer efficiency and ensure the quality of animal products. Over the last decade, the company has sold nearly **1.1bn IDEXX livestock diagnostic tests globally.**



Global leader in water microbiology

Idexx Water is also a **global leader in water microbiology,** providing tests that ensure the **safety of drinking water and other water supplies for >2.5bn people in 100 countries globally**. This is through detection and quantification of bacterial indicators of faecal contamination, as well as common microbial pathogens. These testing products are used by the likes of government labs, water utilities and private certified laboratories.

25,000k

SNAP Tests donated

Idexx has also played a key role in supporting access to care for vulnerable animals:

- In 2021 the firm donated **25,000k SNAP Tests** (which help vets identify infections amongst pets) for disaster response, education, and community outreach.
- It provided funding to the Worldwide Veterinary Service to bring vet care to **vulnerable animals and veterinary training to underserved areas of Asia, Africa and South America.**
- The company is aiming to expand access to care for **>500k animals in underserved communities by 2025**.

idexx.co.uk/en-gb

Responsible Investment Dashboard Q4 2022

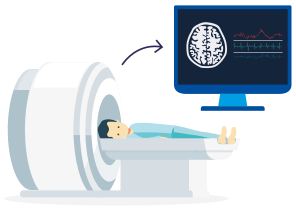
3. Real World Outcomes - LPPI Global Equities Fund - internally-managed small and mid cap portfolio

pro medicus
OUR SUPPORT. YOUR SUCCESS.

Pro Medicus is a leading provider of medical imaging IT services that are critical to the healthcare industry. Its customers include hospitals across private, government and academic/teaching sectors, and radiology clinics.

The company's core technology is capable of streaming large, complex diagnostic images sent from an MRI, CT scan, mammogram or similar. Given the complex and data-intensive nature of these images, even cloud-based systems are slow and inefficient when transmitting the information.

Higher quality electronic medical images are rapidly increasing data loads, making the need for fast electronic delivery of these images for diagnostic purposes even more important.



Essential software for healthcare

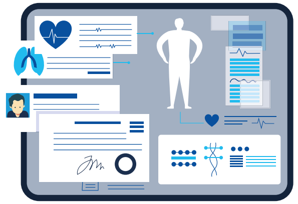
Pro Medicus' software is considered critical to hospital and other healthcare institutions infrastructure, as hospitals and clinicians are increasingly using imaging as a less invasive method of diagnosis, early disease detection and to minimise surgical errors/risks. **Accurate diagnosis improves patient outcomes and results** in more efficient day to day operations for hospitals and other healthcare providers.

Visage imaging software

The firm's **Visage medical imaging software is currently best in class** when it comes to viewer speed across all modalities, **implementation speed and delivering improvements in clinical efficiency.**

Improved clinical accuracy

The company's products result in **improved clinical accuracy**, via higher image resolution, providing **more accurate diagnosis and recording of potential health issues.**



Its software is also inherently more efficient, as demonstrated by the following:

- Pro Medicus software has been shown to **improve radiologist turnaround time** (i.e. productivity) **by up to 30%.**
- Even though its products are priced at a premium to peers, a 30% efficiency improvement can result in a highly attractive ROI for healthcare customers (management estimates a **5-20% improved efficiency would drive an ROI of 80-300%).**
- Implementation is **1/4 to 1/3 faster than closest competitors,** resulting in significant productivity improvements for healthcare clients (e.g. the Mercy Health Foundation – Pro Medicus software was rolled out across the Foundation's **43 hospitals in four separate states within just six months, versus 18-24 months for most competitors).**

Portfolio Insights (Pages 1 - 2)

Sector Breakdown (%)

- Identifies the Global Equities Fund's ("GEF") sector breakdown and their proportions.

GEF Sector Weights

- Comparison of sector weights against their benchmark.
- The larger the bar the bigger the difference between GEF and benchmark weightings.
- Where a positive number is shown, this indicates the GEF is overweight to a sector.
- Where a negative number is shown, this indicates the GEF is underweight to a sector.

Top 10 Positions

- The top 10 GEF companies as a % of the asset class portfolio.

Governance Insights

- **Women on the board:** A measure of gender diversity based on the average proportion of female board members for companies in the GEF.
- **Board independence:** The average proportion of board members identified by ISS as independent. Please note independence expectations vary across markets with LPPI generally favouring greater independence.
- **Say-on-pay:** The average investor support for the most recent say-on-pay vote at a company meeting. Please note not all markets require say-on-pay votes. A vote of greater than 20% against (support < 80%) is generally considered significant.

Portfolio ESG Score

- This is a relative indicator and not a measure of portfolio ESG risk exposure.
- Individual companies are assigned an ESG score (between 0-10). The final numbers shown in the bar chart are the weighted averages of these scores for the stocks held in the GEF vs its benchmark through time.
- This table is a comparison with the benchmark and reviews changes over time.
- LPPI utilise an established methodology (developed by MSCI) for determining the ESG score of stocks within the GEF. Further details can be found here: https://www.msci.com/documents/1296102/21901542/MSCI+ESG+Ratings+Methodology+-+Exec+Summary+Nov+2020.pdf
- The higher the score shown, the better the ESG credentials of the GEF / benchmark.

Portfolio Insights (Pages 1 - 2)

Transition Pathway Initiative (TPI) Headlines

- TPI assess how well the largest global companies in high carbon emitting sectors are adapting their business models for a low carbon economy.
- The % of GEF covered by TPI shows the portfolio exposure to high emitting companies.
- The number/proportion of companies with top scores (TPI 3 and 4) is a measure of the quality of transition management by the high emitting companies held within the GEF.
- Detailed TPI methodology can be found through the following link: https://www.transitionpathwayinitiative.org/methodology

Private Market Asset Classes

- These metrics indicate the industry sector and regional breakdown as a % of the asset class for Private Equity, Infrastructure and Real Estate investments.

Green & Brown

- These metrics indicate the Pension Fund's total portfolio exposure (%) to green and brown assets. Current coverage extends to: Listed Equities, Fixed Income, Green Bonds, Private Equity, and Infrastructure.
- These are further broken down into their sectors/activities related to green and brown.
- Please be aware that due to rounding within the different breakdowns the totals may not sum correctly.

Green

These are investments in renewable energy and sectors/activities assisting in renewable energy generation, low carbon tech and wider decarbonising activities.

Brown

Investments in energy and power generation based on fossil fuel activities, including: extracting (upstream), transporting (midstream), refining (midstream), supplying (downstream), or some energy companies that legitimately span all aspects (integrated). Fossil fuels used to generate energy is part of electricity generation.

Stewardship Headlines (Pages 3 - 5)

Shareholding Voting

- Key shareholder voting metrics for LPPI's GEF.
- The Headline section provides insight into the scope of voting activity, including how votes against management is concentrated.
- LPPI is responsible for voting on each decision taken, working in partnership with Institutional Shareholder Services to best inform views prior to taking action.
- The map of votes per region is included because different jurisdictions have different voting seasons. This provides context to the reporting of voting statistics quarter to quarter as votes take place in batches depending on the companies domicile at different points throughout the year.

Engagement (Public Markets)

- Engagement is an active, long-term dialogue between investors and companies on environmental, social and governance factors, which can be executed through a variety of channels.
- LPPI has engaged an external provider (Robeco Active Ownership Team) to supplement dialogue underway by LPPI and external delegate managers.
- This section outlines the engagement activities undertaken by Robeco in the public markets by topic, sector, method, and region (indicating the number of companies engaged / geographical distribution).
- "Activity by method" summarises engagements by category / method and can include multiple inputs from the same company.
- The updated Robeco Active Ownership report summarises our engagement activities for the quarter and breaks them down into sub-sectors, where they are rated on success/progress (shown as a %).
- Page 9 of the Robeco stewardship policy outlines further details of their process: https://www.robeco.com/docm/docu-robeco-stewardship-policy.pdf

Real World Outcomes (Pages 6 - 8)

- This section provides real world ESG case studies, relevant to the Pension Fund's holdings, which rotate between asset classes each quarter.
- The focus of the real world outcomes rotates between asset classes for each quarter in the following pattern:
  - Q1 – Infrastructure
  - Q3 – Real Estate
  - Q3 – Private Equity
  - Q4 – GEF
- The case studies are an in-depth review of positive ESG practices for current investments within the portfolio over the past year.

ROBECO
The Investment Engineers

ACTIVE OWNERSHIP REPORT

Q4 2022

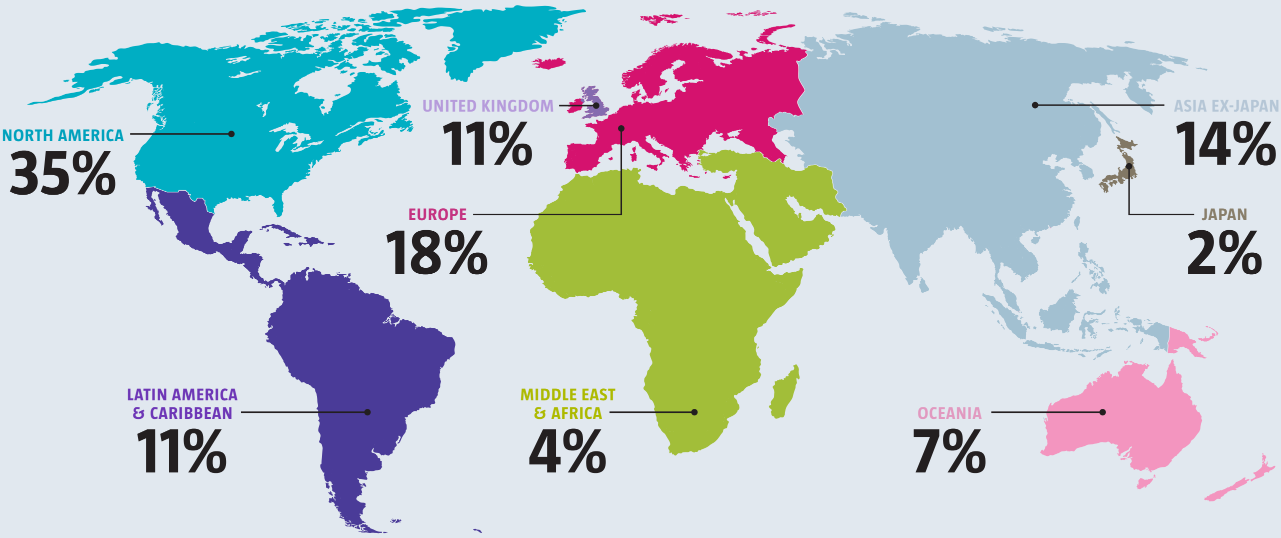
ROBECO | 01.10.2022 - 31.12.2022

LPP
Local Pensions Partnership Investments

Sustainable Investing Expertise by ROBECOSAM

Q4|22 FIGURES ENGAGEMENT

Engagement activities by region



Number of engagement cases by topic*

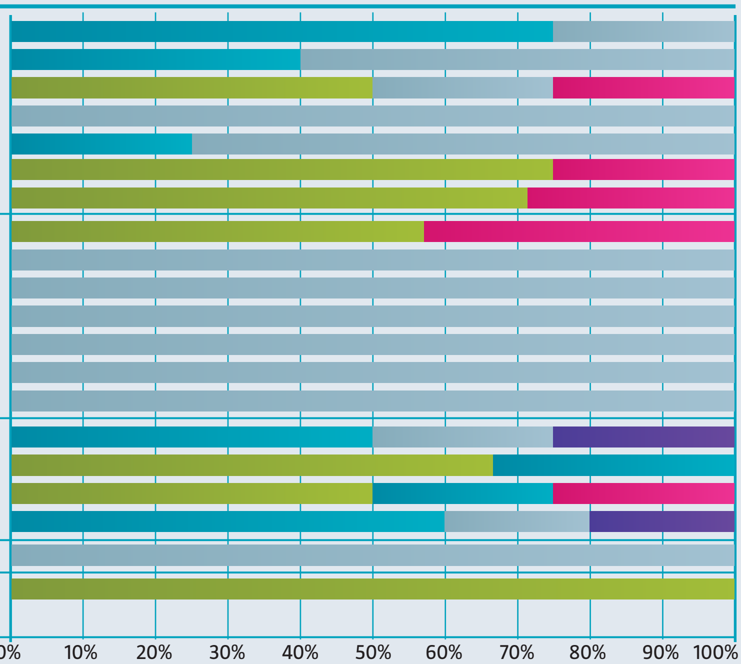
	Q1	Q2	Q3	Q4
Environment	17	17	12	26
Social	7	7	6	10
Corporate Governance	4	4	5	6
SDGs	7	10	8	15
Global Controversy	2	1	0	0
Total	37	39	31	57

Number of engagement activities per contact type

	Q1	Q2	Q3	Q4	YTD
Meeting	1	0	0	5	6
Conference call	26	19	22	39	106
Written correspondence	25	43	19	46	133
Shareholder resolution	0	1	0	3	4
Analysis	4	11	9	26	50
Other	0	2	0	1	3
Total	56	76	50	120	302

Progress per theme

Environment	Biodiversity Climate Transition of Financial Institutions Lifecycle Management of Mining Natural Resource Management Net Zero Carbon Emissions Single Use Plastics Sound Environmental Management
Social	Digital Innovation in Healthcare Diversity and Inclusion Human Rights Due Diligence Labor Practices in a Post Covid-19 World Social Impact of Artificial Intelligence Social Impact of Gaming Sound Social Management
Corporate Governance	Corporate Governance in Emerging Markets Corporate Governance Standards in Asia Good Governance Responsible Executive Remuneration
SDGs	SDG Engagement
Global Controversy	Global Controversy Engagement



Success Positive progress Flat progress Negative progress No success

* Due to a change in Robeco's methodology to account for engagement cases, numbers are expected to differ from previous quarters.

CONTENTS

INTRODUCTION

Although there were turbulent times, we look back on 2022 as being another successful year for Robeco's Active Ownership activities. We have continued to grow the team and we launched several new engagements, next to this we enhanced the transparency and collaboration with our clients.

With the year having come to an end, so did our engagement on the Social Impact of Artificial Intelligence (AI), launched in 2019. The opportunities present in AI are often described as 'endless', though technology's growing and often unregulated presence in our lives brings along numerous social risks, ranging from systematic discrimination to surveillance and privacy concerns.

For three years, we have supported technology companies in creating holistically responsible AI frameworks to govern their technological development, deployment and end use. We successfully closed 40% of the engagements, with many of the companies having formalized responsible AI principles. They have shared how the principles of inclusiveness, fairness and transparency are being integrated into their developer trainings, enterprise risk management systems and board responsibilities. However, companies remain resistant to publicly disclosing their systematic responsible AI practices, a critical challenge as AI is starting to be regulated.

Staying on the topic of technology, looking both on and behind the screen, we reflect on the progress observed so far in our Social Impact of Gaming engagement. Over the last two years, gaming companies have taken significant steps to address in-game harassment of players, ranging from AI-driven text filtering to extensive feedback loops. At the same time, game providers are seeking ways to improve their disclosures on social and environmental performance, with three out of the five companies under engagement having launched their first sustainability reports since we started our dialogues with them.

Meanwhile, stakeholders from across the world came together at the UN Convention on Biological Diversity Conference in Montreal in December to find ways to halt biodiversity loss and to address the associated environmental, social and economic harms. Eliminating biodiversity loss requires urgent multilateral action, from governments, companies and investors. In our update, we share the various ways in which Robeco addresses biodiversity loss and deforestation, through our engagement with the Brazilian and Indonesian governments that aim to strengthen no-deforestation laws, to our broadened corporate engagement program. Finally, we report on the soft launch of the Nature Action 100 engagement collaboration, in which we take an active role. The collaboration focuses on the 100 companies deemed to be the biggest culprits in causing biodiversity loss.

Finally, we shift our focus to Asia, where we continue to engage policy makers and companies on key gaps in their corporate governance, including the low rate of female board representation and the systematic challenges around companies' annual disclosures. These corporate governance issues alongside other market and capital inefficiencies are believed to have significant impacts on companies' market valuations, highlighting the importance of investor engagement.

As we move into a new year, we reflect on the promises made by companies and governments towards safeguarding our planet, and are ready to play our part in moving towards a more sustainable future.

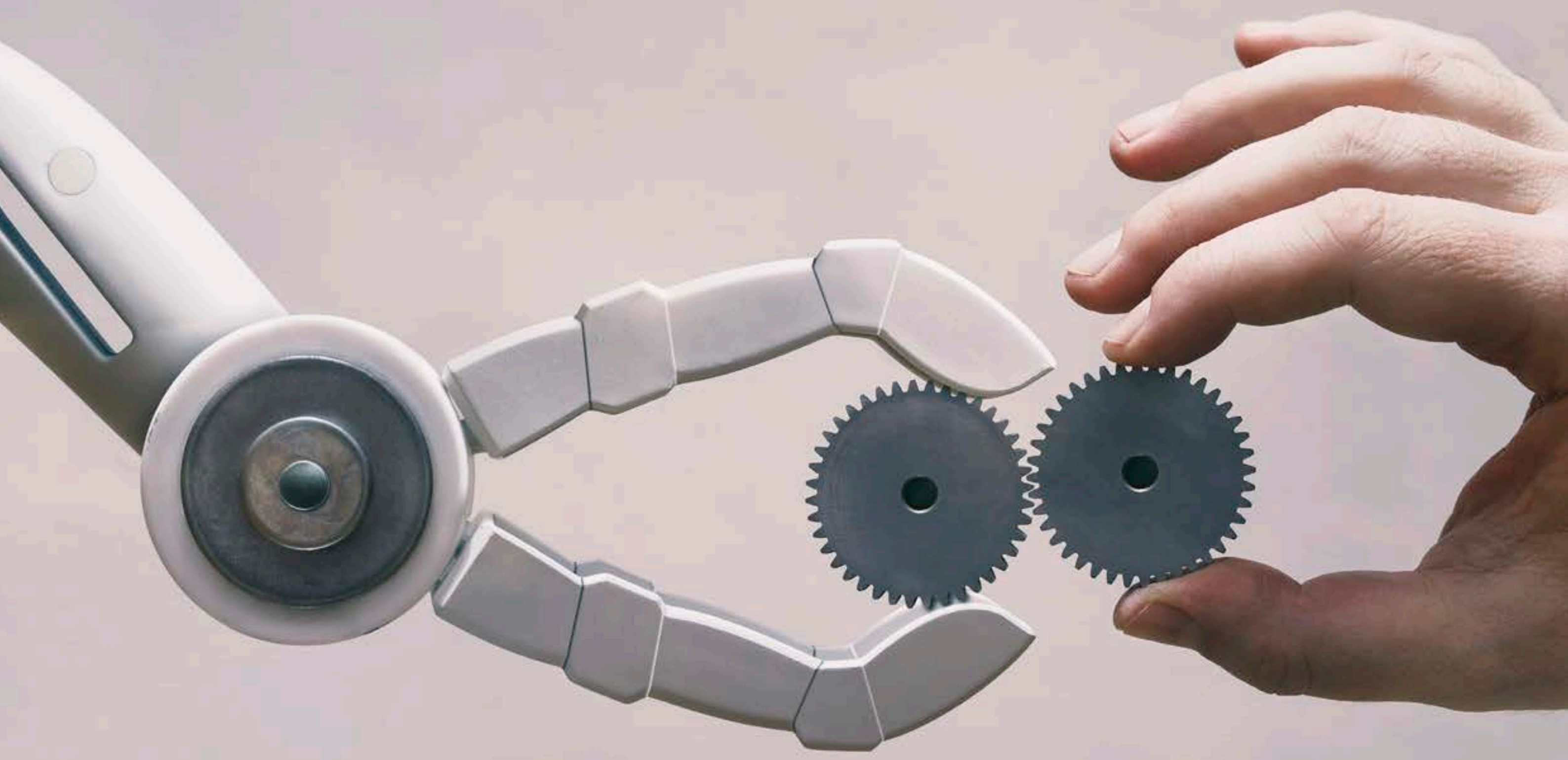
Carola van Lamoen
Head of Sustainable Investing

AI, will you judge me?

SOCIAL IMPACT OF ARTIFICIAL INTELLIGENCE

DANIËLLE ESSINK – *Engagement specialist*

The potential benefits of artificial intelligence (AI) come with risks that are not yet fully explored, let alone understood. As AI increasingly becomes a more important part of our daily lives, there is an urgent need for robust governance of AI systems. As we close our Social Impact of AI engagement theme, we reflect on some of the key trends, opportunities and challenges around this technology.



AI represents new opportunities for companies to grow and transform their businesses. According to the 2022 McKinsey Technology Trends Outlook, AI adoption across different industries continues to grow, and benefits such as cost reduction and improved efficiency remain significant. However, to achieve the full potential of AI, companies need to manage the associated risks that come with the development and use of the technology, including human rights-related risks. From 2019 to 2022, Robeco engaged with 10 companies from across the Information and Communication Technology (ICT) sector with the aim of promoting best practices in the development and responsible use of AI.

> **'ETHICAL PRINCIPLES ON THEIR OWN DO NOT ENSURE THE RESPONSIBLE DEVELOPMENT AND DEPLOYMENT OF AI.'**
>
> DANIËLLE ESSINK

Opportunities and challenges

Given the speed at which AI is being developed, there is no doubt that in the next few decades, this technology will transform our economy and society in ways we cannot imagine. According to the 2022 Worldwide Artificial Intelligence Software Forecast by the International Data Corporation (IDC), the worldwide AI market is estimated to show compound annual growth of 18.6% from 2022 to 2026 alone.

This type of growth represents massive opportunities for AI to contribute to positive changes, such as detecting patterns in environmental data, or improving the analysis of health information. Using AI to overcome some of the most difficult challenges that humans face, including climate change, is an exciting prospect. At the same time, AI could cause new problems or aggravate existing ones if companies do not have enough understanding of the risks associated with these technologies. For example, using AI algorithms for profiling can have discriminatory effects, such as credit rating algorithms disfavoring people from certain ethnic backgrounds, or those living in certain areas.

Similarly, AI can be used for surveillance – in public spaces but also in the workplace – putting the right to privacy at risk. This shows a growing need for the responsible governance of AI systems to ensure that such systems conform to ethical values, norms, and the growing number of AI regulations.

Upcoming regulation

In response to the ethical and societal challenges raised by AI, an increasing number of regulatory initiatives and policy proposals have been launched by various players, including governments and governmental bodies such as national ethics committees, inter-governmental organizations such as the EU, non-profit organizations and academics.

On April 2021, the European Commission issued the AI Act as a means of regulating the technology. This is a crucial step as it represents a sign of norm diffusion. In the proposal, clear requirements and obligations regarding the specific uses of AI are laid out for developers, deployers and users. The proposal takes a risk-based regulatory approach by distinguishing four categories based on the level of risk. For example, AI systems that have been identified as high-risk, such as CV-scanning tools that rank job applicants, will be subject to strict obligations including enhanced risk management processes and human oversight. AI systems with limited risks will remain largely unregulated.

Following the proposal in April 2021, the regulation was expected to come into effect in late 2022 or early 2023, using a transitional period. This growing legislative pressure around AI could pose serious regulatory risks for companies that are not well prepared to conform with the rising obligations.

The results of our engagement

In September 2022, we concluded our Social Impact of AI engagement program and successfully closed 40% of the engagement cases. Through our engagement, we learned that companies are gradually aligning internal practices to principles of responsible AI. Many companies formalized AI principles that address topics like inclusiveness, fairness and transparency. Additionally, companies are increasingly pursuing a collaborative approach by actively participating and contributing to cross-industry multi-stakeholder initiatives that aim to advance responsible governance and best practices in AI. These types of initiatives play a decisive role in guaranteeing trustworthy AI across the industry.

However, ethical principles on their own do not ensure the responsible development and deployment of AI. Businesses require robust governance mechanisms to effectively implement their principles. In our engagement, we observed that transparency around AI governance and implementation remained low, as most companies' public disclosures lacked clarity about how such principles translate into practice, and which checks and balances are in place. After talking to the companies, we learned about the specifics of the implementation, which then gave us the confidence to close some of the objectives successfully. The engagement results of this theme are, therefore, highly correlated with the company's willingness to set up constructive dialogues.

Next steps

The alignment of AI technologies with ethical values and principles will be critical to promote and protect human rights in society. Even though much work has been done in this area, the implementation of AI principles and management of AI risks remains a critical area for improvement. As a result, we will continue our engagement work with a selection of companies in the ICT sector under our 'Sustainable Development Goals (SDG) engagement' theme. These dialogues have a strong focus on human rights and societal impact, and highlight topics like misinformation, content moderation and stakeholder collaboration. We will focus on how companies can contribute to SDG 10 (Reduced inequalities) and SDG 16 (Peace, justice and strong institutions) by safeguarding human rights in the development and use of AI and promoting social, economic and political inclusion.

CASE STUDY

MICROSOFT

Microsoft is an American multinational technology company, showing strong performance in developing and implementing AI policies and guidelines. For example, the company has published six ethical principles to drive responsible AI as well as user tools, guidelines, and resources to help implement it throughout the lifecycle of technologies, from concept to deployment. One specific example is a checklist which helps prioritize fairness when developing AI. Additionally, Microsoft has added requirements on responsible use by clients in the terms of service and marketing materials of its AI products and services.

PLAYING FOR IMPACT

SOCIAL IMPACT OF GAMING

ALEXANDRA MORTIMER – *Engagement specialist*

In response to mounting concerns around the effects of ever-more popular games on the well-being of adults and children, in Q1 2021 we started engaging the global video gaming industry on their social impact. We selected six of the largest listed gaming companies located in the US, South Korea and China, with objectives that address the social impacts felt both behind and in front of the screen. Two years into the engagement, the industry has made significant steps, though not all at once.

In front of the screen

For the consumers playing video games, companies are expected to develop strategies that prevent harassment occurring between players, especially within Massively Multiplayer Online Role-Playing Games (MMORPGs), where large numbers of players interact at once. Automatic chat text filtering has emerged as a standard technology deployed by most companies under engagement. More sophisticated tiered responses have emerged among a subset of the companies, which feature artificial intelligence, feedback loops to the affected players, and appeals processes.

Overall, the application of such tools is decided by studios on a game-by-game basis, though we have encouraged companies to look for opportunities for studios to learn from each other, and create a more general application of harassment-prevention tools. Another interesting response by the industry has been to conduct research on the factors behind disruptive player behavior, though we have yet to see how this research is being leveraged in game design, which we will encourage in the coming months.

Other elements of player behavior that warrant attention are the money and time spent within games. Much of companies' focus has been on children's spending in recognition of their limited ability to regulate their behavior. A straightforward measure implemented by at least half of the companies has been to ban spending abilities for accounts below an early-teen age group, though age restrictions and time restraints are largely implemented through the consoles on which the games are played, and must be actively set by parents.
In September 2021, the Chinese government introduced limits on children's gaming time for which functions such as account verification had to be integrated. This had a significant effect on the total time and money spent by young players, as already evidenced by one company. This area of impact has the potential to generate some creative design solutions, and we remain keen to see how the breadth of tools develops over the next year.

Two other player-end impacts have seen less traction in the intervening time. Depictions of violence within games are acknowledged as material by the companies most exposed to this content. However, we have yet to see examples of clear policies that guide what imagery is appropriate outside of regulation, and it is widely seen to be a creative rather than a risk-aligned decision. Similarly, in-game diversity has begun to garner attention in US-based studios, but lacks traction in other markets. Companies have highlighted extended character appearance options that allow for diverse avatars, and characters in storylines that reflect one or more dimensions of diversity such as race, gender expression or physical ability levels. This, too, is considered a creative decision that is determined by project teams, for which the diversity levels of the teams themselves is considered a large factor. In some instances, feedback structures have been put in place for employees to flag inappropriate or concerning content, though it doesn't appear that this is a formal process that is taken advantage of across all projects.

'CREATING RECOGNITION OF UMBRELLA COMPANIES' RESPONSIBILITIES TOWARDS SUBSIDIARIES' RISKS REQUIRES A SHIFT IN MINDSET AT THE MANAGEMENT LEVEL.'

ALEXANDRA MORTIMER

Behind the screen

Since the launch of the engagement, the issue of diversity and inclusion on the work floor has only continued to rise in prominence within the gaming sector. Allegations of toxic workplace cultures, enabling sexual harassment and discrimination, continued into 2021, triggering legal and employee action. The response by the industry has been twofold. Western companies have appointed leads for diversity, installing training and development programs, while remaining defensive of the view that allegations are the result of systemic issues. Companies in other regions however approach diversity primarily from the gender perspective, and are less responsive to the issue overall. Wider workplace conditions have attracted more uniform attention, with companies reporting initiatives to improve work-life balance.

Where companies have developed across the board is in their reporting. All companies under engagement now publish annual ESG reports, when at the beginning of the engagement, three had yet to do so. The reports highlight initiatives that relate to many of our objectives, and largely conform to frameworks that include metrics that we deem important for transparency, in particular those that are related to the workforce. We've provided input to companies on topics we deem material to receive more transparency about, and the metrics we'd like to see in future, acknowledging that many are still exploring this new form of communication.

Focus areas for the last year of engagement: responsibility and regulation

Decisions around in-game elements such as character diversity are largely seen to be within the remit of the creative and project teams, as they're highly relevant to the user experience. Umbrella companies are nonetheless still responsible for managing subsidiaries' risks, including those faced by consumers when using their product. Creating recognition of this dynamic is at the center of this engagement, and requires a shift in mindset at the management level.

China's restrictions around minors' gaming time is but one example of how regulations are influencing the way that users interact with games. Markets are separately mandating how monetization and violence should be included in games, creating a fragmented landscape of acceptable game features. Prominently, 'loot boxes', which have been likened to gambling products, have come under scrutiny by regulators in the UK and US, in addition to four countries where the products are already actively regulated or banned. How companies are navigating this landscape, especially within international expansion plans, is an element we will look to explore further as we approach the end of the engagement theme. ■

A MULTI-FACETED APPROACH

BIODIVERSITY

CLAIRE AHLBORN – *Engagement specialist*

Nature is critical to meeting the UN Sustainable Development Goals (SDGs) and limiting global warming to 1.5 degrees. Countries, companies and civil society organizations must work together to eliminate and reverse biodiversity loss and secure our and our planet's health and well-being. In an active effort to live up to our and our clients' environmental and social responsibilities, Robeco has set up an integrated and multi-layered engagement approach to address biodiversity loss.

In prioritizing economic development, humanity has caused considerable damage to the natural world and its ecosystems. Yet, a degraded biosphere will have a direct impact on growth and human welfare over the next several decades. From 1970 to 2018 there has been a reported 69% average decline in global wildlife species. In Latin America, this number rises to a staggering 94%.

Moreover, studies conducted in the Netherlands, Brazil and France found financial institutions to have hundreds of billions of assets highly dependent on the services provided by healthy ecosystems, from pollination to clean water provision. Such estimates help frame the gravity of biodiversity loss trends and underline the collective urgency to halt and reverse them.

A multi-layered engagement strategy

Addressing biodiversity loss requires urgent action from both governments and companies. With their wide coverage, investors are often in a unique position to push for change. Yet, investor action on biodiversity has been limited, with data barriers and capacity limitations keeping them from integrating biodiversity into their investments, engagement and voting decisions at scale.

As the financial materiality of biodiversity and the impact that companies and financial institutions have on nature is becoming clearer, Robeco has set out to create a holistic, multi-layered and scalable engagement approach towards biodiversity. As such, we are not only engaging the various relevant stakeholders, from governments and companies to data providers, but also exploring how stewardship efforts can be scaled through collaborative engagements.

'ADDRESSING BIODIVERSITY LOSS REQUIRES URGENT ACTION FROM BOTH GOVERNMENTS AND COMPANIES. WITH THEIR WIDE COVERAGE, INVESTORS ARE OFTEN IN A UNIQUE POSITION TO PUSH FOR CHANGE'

CLAIRE AHLBORN

Engagement: From impact assessments to incentive structures

Biodiversity loss is one of the defining challenges of the 21st century. Robeco's engagement initially started off with a focus on addressing biodiversity loss linked to deforestation among companies exposed to high-risk commodities. We have since extended the engagement program in both time and scope to accommodate engagements on other drivers of biodiversity loss, from pollution to overfishing.

Through the engagements, we expect companies to assess their biodiversity impacts and dependencies and set a biodiversity strategy that includes, for instance, no-deforestation targets. We also expect them to report key impact indicators following recognized reporting frameworks such as the Taskforce for Nature-Related Financial Disclosures.

To achieve environmental goals, biodiversity must be embedded within companies' governance and incentive structures. Companies must actively engage their stakeholders, assuring adequate efforts are made to not exclude smallholder farmers and local communities from their supply chains.

The theme will among others cover companies engaged as part of our new RobecoSAM Biodiversity Equities Fund, which directs financial flows towards biodiversity solutions providers. We aim to engage with those companies where we see opportunities to enhance their contributions to biodiversity, including wider asks such as the systematic integration of biodiversity into companies' strategies and risk management processes, or topic-specific discussions on, for instance, sustainable livestock manure management.

Speaking up together

Seeking a wider reach, we are increasingly looking for collaborative engagement opportunities. We recently signed the Business for Nature statement calling for mandatory corporate reporting for nature by 2030. We also joined the letter campaign and ESG data provider engagement by the Finance Sector Deforestation Action, a group of over 30 investors calling for increased action and transparency on protecting our forests.

Furthermore, Robeco was honored to be part of the core investor group that launched the Nature Action 100 initiative during the UN Biodiversity Conference in Montreal in December. This aims to harness the power of collaborative engagement to address nature loss and biodiversity decline, focusing on the 100 companies with the largest impacts and dependencies on nature.

The initiative will be co-led by the sustainability advocacy group Ceres, the Institutional Investors Group on Climate Change (IIGCC), the Finance for Biodiversity Foundation and the financial think tank Planet Tracker. There will be three main work streams:

- the Secretariat, responsible for setting up the initiative's Steering Group and supporting administrative, communications and fundraising activities;
- the Technical Advisory Group, tasked with identifying priority engagements and developing science-based investor guidance and tools; and
- the Corporate Engagement group, focusing on developing a multi-year plan to engage companies deemed most important to stemming nature and biodiversity loss.

Global investors are invited to sign up to the program and lead on individual dialogues on behalf of the global investor community.

Public policy dialogue

Shifting to the sovereign level, Robeco continues to be actively involved in the Investor Policy Dialogue on Deforestation (IPDD) initiative since it was formally set up in July 2020, co-chairing the work streams responsible for engaging with the governments of Brazil and Indonesia. Currently, the coalition is comprised by 65 institutional investors from 19 countries, with USD 10 trillion in assets under management. As a long-term investor in these countries' bonds and equities, Robeco considers sovereign engagement as a necessary and powerful step to encourage governments that are significantly exposed to deforestation risk to implement relevant policies and contribute to a positive change.

CASE STUDY

The Finance Sector Deforestation Action

We are actively partaking in the Finance Sector Deforestation Action (FSDA) initiative, a collaborative investor group constituting of over 30 investors that have signed the COP26 Financial Sector Commitment on Eliminating Agricultural Commodity-Driven Deforestation throughout investment and financing activities by 2025.

As part of the investor group, we have joined a letter and engagement campaign launched at the end of 2022, jointly aiming to engage more than 50 companies. These include, among others, forestry company Suzano, on creating clear no-deforestation and traceability targets, due diligence processes and disclosures.

In October 2022, Robeco took part in the IPDD's group trip to Jakarta and met with representatives from national government agencies to discuss various ESG topics. In particular, the IPDD group met with the Indonesia Stock Exchange (IDX) and with the Chamber of Commerce (KADIN), signing two Memorandums of Understanding to promote country sustainability disclosures for listed companies, and to support the Regenerative Forest Business Sub Hub, respectively. ■

ENGAGING TO CLOSE THE ASIA DISCOUNT

CORPORATE GOVERNANCE STANDARDS IN ASIA

RONNIE LIM – *Engagement specialist*

Our engagement to improve corporate governance standards began in 2017 with Japan and was widened in 2020 to include Asia. In addition to engaging with companies, we also work with other investors and stakeholders to create a positive environment for change. We focus on the most material governance issues to be addressed, with target companies selected in close collaboration with our fundamental equity teams.

Opportunities and challenges

We have two broad streams of engagement in Asia. Firstly, we work with regulators and policy stakeholders such as financial regulators and local stock exchanges in Japan, South Korea, and to a lesser extent in China, to ensure an improved and level playing field for ESG issues. Secondly, we work constructively with companies in Japan and South Korea to improve their disclosure, communication and financial performance. We have also worked in collaboration with other asset managers to improve the Asian corporate governance 'ecosystem', with active participation in the two working groups (Japan and South Korea) within the Asian Corporate Governance Association (ACGA) and the International Corporate Governance Association (ICGN).

Our policy engagement included a virtual delegation meeting with Japan's Ministry of Economy, Trade and Industry. One of the issues we raised was the disclosure timing of annual reports, and we noted that it is of utmost importance to investors that these be released prior to the annual general meetings. In addition, we were co-signatories of a letter to Japan's Financial Services Agency and the Tokyo Stock Exchange on two pathways to address the low rate of female participation: changes to the listing rules and via Japan's Corporate Governance Code.

We engage with domestic investors in Japan who are increasingly motivated to understand how economic value is created by efficient balance sheet management. Over the past year, we delivered a series of ICGN webinars on the topic of capital efficiency and long-term value creation which saw active participation by listed companies. The content of the webinars was how cashflow and return on capital create long-term shareholder value, and the impact of valuation by efficient management of balance sheet items, such as by lowering inventory and increasing dividend payouts.

'WE ATTRIBUTE THE PREDILECTION FOR MANAGEMENT TO PERSIST WITH EXCESS CASH OR INEFFICIENT BALANCE SHEETS TO EITHER EXCESSIVE RISK AVERSION OR THE PRESERVATION OF 'OPTION VALUE'.'

RONNIE LIM

The markets of Japan and South Korea, where the engagement is focused, have large valuation discounts compared to other developed markets in Europe and the US. These discounts have widened in the year to date with the strong relative appreciation of the US dollar. The main valuation metrics we use include price-earnings ratios (PEs), price-to-book value and EV/EBITA.

The companies under engagement were also trading at valuation discounts compared to their global industry peers, which we attribute partly to broad governance issues in Japan and South Korea, but also to the lack of robust financial strategies and inefficient balance sheets. Our dialogue was consistently explaining the importance of both effective investor communication, together with the setting of appropriate capital management targets.

Company engagements

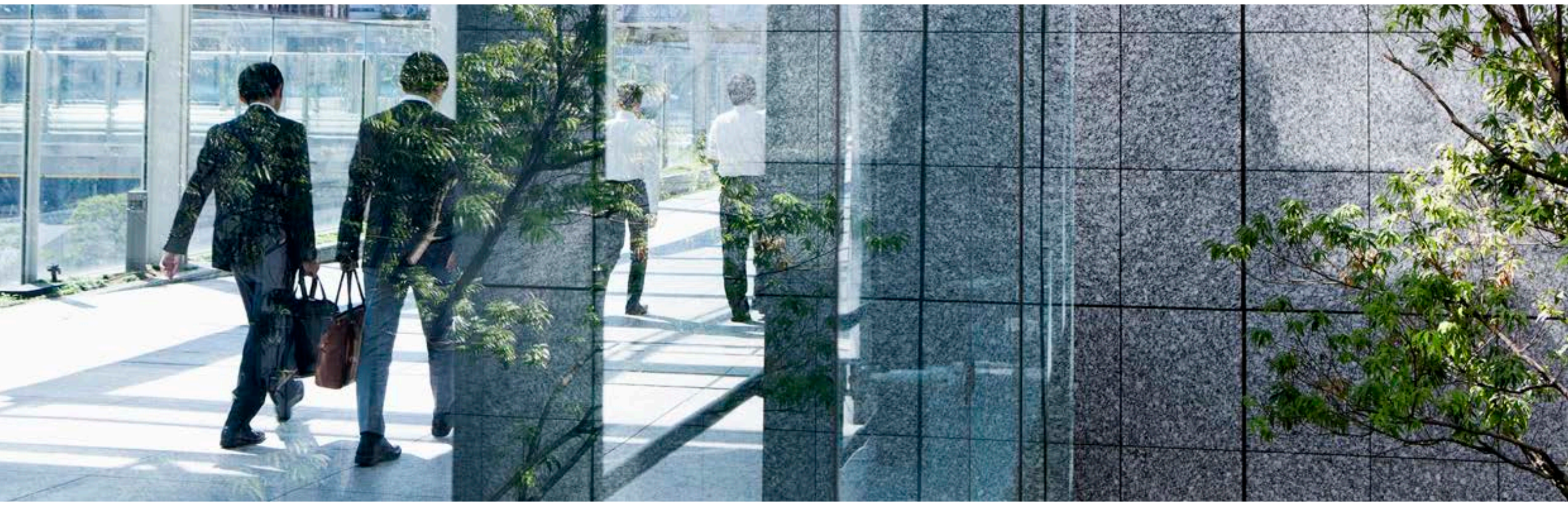
We have written in previous reports that the essentials of good corporate governance go beyond using 'check-list' assessments of governance codes and are closely related to the two principles of transparency and accountability. Therefore, we ask companies to improve transparency by publishing narrative reporting on their corporate strategy and having a distinct financial strategy. KPMG's last survey in 2020 showed that Japan leads the world, with 579 companies issuing integrated reports. There is much to celebrate given the increased emphasis on reporting on material environmental and social (E&S) issues, including setting targets on greenhouse gas emissions reductions. We have commended companies when they have not only reported on material E&S issues, but have also set credible near-and long-term targets. However, there are still significant opportunities for companies to improve reporting of their financial strategy and to give robust explanations on specific targets that would support their business strategy.

We consider a robust financial strategy to have several components, including disclosing the thresholds for planned capital expenditure, investment and acquisitions. We constantly remind executives of the basics of corporate finance, including having positive returns on capital, and we push for increased accountability by providing practical recommendations such as publishing dividend policies and setting appropriate incentives. We also challenge companies to dispose of any crossholdings and low-return business assets, and to return excess capital in the way of dividends, share buybacks and the cancellation of any treasury shares.

The engagements usually begin with a dialogue questioning some aspects of how the board is structured, and how compensation and incentives are structured. Typically, a company will be trading at a low valuation because of investor skepticism about the sustainability of key operating metrics such as an unusually high profit margin, or a persistently low dividend pay-out ratio. Most companies defend these practices by steering the dialogue to their need to create earnings growth, or through specious arguments for the need to retain legacy business divisions which are no longer profitable.

We attribute the predilection for management to persist with excess cash or inefficient balance sheets to either excessive risk aversion or the preservation of 'option value' – for example to make a large acquisition without shareholder scrutiny or approval. These are behavioral and cultural issues that we believe are some of the main contributors to the 'Asia discount' and can be very challenging for a minority investor to address. We do not believe that there is a single, magic bullet to fix this problem, but we have found some success in making the business and investment case for our proposals and demonstrating sincerity by being constructive and patient.

COMPANIES UNDER ENGAGEMENT IN 2022



Environment

Biodiversity
Mondelez International
Sappi Ltd.
Suzano Papel e Celulose SA
Unilever

Climate Transition of Financial Institutions
Australia & New Zealand Banking Group Ltd.
Bank of America Corp.
Barclays Plc
BNP Paribas SA
Citigroup, Inc.
DBS Group Holdings
HSBC
ING Groep NV
JPMorgan Chase & Co., Inc.
Sumitomo Mitsui Financial Group, Inc.

Lifecycle Management of Mining
First Quantum Minerals Ltd.
Fortescue Metals Group Ltd.
Polyus Gold OAO

Natural Resource Management
Ambev SA
Continental Resources, Inc.
Diageo
PepsiCo, Inc.
Sappi Ltd.

Net Zero Carbon Emissions
ArcelorMittal
Berkshire Hathaway
CRH Plc
Ecopetrol SA
Enel
Hyundai Motor
Rio Tinto
WEC Energy Group Inc

Single Use Plastics
PepsiCo, Inc.

Social

Digital Innovation in Healthcare
AbbVie, Inc.
CVS Caremark Corp.
Elevance Health Inc
Fresenius SE
HCA Holdings, Inc.
Roche
UnitedHealth Group

Diversity and Inclusion
Netflix Inc
Oracle Corp
Taiwan Semiconductor Manufacturing Co. Ltd.
Thermo Fisher Scientific, Inc.

Human Rights Due Diligence for Conflict-Affected and High-Risk Areas
Booking Holdings, Inc.
Cemex SAB de CV

Labor Practices in a Post Covid-19 World
Amazon.com, Inc.
InterContinental Hotels Group Plc
Marriott International, Inc.
Meituan Dianping
Wal-Mart Stores

Social Impact of Artificial Intelligence
Accenture Plc
Booking Holdings, Inc.
Microsoft
Visa, Inc.

Social Impact of Gaming
Tencent Holdings Ltd.

Sound Social Management
Aon Plc
Bayerische Motoren Werke
Thermo Fisher Scientific, Inc.

Governance

Corporate Governance in Emerging Markets
Cosan SA
Hyundai Motor
Midea Group Co. Ltd.
Samsung Electronics

Corporate Governance Standards in Asia
Hynix Semiconductor, Inc.

Good Governance
Samsung Electronics
Sumitomo Mitsui Financial Group, Inc.
Unilever

Responsible Executive Remuneration
Booking Holdings, Inc.
Henkel AG & Co. KGaA
Linde Plc
NIKE
Wolters Kluwer

SDGs

SDG Engagement
Adobe Systems, Inc.
Alphabet, Inc.
Amazon.com, Inc.
Apple
Capital One Financial Corp.
Charter Communications, Inc.
Elevance Health Inc
Grupo Bimbo SAB de CV
JPMorgan Chase & Co., Inc.
L Oréal
Meta Platforms Inc
Novartis
OTP Bank Nyrt
Rio Tinto
Salesforce.com, Inc.
Samsung Electronics
Union Pacific

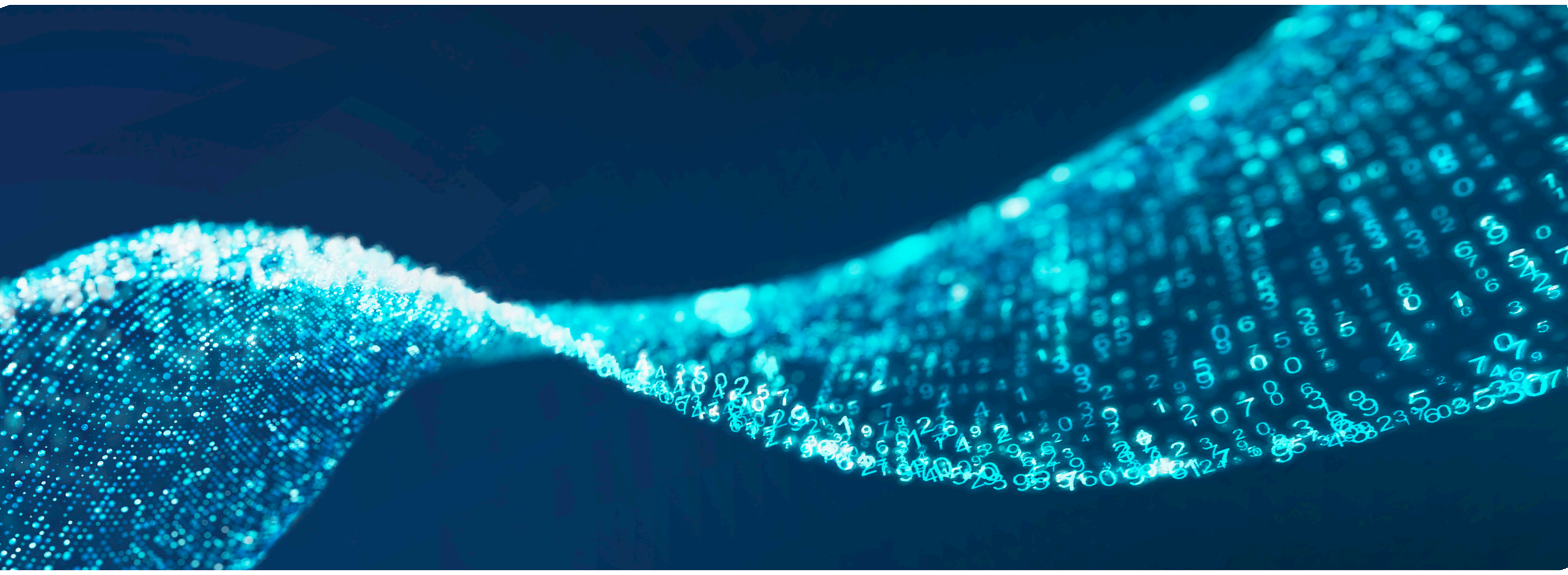
Global Controversy Engagement

Global Controversy Engagement
Currently, no company is under engagement based on potential breaches of the UN Global Compact and/or the OECD Guidelines for Multinational Enterprises.

ENGAGEMENT BY ASSET CLASS

Accenture Plc	Equity
Adobe Systems, Inc.	Equity
Alphabet, Inc.	Equity
Amazon.com, Inc.	Equity
Amazon.com, Inc.	Equity
Ambev SA	Equity
Aon Plc	Equity
Apple	Equity/Bond
ArcelorMittal	Bond
Australia & New Zealand Banking Group Ltd.	Bond
Bank of America Corp.	Bond
Barclays Plc	Bond
Barrick Gold Corp.	Equity
Berkshire Hathaway	Equity
BNP Paribas SA	Bond
Booking Holdings, Inc.	Bond
Booking Holdings, Inc.	Bond
Booking Holdings, Inc.	Bond
Capital One Financial Corp.	Bond
Cemex SAB de CV	Bond
Citigroup, Inc.	Bond
Continental Resources, Inc.	Bond
CRH Plc	Equity
Danske Bank AS	Bond
DBS Group Holdings	Bond
Diageo	Equity
Elevance Health Inc	Equity
Enel	Bond
First Quantum Minerals Ltd.	Bond
Grupo Bimbo SAB de CV	Bond
Henkel AG & Co. KGaA	Equity
HSBC	Bond
Hynix Semiconductor, Inc.	Bond
ING Groep NV	Bond
InterContinental Hotels Group Plc	Bond
JPMorgan Chase & Co., Inc.	Bond
JPMorgan Chase & Co., Inc.	Bond
L Oréal	Equity
Marriott International, Inc.	Bond
Meituan Dianping	Bond
Meta Platforms Inc	Equity
Microsoft	Equity
Midea Group Co. Ltd.	Equity
Mondelez International	Bond
NIKE	Equity/Bond
Novartis	Equity
Oracle Corp	Equity
OTP Bank Nyrt	Bond
PepsiCo, Inc.	Equity
PepsiCo, Inc.	Equity
Polyus Gold OAO	Equity
Salesforce.com, Inc.	Equity
Samsung Electronics	Equity
Samsung Electronics	Equity
Sumitomo Mitsui Financial Group, Inc.	Bond
Suzano Papel e Celulose SA	Equity
Taiwan Semiconductor Manufacturing Co. Ltd.	Equity
Tencent Holdings Ltd.	Equity
Thermo Fisher Scientific, Inc.	Bond
Thermo Fisher Scientific, Inc.	Bond
Unilever	Equity
Unilever	Equity
Union Pacific	Equity
Visa, Inc.	Equity/Bond
Wal-Mart Stores	Equity
WEC Energy Group Inc	Equity
Wolters Kluwer	Equity

CODES OF CONDUCTS



Robeco's Engagement Policy

Robeco actively uses its ownership rights to engage with companies on behalf of our clients in a constructive manner. We believe improvements in sustainable corporate behavior can result in an improved risk return profile of our investments. Robeco engages with companies worldwide, in both our equity and credit portfolios. Robeco carries out three different types of corporate engagement with the companies in which we invest; value engagement, Sustainable Development Engagement and enhanced engagement. In all three types of engagement, Robeco aims to improve a company's behavior on environmental, social and/or corporate governance (ESG) related issues with the aim of improving the long-term performance of the company and ultimately the quality of investments for our clients.

Robeco adopts a holistic approach to integrating sustainability. We view sustainability as a long-term driver of change in markets, countries and companies which impacts future performance. Based on this belief, sustainability is considered as one of the value drivers in our investment process, like the way we look at other drivers such as company financials or market momentum.

More information is available at: https://www.robeco.com/en-int/sustainable-investing/influence.

The UN Global Compact

One of the principal codes of conduct in Robeco's engagement process is the United Nations Global Compact. The UN Global Compact supports companies and other social players worldwide in stimulating corporate social responsibility. The Global Compact became effective in 2000 and is the most endorsed code of conduct in this field. The Global Compact requires companies to embrace, support and adopt several core values within their own sphere of influence in the field of human rights, labor standards, the environment and anti-corruption measures. Ten universal principles have been identified to deal with the challenges of globalization.

Human rights

1. Companies should support and respect the protection of human rights as established at an international level
2. They should ensure that they are not complicit in human-rights abuses.

Labor standards

3. Companies should uphold the freedom of association and recognize the right to collective bargaining
4. Companies should abolish all forms of compulsory labor
5. Companies should abolish child labor
6. Companies should eliminate discrimination in employment.

Environment

7. Companies should adopt a prudent approach to environmental challenges
8. Companies should undertake initiatives to promote greater environmental responsibility
9. Companies should encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

10. Companies should work against all forms of corruption, including extortion and bribery.

More information can be found at: https://www.unglobalcompact.org/

CODES OF CONDUCTS

OECD Guidelines for Multinational Enterprises

The OECD Guidelines for Multinational Enterprises are recommendations addressed by governments to multinational enterprises operating in or from adhering countries, and are another important framework used in Robeco's engagement process. They provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognized standards.

The Guidelines' recommendations express the shared values of the governments of countries from which a large share of international direct investment originates and which are home to many of the largest multinational enterprises. The Guidelines aim to promote positive contributions by enterprises to economic, environmental and social progress worldwide.

More information can be found at: http://mneguidelines.oecd.org/

International codes of conduct

Robeco has chosen to use broadly accepted external codes of conduct in order to assess the ESG responsibilities of the entities in which we invest. Robeco adheres to several independent and broadly accepted codes of conduct, statements and best practices and is a signatory to several of these codes. Next to the UN Global Compact, the most important codes, principles, and best practices for engagement followed by Robeco are:

– International Corporate Governance Network (ICGN) statement on
– Global Governance Principles
– United Nations Global Compact
– United Nations Sustainable Development Goals
– United Nations Guiding Principles on Business and Human Rights
– OECD Guidelines for Multinational Enterprises
– Responsible Business Conduct for Institutional Investors (OECD)

In addition to our own adherence to these codes, we also expect companies to follow these codes, principles, and best practices. In addition to our own adherence to these codes, we also expect companies to follow these codes, principles, and best practices.

Robeco's Voting Policy

Robeco encourages good governance and sustainable corporate practices, which contribute to long-term shareholder value creation. Proxy voting is part of Robeco's Active Ownership approach. Robeco has adopted written procedures reasonably designed to ensure that we vote proxies in the best interest of our clients. The Robeco policy on corporate governance relies on the internationally accepted set of principles of the International Corporate Governance Network (ICGN). By making active use of our voting rights, Robeco can, on behalf of our clients, encourage the companies concerned to increase the quality of the management of these companies and to improve their sustainability profile. We expect this to be beneficial in the long term for the development of shareholder value.

Collaboration

Where necessary, Robeco coordinates its engagement activities with other investors. Examples of this includes Eumedion; a platform for institutional investors in the field of corporate governance and the Carbon Disclosure Project, a partnership in the field of transparency on CO_2 emissions from companies, and the ICCR. Another important initiative to which Robeco is a signatory is the United Nations Principles for Responsible Investment. Within this context, institutional investors commit themselves to promoting responsible investment, both internally and externally.

Robeco's Active Ownership Team

Robeco's voting and engagement activities are carried out by a dedicated Active Ownership Team. This team was established as a centralized competence center in 2005. The team is based in Rotterdam, the Netherlands, and Hong Kong. As Robeco operates across markets on a global basis, the team is multi-national and multi-lingual. This diversity provides an understanding of the financial, legal and cultural environment in which the companies we engage with operate. The Active Ownership team is part of Robeco's Sustainable Investing Center of Expertise headed by Carola van Lamoen. The SI Center of Expertise combines our knowledge and experience on sustainability within the investment domain and drives SI leadership by delivering SI expertise and insights to our clients, our investment teams, the company and the broader market. Furthermore, the Active Ownership team gains input from investment professionals based in local offices of the Robeco around the world. Together with our global client base we are able leverage this network to achieve the maximum possible impact from our Active Ownership activities. ■

ROBECO

Robeco Institutional Asset Management B.V. (Robeco) is a pure play international asset manager founded in 1929. It currently has offices in 15 countries worldwide and is headquartered in Rotterdam, the Netherlands. Through its integration of fundamental, sustainability and quantitative research, Robeco is able to offer institutional and private investors a selection of active investment strategies, covering a range of asset classes.

Sustainability investing is integral to Robeco's overall strategy. We are convinced that integrating environmental, social and governance (ESG) factors results in better-informed investment decisions. Further we believe that our engagement with investee companies on financially material sustainability issues will have a positive impact on our investment results and on society.

More information can be found at:
https://www.robeco.com

IMPORTANT INFORMATION

ROBECO
The Investment Engineers

Contact

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The Netherlands

T +31 10 224 1 224
I www.robeco.com

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LPP
Local Pensions Partnership Investments

Our roadmap to net zero

Limiting warming to 1.5ºC is possible within the laws of chemistry and physics, but would require unprecedented transitions in all aspects of society.

IPCC, 2018: Global warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels.

Contents

Introduction

Local Pensions Partnership Investments (LPPI) has voluntarily made a public commitment to the goal of aligning our portfolio with net zero emissions by 2050. This is a significant multi-decadal ambition, and it is important we take time to explain why this is an appropriate step for LPPI, and what it means for us in practice as an investment manager and for the pension funds we serve as clients.

Richard J Tomlinson
Chief Investment Officer

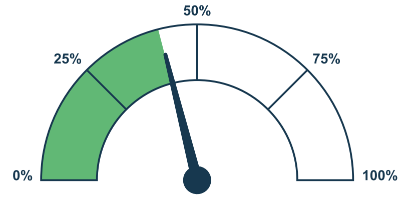
This document provides a short introduction to our approach and we hope it offers helpful and accessible insights into an inescapably complicated subject matter. We aim to convey that LPPI's net zero commitment is the natural extension of our efforts to understand, measure, and manage the investment risks and opportunities both climate change, and efforts to hold planetary warming below 1.5°C, present for investors.

Our asset manager commitment to net zero confirms that we are investing the time and resources to bring emissions measurement and net zero alignment into closer focus. Our first set of targets cover 100% of the listed equities investments we manage through our Global Equities Fund. We will be working hard to bring additional asset classes into scope moving forward.

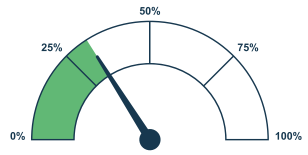
Thank you for your interest in this area of LPPI's work, we hope you find this guide informative.

Summary of net zero targets

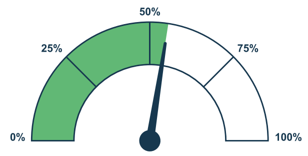
In scope
Our first interim target for the proportion of assets to be managed in line with net zero emissions being attained by 2050 is 42%. We aim to have 100% of assets under management in scope of net zero target setting over time.



Coverage targets
Global Equities Fund assets under management in material sectors that are net zero, aligned or aligning with net zero.

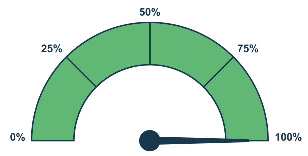


32% of listed equities by **2025**



55% of listed equities by **2030**

Global Equities Fund assets under management in material sectors that are net zero or aligned with net zero.

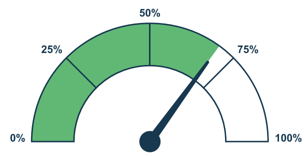


100% of listed equities by **2040**

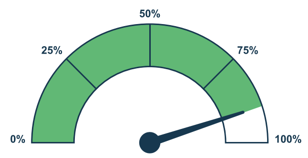
Decarbonisation targets
Global Equities Fund portfolio decarbonisation.

In December 2019, emissions intensity was 40% below the benchmark index. By 2030 the target is to reduce the fund's Weighted Average Carbon Intensity by at least a further 16% compared to 2019 levels.

Engagement threshold (listed equities)
Global Equities Fund financed emissions in material sectors that are net zero, aligned with net zero or under engagement.



70% of financed emissions by **2022**



90% of financed emissions by **2030**

For more information about "material sectors", please see page 36.

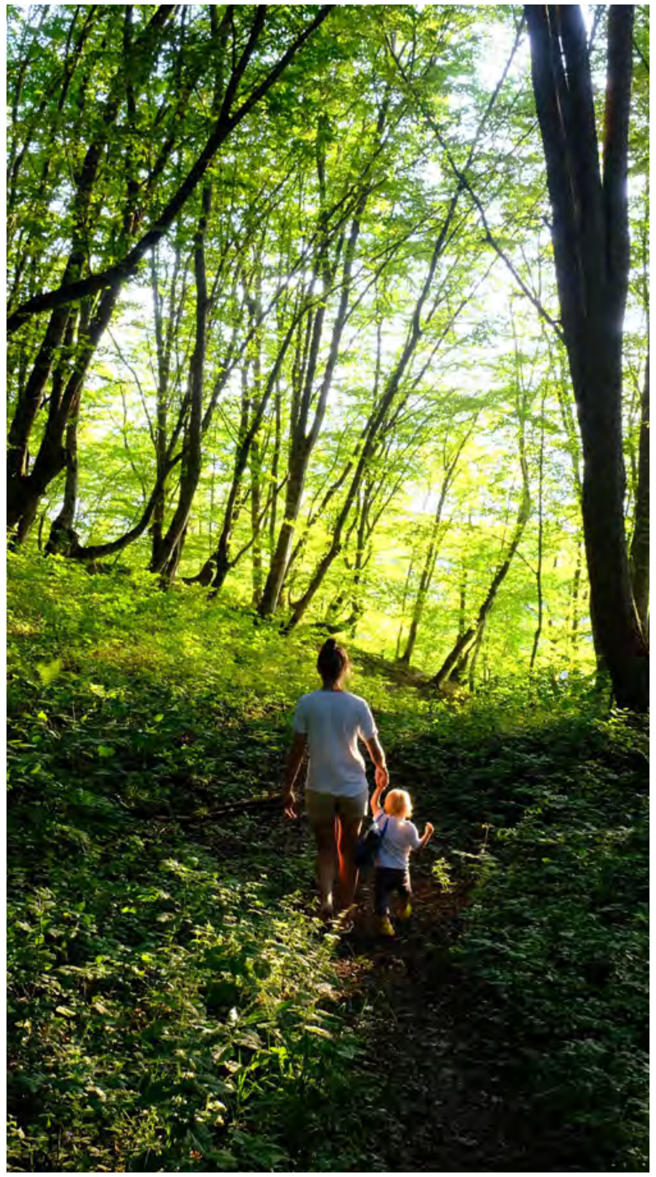
What is net zero?

Net zero refers to a global state of balance between the amount of greenhouse gases being emitted into the atmosphere and the amount being absorbed or removed from it.

Currently, human activities are creating more emissions than planetary eco-systems can absorb, leading to ocean acidification, atmospheric pollution and global warming.

The timeframe for addressing the current imbalance through decisive action to avoid potentially irreversible consequences is limited. Scientific consensus recognises warming of 1.5°C above pre-industrial levels as a critical threshold. Halting warming at this level demands a sharp decline in greenhouse gas emissions by 2030, and net zero emissions by 2050.

The measures required involve significantly less CO2 being produced and emitted, which cannot be achieved without the transformation of energy, industry, land use, higher energy efficiency and much lower energy demand.



Why have we made a net zero commitment?

A material issue

Climate change is already affecting people, ecosystems and livelihoods all around the world.

Net zero emissions are needed to avert the worst impacts and preserve a liveable planet. The actions required are radical and far reaching. They equate to rapid transition to a net-zero-emissions global economy by mid-century.

In 2015, 196 countries adopted the Paris Agreement, pledging to limit warming to no more than 1.5°C and build resilience to climate change. Efforts have not been significant enough to date, meaning deeper and more ambitious action is needed in the remaining critical decades to 2050.

As an asset manager we recognise the importance of anticipating how the dynamics of transition are likely to affect the investments we make on behalf of our clients and ensuring we are well-prepared to respond to the risks and opportunities presented.

Put simply, we understand the need to resource and upskill ourselves to integrate the necessary data and insights to support our decision making. This will enable us to interpret how global efforts to achieve net zero are shaping the investment universe and likely to play out, evaluate how they are affecting current assets under management, and inform an appropriate response.

We have voluntarily made a public commitment to the goal of aligning our portfolio with net zero emissions by 2050. This recognises the importance we are giving to this work. Our net zero commitment has board level support and is a priority objective identified in our business plan.

A focus on net zero emissions tailored to our specific investment context is aligned with LPPI’s purpose and responsible investment beliefs, and a natural progression for our approach to addressing climate change.

"Lack of global cooperation, lack of governance of the required energy and land transformation, and increases in resource-intensive consumption are key impediments to achieving 1.5°C"

IPCC, 2018: Global warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels, page 95.

Our purpose is to deliver first class, value for money, investment outcomes aligned with our clients' interests and bring our expertise and spirit of collaboration together to help our clients invest sustainably in better futures.

Our responsible investment beliefs

Fiduciary Duty

LPPI has a contractual responsibility to act in the best long-term interests of our clients – namely both the client pension funds and their beneficiaries.

ESG Factors

Environmental, social and governance (ESG) factors can have a measurable, direct financial impact on the value of securities, assets, markets and portfolios.

Optimum Returns

We must focus on optimal returns in the long-term, at an acceptable level of risk, to describe ourselves as responsible investors.

Active Ownership

Ownership rights have a value and investors have influence. Institutional investors have a duty to use their ownership powers to protect the long-term financial interests of beneficiaries.

Sustainable Basis

The effective management of investment risks is essential to achieve optimum risk-adjusted returns on a sustainable basis.

Our investment context

LPPI is an investment firm authorised and regulated by the Financial Conduct Authority. We are an asset manager overseeing approximately £24 billion in assets for public sector pension funds.

We are unique among the LGPS (Local Government Pension Scheme) investment pools in providing a full fiduciary management service, running 100% of assets for three core clients. Full fiduciary management means we strategically manage client pension assets and monitor liabilities, helping our clients ensure sufficient funds are available to pay pensions as they fall due.

Our services include:

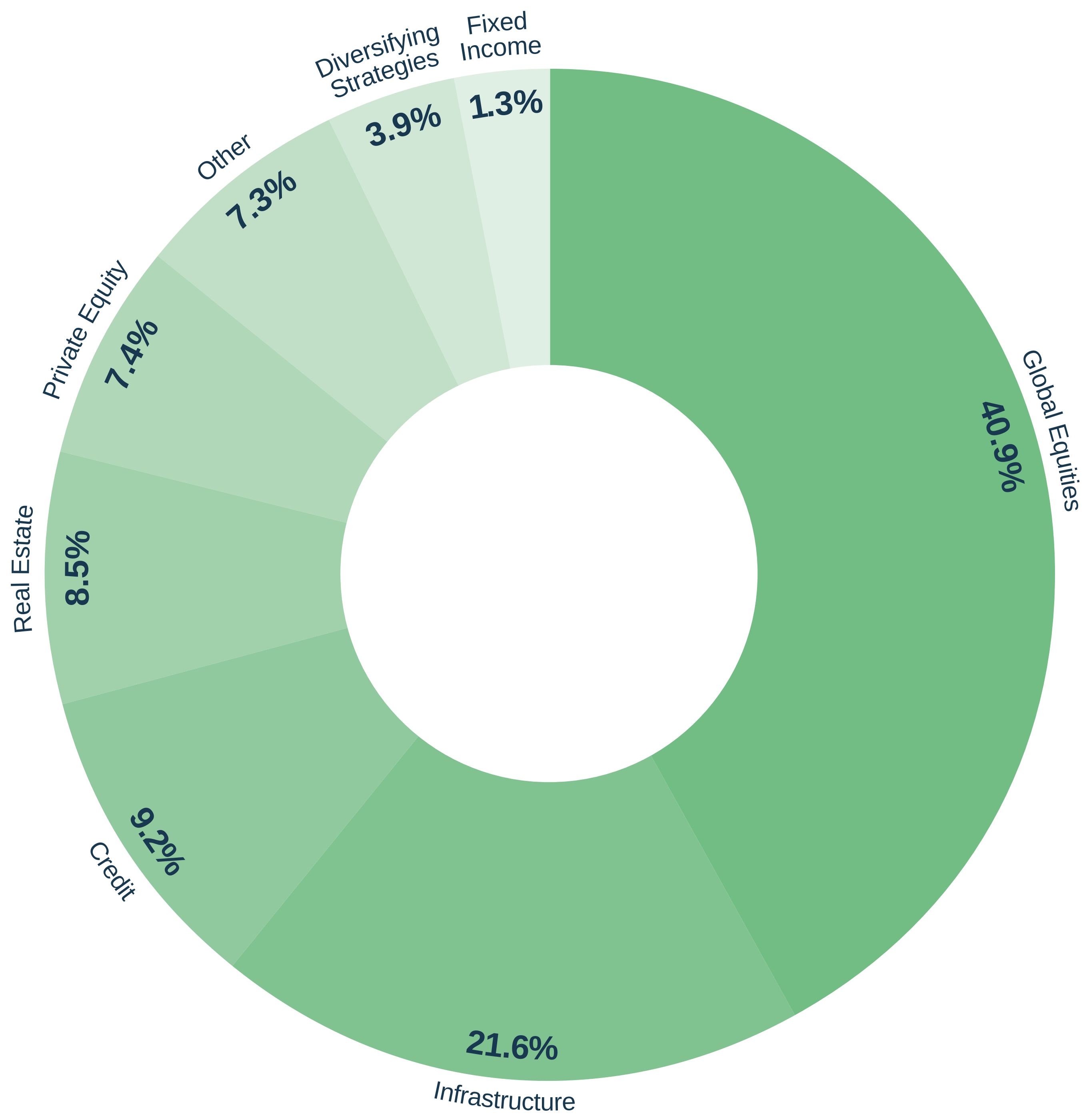
- **Asset management** – overseeing investments in LPPI pooled funds and assets held on client balance sheets including local investments
- **Strategic advice** - assisting clients to target and deliver appropriate risk adjusted returns, taking their assets and liabilities into account

Our assets under management

The investment portfolio we manage spans seven asset classes.

We predominantly manage large pooled funds which have multiple investors rather than segregated mandates specific to individual clients. Our pooled funds incorporate internally-managed mandates where assets are selected and overseen directly by our in-house investment staff, and externally-managed mandates where asset selection and stewardship are by delegate asset managers appointed and overseen by LPPI.

These arrangements mean that fulfilling our net zero commitment will involve co-operation and co-ordination across a large diversified portfolio.

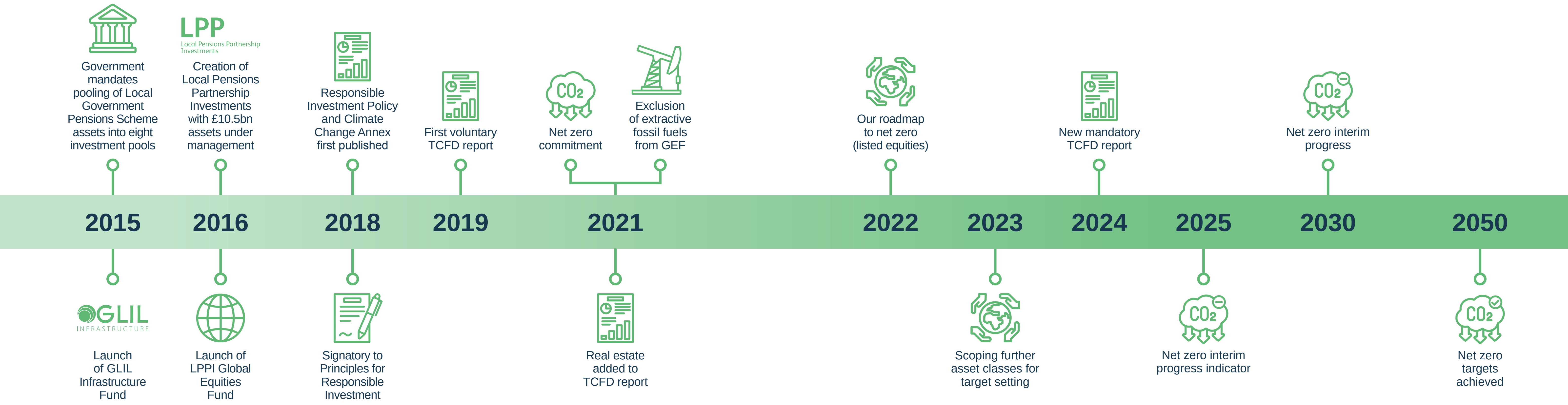


Source: Local Pensions Partnership Investments as at 30 September 2022

Sustainable stewardship

Making a net zero commitment represents a natural progression for LPPI which continues a long-standing focus on sustainable stewardship.

Making a net zero commitment evolves our current approach to addressing climate change as a material investment issue. Our Responsible Investment Policy has a dedicated Annex on Climate Change and we have reported voluntarily in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) since 2019. We are currently preparing for the compulsory regime of TCFD reporting for UK asset managers which is applicable to us from January 2023, and our approach to net zero is consistent with meeting the new regulatory requirements.



Net zero and TCFD interrelationship

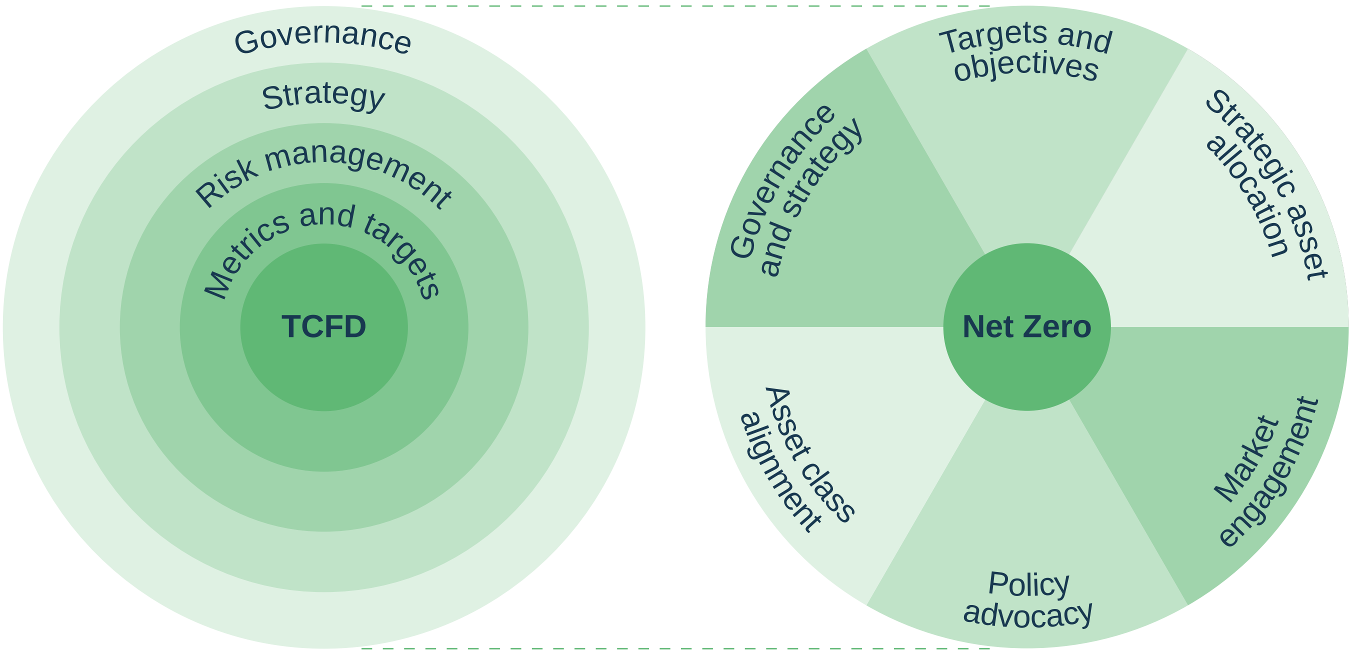
TCFD aims to drive transparent disclosure through clear reporting under four pillars on how climate-related risks and opportunities are considered in managing investments. Net zero spans all four pillars. As a lens focused on the global decarbonisation needed to halt planetary warming at 1.5°C, net zero will be part of our approach under all four pillars, but most obviously part of metrics and targets.

Governance
The organisation's governance around climate-related risks and opportunities.

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

Risk management
The processes used by the organisation to identify, assess, and manage climate-related risks.

Metrics and targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities.



What have we committed to doing?

We manage a large, complex, diversified investment portfolio. A commitment to net zero compatible with our role, remit, and responsibilities means an approach that is:

Reflective of

- our business model and the services we provide
- the type of investment products we offer and their investment objectives
- the purpose and structuring of our pooled investment funds
- our advisory and management agreements with core clients and the mandates they give us
- levels of consensus on the importance of net zero as a stewardship priority amongst our clients and partners

Deliverable within

- our investment management agreements with delegate asset managers and the mandates and products they steward
- our contracts with external service providers and the specifications they encompass

As an investment issue, net zero is an important but nascent area. Best practice standards are still under development and data, tools, and recommended methodologies for assessing the net zero alignment of investments are still evolving.

LPPI is a member of the Institutional Investors Group on Climate Change (IIGCC). To prioritise progress around sound principles, we have selected the IIGCC Net Zero Asset Managers Commitment (NZAM) and the IIGCC Net Zero Investment Framework (NZIF) as good practice guides.

LPPI became a signatory to the NZAM commitment in November 2021 with support from our core clients for developing a net zero approach conducive to meeting their ongoing investment needs, compatible with LPPI's business model, and consistent with fulfilling our collective fiduciary responsibilities.

The Net Zero Asset Managers Commitment

In line with the best available science on the impacts of climate change, we acknowledge that there is an urgent need to accelerate the transition towards global net zero emissions and for asset managers to play our part to help deliver the goals of the Paris Agreement and ensure a just transition.

In this context, my organisation commits to support the goal of net zero greenhouse gas (‘GHG’) emissions by 2050, in line with global efforts to limit warming to 1.5°C (‘net zero emissions by 2050 or sooner’). It also commits to support investing aligned with net zero emissions by 2050 or sooner.

Specifically, my organisation commits to:

a. Work in partnership with asset owner clients on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all assets under management (‘AUM’)

b. Set an interim target for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or sooner

c. Review our interim target at least every five years, with a view to ratcheting up the proportion of AUM covered until 100% of assets are included

In order to fulfil these commitments my organisation will:

For assets committed to be managed in line with the attainment of net zero emissions by 2050 or sooner (under commitment b)

1. Set interim targets for 2030, consistent with a fair share of the 50% global reduction in CO_2 identified as a requirement in the IPCC special report on global warming of 1.5°C

2. Take account of portfolio Scope 1 & 2 emissions and, to the extent possible, material portfolio Scope 3 emissions

3. Prioritise the achievement of real economy emissions reductions within the sectors and companies in which we invest

4. If using offsets, invest in long-term carbon removal, where there are no technologically and/or financially viable alternatives to eliminate emissions

5. As required, create investment products aligned with net zero emissions by 2050 and facilitate increased investment in climate solutions

Across all assets under management

6. Provide asset owner clients with information and analytics on net zero investing and climate risk and opportunity

7. Implement a stewardship and engagement strategy, with a clear escalation and voting policy, that is consistent with our ambition for all assets under management to achieve net zero emissions by 2050 or sooner

8. Engage with actors key to the investment system including credit rating agencies, auditors, stock exchanges, proxy advisers, investment consultants, and data and service providers to ensure that products and services available to investors are consistent with the aim of achieving global net zero emissions by 2050 or sooner

9. Ensure any relevant direct and indirect policy advocacy we undertake is supportive of achieving global net zero emissions by 2050 or sooner

Accountability

10. Publish TCFD disclosures, including a climate action plan, annually, and submit them to the Investor Agenda via its partner organisations for review to ensure the approach applied is based on a robust methodology, consistent with the UN Race to Zero criteria, and action is being taken in line with the commitments made here

We recognise collaborative investor initiatives including the Investor Agenda and its partner organisations (AIGCC, CDP, Ceres, IGCC, IIGCC, PRI, UNEPFI), Climate Action 100+, Climate League 2030, Paris Aligned Investment Initiative, Science Based Targets Initiative for Financial Institutions, UN-convened Net-Zero Asset Owner Alliance, among others, which are developing methodologies and supporting investors to take action towards net zero emissions. We will collaborate with each other and other investors via such initiatives so that investors have access to best practice, robust and science based approaches and standardised methodologies, and improved data, through which to deliver these commitments.

We also acknowledge that the scope for asset managers to invest for net zero and to meet the commitments set forth above depends on the mandates agreed with clients and clients’ managers’ regulatory environments. These commitments are made in the expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement are met, including increasing the ambition of their Nationally Determined Contributions, and in the context of our legal duties to clients and unless otherwise prohibited by applicable law. In some asset classes or for some investment strategies, agreed net zero methodologies do not yet exist. Where our ability to align our approach to investment with the goal of net zero emissions by 2050 is, today, constrained, we commit to embark with determination and ambition on a journey, and to challenge and seek to overcome the constraints we face.

Source: Net Zero Asset Managers initiative

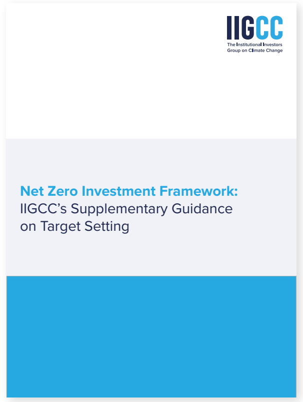
Preparing for our journey

Net zero refers to a global balance being achieved between the amount of greenhouse gases emitted into the atmosphere and the amount being absorbed or removed from it.

The IIGCC's Net Zero Investment Framework (NZIF) attempts to translate a planetary challenge of enormous complexity into a format capable of being addressed by investors. It contains detailed guidance and recommended approaches principally directed at asset owners, but recognises a significant supporting role for asset managers, through:

- encouraging client thinking and net zero awareness
- facilitating real world decarbonisation through net zero aligned investment
- incorporating requirements for net zero alignment into stewardship, engagement, and policy advocacy.

In formulating a roadmap for our net zero pathway we have aimed to meet the requirements of our NZAM commitment by adopting appropriate good practice from the *IIGCC's Net Zero Investment Framework Implementation Guide*, *Supplementary Guidance on Target Setting* and *Net Zero Stewardship Toolkit*.



Our route to net zero

The NZAM commitment encompasses significant ambition over multiple decades and will be logistically challenging to address. It involves securing the data and building the insights to support a net zero lens being embedded across our operating model (as part of governance, strategy and core procedures) and becoming integral to what we consider, measure, monitor and address as part of stewardship.

The global asset management industry is working with imperfect information at this point. We lack full data on the emissions our portfolio is financing (the total emissions investee companies are producing and the proportion of this attributable to our assets under management). We lack clarity about which emissions are being managed in alignment with reaching net zero by 2050. Our assets under management span thousands of companies globally and multiple investment vehicles. It is a complex landscape to measure and evaluate. Many companies are not yet disclosing information which gives investors key insights. Providers developing datasets and analytical tools of the type institutional investors need are focused on public market assets. With private market asset classes relatively poorly served, data has to be sourced, collected and aggregated manually before it can be analysed, which is resource intensive and time consuming.

The route we are taking involves effort to improve the quality and coverage of our data on financed emissions and increase the proportion of our assets under management for which we can assess net zero alignment. The overall aim is to incorporate measurement within evaluation, and focus stewardship on the most material considerations.

Reducing financed emissions

We are taking a prudent approach to the long term goal of portfolio emissions reaching net zero by 2050 (commitment a). This reflects that we have to navigate gaps, unknowns and conditions that are changing continuously. The shape and pace of actual real world decarbonisation may not proceed in line with a 1.5°C pathway, because it will reflect the interplay of multiple different factors, many not controllable by investee companies.

Equally, the portfolio we manage is not static. Changes in its composition (what we invest in) will continually alter the proportion of emissions attributable to our assets under management, without anything changing at the global level.

Similarly, because the real-world emissions investee companies generate reflect their commercial operations, they will shift as a reflection of factors including the location and scale of production methods, the integration of innovation or technological advances, the energy mix, and the development or contraction of product ranges, segments and market share.

Our overriding objective is to make good investment decisions which lead to positive investment outcomes for our clients. Our commitment is to investing aligned with net zero emissions by 2050 or sooner, not investment (and divestment) which achieves portfolio decarbonisation in isolation from other relevant investment considerations.

Taking all this into account, we have set a target for portfolio decarbonisation as an aid to tracking progress but will not address this target directly. By this we mean our focus will be first and foremost on the asset-level targets we have set around the engagement and net zero alignment of our individual holdings. We recognise that all companies and sectors need to become net zero aligned to deliver the decarbonisation required globally. Our assets under management encompasses thousands of individual companies at different stages of transition, with different emissions intensities, and with different capabilities, pathways and timelines for reaching net zero. Individual asset managers will consider emissions intensity, the quality of corporate planning, and the net zero positioning of companies in context as part of ongoing asset selection and stewardship. We will set clear expectations about net zero featuring within their stewardship priorities and will engage with managers where we identify concerns.

Doing this well should then result in the necessary emissions reductions in the real economy that can be tracked using the decarbonisation target. We have committed to prioritise real world emissions reductions within the sectors and companies we invest (Pledge 3). Addressing the decarbonisation target as a priority or in isolation however, may result in perverse outcomes that do not align with this ultimate goal.

Supporting a *journey* to low emissions by all companies is equally important. Some of our portfolio companies may have high emissions currently, but also have a robust strategy for decarbonising their operations, and supporting them is aligned with our net zero commitment. Equally, some of the industries and companies which are developing process innovations or products and services which qualify as climate solutions might have high emissions at the moment. It is possible that increasing our investment in climate solutions (Pledge 6) could increase the emissions attributable to our assets under management for an initial period, until corporate plans and action to fulfil them translate into real world decarbonisation.

Increasing net zero alignment

We are clear that the actions taken by individual investee companies to decarbonise towards net zero should produce real world emissions reduction over time. Increasing our portfolio's net zero alignment should produce a trend of measurable portfolio decarbonisation, though this may take time to emerge.

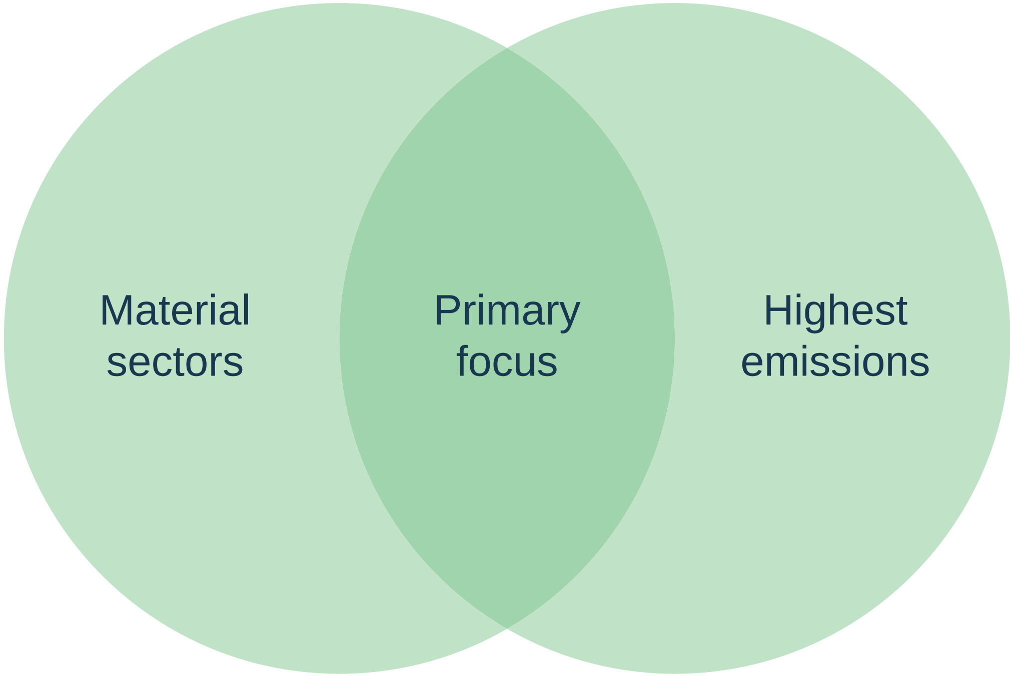
Ratcheting the proportion of the portfolio managed in alignment with attaining net zero emissions by 2050 (commitment b) involves bringing measurement and target setting to increasingly challenging areas of a large complex portfolio. However, the data, tools, methodologies and robust 1.5°C pathways needed to baseline, benchmark and set forward targets for alignment are not available for the full range of assets we manage at this point.

We will need to source datasets from providers (where available) and otherwise gather and collate granular information manually, involving co-ordination across multiple sources. This is resource intensive and will take time to accomplish. We will approach the work in tranches, determining the timing and phasing for different asset classes depending on the availability of reported emissions data (or robust proxy data) and the information and tools to measure, analyse, and forecast future net zero alignment.

Integrating net zero into stewardship

We aim to progressively improve our coverage of the portfolio's current emissions position and our evaluation of its alignment with net zero through focused stewardship, using the levers available to us as an institutional investor.

We will prioritise the most material sectors and the highest emitting companies in building out a net zero stewardship and engagement strategy.



Net zero stewardship

Meeting our commitment will mean integrating a net zero lens across our approach to stewardship, as part of active ownership which uses a range of levers to exert a positive influence.

Active Ownership

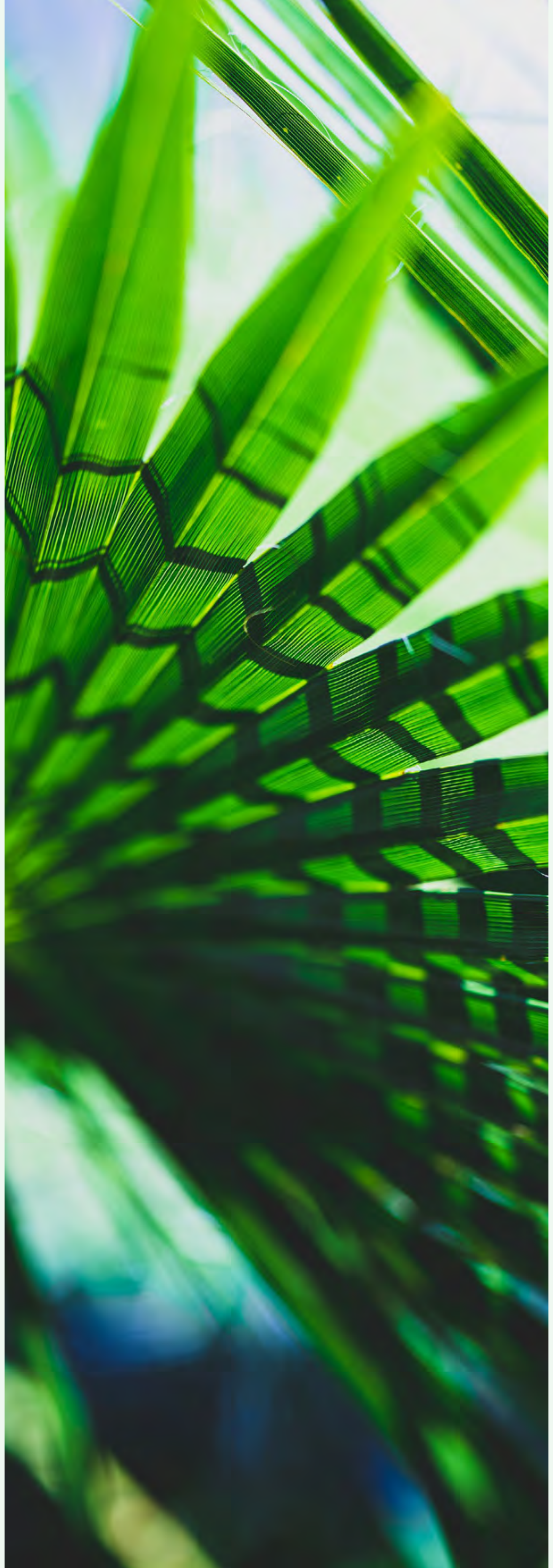
- The assets we select (strategy and implementation).
- The expectations we incorporate (contracts and side letters).
- How we monitor and oversee (assets and external managers).
- How we identify, interpret and address risk (control environment).
- How we engage (companies - directly and collaboratively, delegate managers - clear expectations, insights from monitoring).
- How we advocate for supportive policy and an assistive regulatory environment (consultation responses, direct dialogue with regulators such as the Financial Conduct Authority and the Financial Reporting Council, and government departments such the Department for Levelling Up, Housing and Communities).

Levers of influence

- LPPI's main levers include dialogue with firms directly through our in-house investment team, and dialogue through external investment managers and service providers.
- We will engage unilaterally with firms via shareholder voting and board seats.
- We will engage with firms collectively, in collaboration with other like-minded investors through initiatives including IIGCC, CDP, ClimateAction100+, and the Transition Pathway Initiative.

Examples of what we are already doing:

- We have pre-existing policies to move away from new investments in some specific sectors – coal exclusions apply to the whole portfolio and extractive fossil fuel exclusions apply to the Global Equities Fund.
- Reporting on climate change - through voluntary TCFD disclosure, and as a signatory to the Principles for Responsible Investment, and the UK Stewardship Code 2020.



- Reporting to clients - via a responsible investment annual report and quarterly responsible investment dashboard including climate change related metrics and “green” and “brown” exposure.
- Participating in collaborative investor initiatives - including IIGCC, ClimateAction100+, UK Pension Schemes Responsible Investment Roundtable, Occupational Pensions Stewardship Council, Transition Pathway Initiative, and CDP non-disclosure campaign.
- Advocating for an assistive and ambitious policy environment - as a signatory to investor letters to G7 and G20 governments, and the Investor Statement to Governments on Climate Change.
- Engaging with our service providers - shareholder voting (Institutional Shareholder Services), climate change data (MSCI), engagement partner (Robeco Active Ownership), to explain our needs and encourage them to develop solutions to existing gaps.

Our milestones and initial net zero targets

We have made positive progress since making our NZAM commitment in November 2021 and have sought to update and bring clients along with us, particularly those considering net zero commitments of their own, to support their planning and implementation.

Our first year has involved interpreting and translating recommended best practice into LPPI's specific operating context. Net zero spans multiple elements of LPPI's asset and risk management model. It has brought additional resourcing demands for personnel and data and a review of existing processes as part of planning to integrate net zero considerations into our investment governance, risk control framework, and investment management routines.

Our milestones

Our first year milestones:

- meet NZAM commitments b and c by setting and publishing initial targets within 12 months
- adopt good practice standards from NZIF as the basis for our target setting approach
- publish a document explaining our net zero approach and indicating the route we will follow going forward

All first-year milestones have been met.

Our approach and planning will continue to evolve with experience and will be refreshed iteratively to incorporate new insights and solutions.

Our most immediate future milestones are to:

- embed live monitoring of net zero targets within risk, portfolio, and manager monitoring routines.
- develop a phased plan for expanding the coverage of our emissions data for private market assets.
- expand the proportion of assets under management within net zero target setting.
- continue discussions with clients on their net zero thinking and future requirements as part of our planning for product development.
- incorporate net zero within TCFD disclosure as part of our transition from a voluntary to compulsory reporting regime.

Our initial net zero targets

The NZAM commitment envisages 100% of assets under management being brought within the scope of net zero target setting over time. Our actual progress will depend on our mandates from clients and partners, our regulatory environment, and the availability of sufficiently robust foundations for target setting. We need corporate disclosure to improve, and tools and methodologies to mature, across the full range of asset classes we manage.

Our first interim target (under commitment b) is for 42% of our assets under management to be managed in line with the attainment of net zero emissions by 2050 or sooner. This represents 100% of the assets we manage in listed equities through our Global Equites Fund (GEF) and is our largest asset class under management.

We will review our interim target regularly (at least every five years in line with commitment b). Our next areas of focus for measurement and target setting are real estate and corporate fixed income.

IIGCC guidance recommends and provides methodologies for setting two targets at asset class level (engagement and coverage) and two at portfolio level (decarbonisation and investing in climate solutions) where these are compatible with an asset manager’s remit and fiduciary arrangements.

We have set three of the four recommended targets. We have not set a target for increasing investment in climate solutions at this point. We may consider doing so in future pending discussion with clients on their preferences for products which invest in climate change solutions and the asset classes offering suitable scope. Meanwhile, we are already investing in climate solutions, most obviously through our infrastructure pooled fund which includes direct investments in renewable energy (wind, solar, and energy from waste) and transition assistive projects including battery storage and district heating.

The targets shared in this document have been submitted to the IIGCC for evaluation and have been confirmed as compliant with our NZAM commitment.

LPPI's net zero targets are also available on the Net Zero Asset Managers initiative website.

The phasing of target setting

Phase 1 – Complete
Global equities
(42% of our assets under management)

Phase 2 – Started
Real estate, corporate fixed income

Phase 3 – Planning
Remaining asset classes

Our asset class targets (listed equities)

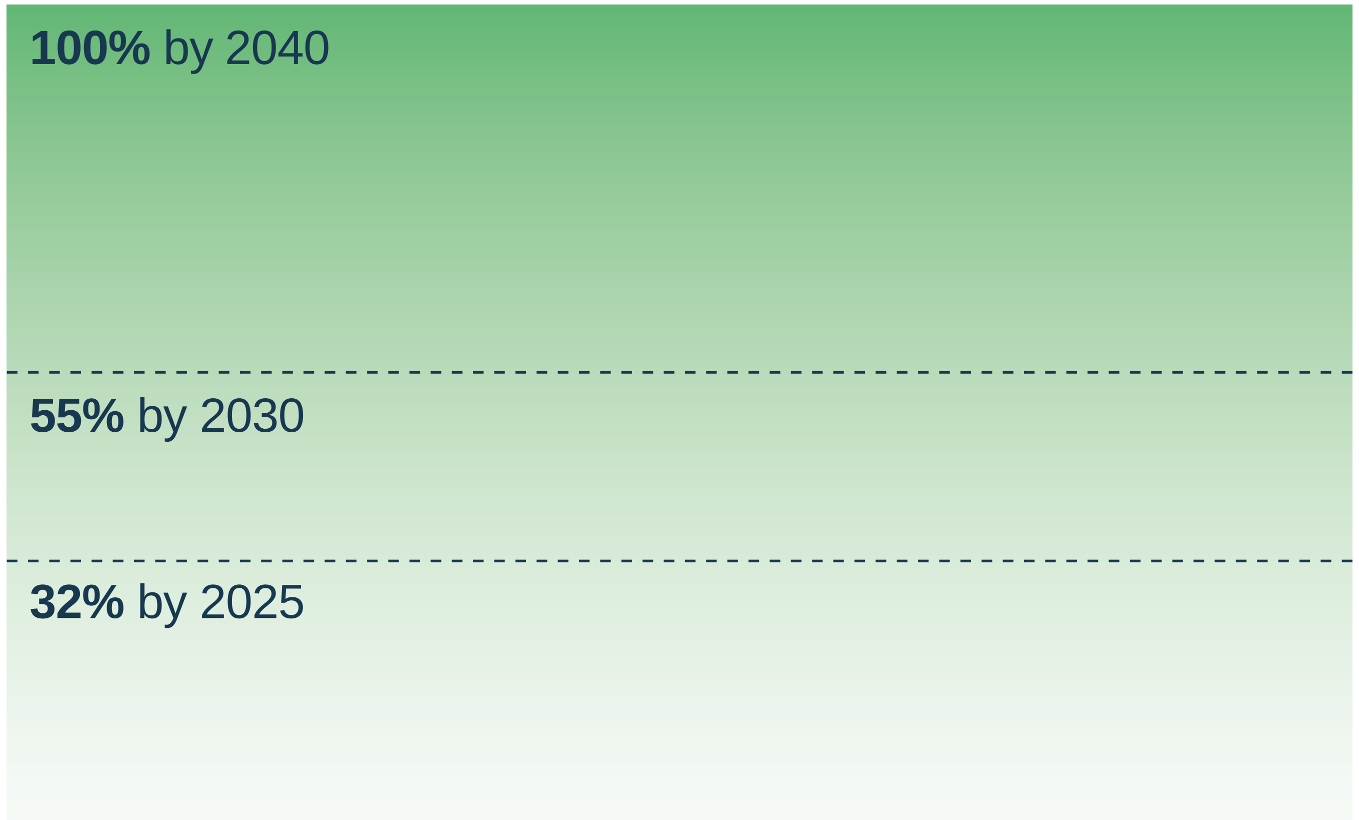
Coverage target

Measure: Percentage of *assets under management* in material sectors* that are net zero, aligned or aligning with net zero.

Purpose: A target for increasing the *value* of assets already meeting conditions required for being assessed as net zero or taking the actions to move them into this position.

Our targets:

- **32%** of our global equities assets under management in material sectors* **by 2025**
- **55%** of our global equities assets under management in material sectors* **by 2030**
- **100%** of our global equities assets under management in material sectors* to be net zero or aligned by **2040**



*Material sectors have been defined by IIGCC for consistency in the IIGCC Net Zero Implementation Guide. They are the sectors whose activities make the largest contribution to total emissions globally and which will need to produce the materials, develop the critical technologies and evolve the lower emitting, more energy efficient processes that achieving a sustainable global economy depends upon.

Engagement threshold

Measure: Percentage of *financed emissions* in material sectors* that are net zero, aligned with net zero or under engagement.

Purpose: A target for increasing the proportion of total *financed emissions* from companies already meeting conditions required to be considered aligned with net zero, or under focused engagement on the actions needed.

Our targets

- **70%** of financed emissions in material sectors* at least aligned or under engagement **by 2022**
- **90%** of financed emissions in material sectors* at least aligned or under engagement **by 2030**

Our portfolio target

Portfolio decarbonisation goal

Measure: Weighted Average Carbon Intensity (WACI) in tonnes of CO_2e per $m sales. Initially covering Scope 1 and Scope 2 emissions (updated to include Scope 3 emissions when data quality allows).

Current scope: Listed equities only.

Purpose: Monitoring the portfolio's decarbonisation trajectory over time.

Goal: A portfolio emissions intensity aligned with net zero emissions by 2050 or sooner.

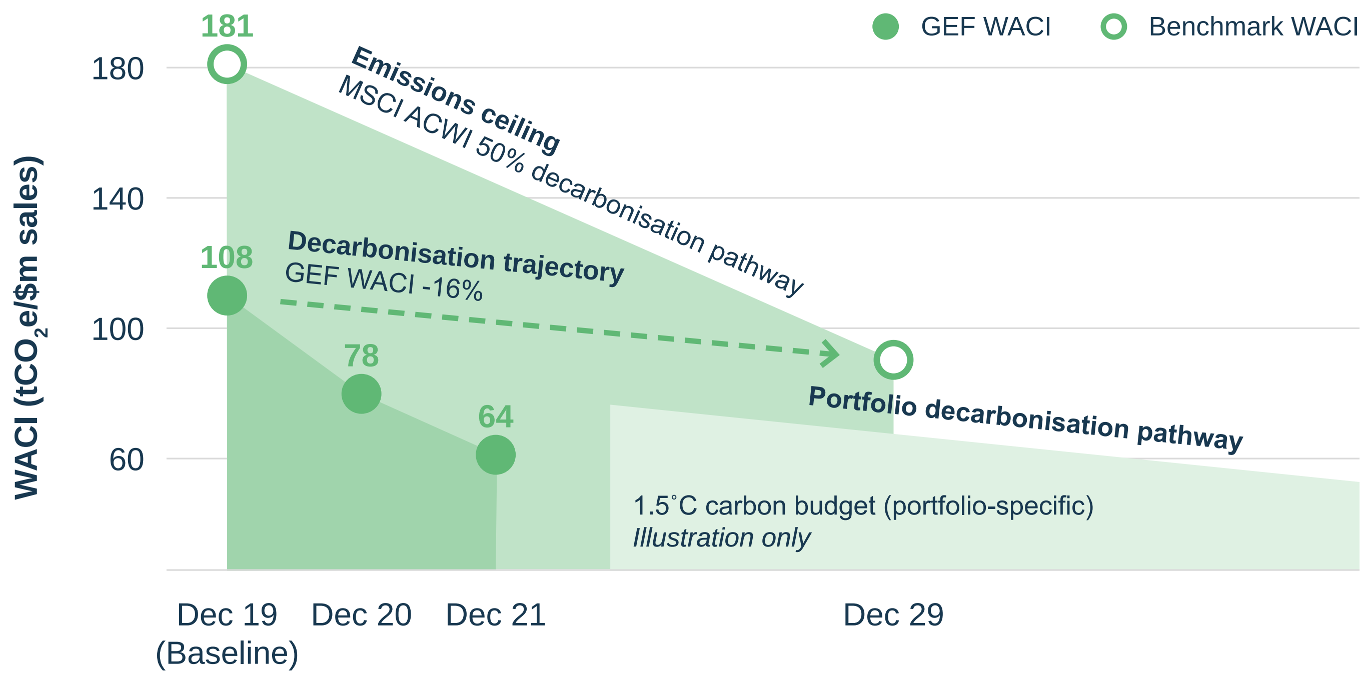
Our monitoring approach for listed equities involves comparing the WACI of our Global Equities Fund (GEF) to the WACI of its comparator benchmark, the MSCI All Country World Index (MSCI ACWI). We will review how the GEF is positioned relative to a decarbonisation pathway for the benchmark halving its emissions intensity between December 2019 and December 2029. IIGCC guidance describes this as a benchmark-relative approach to setting a "fair share" decarbonisation target.

A benchmark-focused decarbonisation pathway provides a helpful ceiling (or guardrail). It is a top-down, fixed-in-time comparator which does not move. The MSCI ACWI is a universal benchmark which means it is representative of the global market as the GEF's investment universe.

We plan to enhance our emissions monitoring approach by calculating a portfolio decarbonisation pathway for the GEF in due course. This will focus on comparing the investments we hold in listed equities against a 1.5°C pathway (or emissions budget) specific to them, indicating a glidepath for emissions reduction which supports us monitoring how our portfolio is positioned and progressing.

The portfolio decarbonisation pathway indicated in the diagram opposite is illustrative only. We are awaiting tools under development by our data provider to support us modelling a portfolio-specific 1.5°C decarbonisation pathway for the GEF which can be regularly rerun and updated. It is important our monitoring can keep pace with changes in the composition of the GEF and its financed emissions to ensure our stewardship and engagement are trained on the highest priority companies within our assets under management.

Decarbonisation glidepath



Current positioning

Our GEF is currently in a very positive position. It was registering an emissions intensity 40% below the MSCI ACWI in December 2019 (the baseline date). The GEF's WACI needs to reduce by at least a further 16% by 2030 to remain aligned with or beneath a 1.5°C decarbonisation pathway for its universe. When measured at the end of December 2021, the GEF had a WACI materially lower than the benchmark's 50% decarbonisation pathway.

When we can produce a portfolio-specific decarbonisation pathway, we can also review the GEF's position against a bottom-up, notional emissions budget which reflects current holdings and adjusts for changes in the composition of the GEF. This will assist us in refreshing our target setting over time.

Our own operational emissions

Our NZAM commitment focuses on the financed emissions attributable to our assets under management, but the NZIF includes encouragement for investors to monitor and set targets for their own operational emissions as a direct contribution to reducing real world emissions.

As part of LPPI's net zero commitment we are monitoring the operational emissions of our business and have sought PlanetMark accreditation to ensure we are following a certified and appropriate measurement approach.

We have not set a forward target for business emissions reduction at this point but will do so in due course once efforts to collect further data improve our capabilities to capture our baseline and assess the options for improvement.

Some early reflections

The NZAM commitment represents an aspirational multi-decadal ambition which presents strategic, operational and logistical challenges we will need to work to overcome. The approach and plans this roadmap articulates reflect initial steps which share our thinking and learning to date.

Since we became signatories in November 2021, LPPI's priority has been to assemble the advice, tools, core data and key personnel to agree appropriate first steps in a thoughtful, logical, and prudent approach.

Key steps in our journey to date (from initially making our commitment to publishing targets and a net zero roadmap) include:

- Establishing a multi-disciplinary project group to oversee net zero planning and support progressive implementation into our core investment processes
- Assignment of internal project management resources and an external consultant, to support and co-ordinate change management
- Surveying the data, tools and services currently available from the provider market
- Assessing the availability of emissions data, pathways, and net zero alignment indicators (to understand the scope of asset classes capable of inclusion in initial target setting)
- Undertaking portfolio baselining, benchmarking and target setting for in scope assets (to establish the current position of companies, assess net zero alignment positioning, set forward targets for improvement-focused stewardship, and identify priority companies)
- Evaluating the practical outcomes and potential financial impacts of our initial targets (to the extent possible)
- Formulating a stewardship and engagement strategy for a priority group of companies
- Implementation planning for the incorporation of net zero analysis, monitoring and oversight into live processes

Our first reflection from the first phase of our net zero journey is on co-ordination. From the start, the multidisciplinary working group has been instrumental in building engagement with this initiative across the business, acting as a focal point driving action and consensus at all levels. It has been a key success factor which we will continue to deploy as we bring on board more asset classes to the initiative over the next 12 months.

The second is on data. Our exercise of surveying the market for an appropriate provider of data and analytical alignment tools reinforced to us the shortcomings in data availability and methodological consistency at present.

Our ability to bring a large, complex, diversified portfolio within scope of net zero management will be significantly improved by increased market co-operation and rapid evolution of industry-wide infrastructure. The building blocks required include corporate reporting to consistent minimum disclosure standards through legislation regulating what underlying companies (in both public and private markets) must disclose, and co-operation and equivalency from asset managers in assembling information for the mandates they manage.

The role of data providers is fundamental to achieving an efficient market solution given the need for both high quality aggregated datasets reflecting market agreed measures of corporate alignment, and modelling tools which utilise this data to enhance the production of decision-useful analysis.

An important pillar of our net zero stewardship and engagement strategy was and will continue to be:

a. advocacy for a supportive regulatory and policy environment

b. industry engagement urging the emergence of agreed definitions and methodologies

c. pushing for a maturing offer from data providers which understands and addresses investor needs

Our final reflection is on ambition. This first year of our commitment has seen the establishment and cementing in practice of a critical house view: focus our efforts and ambition where we can have the greatest impact.

As an asset manager that means the stewardship of capital. While alignment methodologies develop, our teams are focused on building a robust and stretching stewardship and engagement strategy. The investment team has set high expectations of our existing managers in particular and have committed to build their understanding and capacity to meet these through focused and targeted engagement. This has quickly become a key criterion for future relationships with managers as well.

We are committed to being transparent about our position and the actions we are taking to progress our understanding, address what is immediately possible, and invest in the next steps required to take us further. Our experience of embedding net zero considerations into listed equities will inform efforts to expand coverage, though we recognise only some aspects will translate to other asset classes and others will need adapting to accommodate different contexts.

Our future reporting on net zero, including progress against our targets and the evolution of our approach, will form part of TCFD disclosure. This reflects that making a voluntary commitment to net zero is not a separate initiative but an integral part of improving how we understand, measure, assess, manage and report on the investment risks and opportunities posed by climate change.

Glossary

Baselining
Establishing the starting point against which targets will be set and progress measured.

Benchmark-relative approach
Uses the emissions of a comparator benchmark at a point in time to reference an emissions reduction target against and measure progress.

CDP
CDP (previously the Carbon Disclosure Project). Visit the website.

FCA
Financial Conduct Authority. Regulates financial services firms and financial markets in the UK.

Financed emissions
The emissions associated with our assets under management based on attributing a share of the total emissions produced by underlying companies in proportion to the size of the investment we hold.

IIGCC
Institutional Investors Group on Climate Change.

Investment universe
A selection of assets which reflect an investable universe, generally grouped based on the preferences of an investment strategy in terms of, for example, sector, industry or regional exposure.

IPCC
Intergovernmental Panel on Climate Change IPCC Special Report on the impacts of global warming of 1.5°C.

MSCI All Country World Index (ACWI)
A stock index designed to track broad global equity market performance. The LPPI Global Equities Fund’s comparator benchmark.

NACE
A statistical classification in use within the European Community.

NZAM
Net Zero Asset Manager Commitment (see pages 22-23).

NZIF
Net Zero Investment Framework.

Paris Agreement
Intergovernmental Panel on Climate Change, the United Nations body for assessing the science related to climate change.

Portfolio self-decarbonisation
Using portfolio emissions at a point in time to reference an emissions reduction target against and measure progress.

Scope 1
All direct greenhouse gas emissions from sources owned or controlled by the company. Some examples include emissions from fossil fuels burned on site, emissions from entity-owned or leased vehicles.

Scope 2
Indirect greenhouse gas emissions from consumption of purchased electricity, heat, or steam, and the transmission and distribution (T&D) losses associated with some purchased utilities.

Scope 3
Other indirect emissions that occur from sources not owned or controlled by the company. Some examples of Scope 3 activities are extraction and production of purchased materials; transportation of purchased fuels; and use of sold products and services.

Stewardship
The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society (UK Stewardship Code 2020).

Total Carbon Emissions
The sum of all the emissions in the portfolio based on the investor's ownership share.

$$\sum_{n}^{i} \frac{\$\ Investment_i}{Issuer's\ full\ mcap_i} \times Issuer's\ emissions_i$$

TPI
Transition Pathway Initiative. Visit the website.

Universal global benchmark
A benchmark stock index which is representative of the global economy, for example the MSCI All Country World Index.

Weighted Average Carbon Intensity (WACI)

Weighted Average Carbon Intensity is the measure of a portfolio's exposure to carbon-intensive companies, expressed as tCO2e/$m company revenue.

$$\sum_{n}^{i} Portfolio\ weight_i \times Issuer's\ carbon\ intensity_i$$

For more information about LPPI, visit our website or contact us to discuss your specific requirements in more detail.

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Incorporated in England and Wales and trading as LPPI (Company registration number: 09835244)

Authorised and regulated by the Financial Conduct Authority (Reference number: 724653)

Equality Impact Assessment

For support in completing this EQIA, please consult the EQIA Guidance Document or contact equality@rbwm.gov.uk

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

1. Background Information

Title of policy/strategy/plan:	Responsible Investment
Service area:	Finance
Directorate:	Pension Fund

Provide a brief explanation of the proposal: • What are its intended outcomes? • Who will deliver it? • Is it a new proposal or a change to an existing one?
13 March 2023 Committee Meeting – 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. Following the release of an Environmental, Social and Governance (ESG) public statement in late 2020, the Fund approved a Responsible Investment (RI) policy on 22 March 2021 supported by several values, principles, and priorities. Since then, the Fund has been continuously improving its approach to RI and have been working towards an updated RI policy that was approved by the Committee on 12 October 2022. This report aims to update the reader quarterly on the Fund's responsible investment activities and outcomes through presenting an RI report and dashboard as aligned with the Fund's RI policy – noting that climate change is one of the underlying priorities in the Fund's revised 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 covers the formal update on LPPI's net-zero commitment, and it's published interim targets.

2. Relevance Check

Is this proposal likely to <u>directly</u> impact people, communities or RBWM employees? • If Yes, state 'Yes' and proceed to Section 3. • If No, please explain why not, including how you've considered equality issues. • Will this proposal need a EQIA at a later stage? (for example, for a forthcoming action plan)
No, full assessment not required as this report is unlikely to have a specific impact on individuals or groups of people with protected characteristics

If 'No', proceed to 'Sign off'. If unsure, please contact equality@rbwm.gov.uk

3. Evidence Gathering and Stakeholder Engagement

Who will be affected by this proposal? For example, users of a particular service, residents of a geographical area, staff
Among those affected by the proposal, are protected characteristics (age, sex, disability, race, religion, sexual orientation, gender reassignment, pregnancy/maternity, marriage/civil partnership) **disproportionately represented?** For example, compared to the general population do a higher proportion have disabilities?
What engagement/consultation has been undertaken or planned? • How has/will equality considerations be taken into account? • Where known, what were the outcomes of this engagement?
What sources of data and evidence have been used in this assessment? Please consult the EQIA Evidence Matrix for relevant data. Examples of other possible sources of information are in the Guidance document (Section 2.3).

4. Equality Analysis

Please detail, **using supporting evidence**:

- How the protected characteristics below might influence the needs and experiences of individuals, in relation to this proposal.
- How these characteristics might affect the impact of this proposal.

Tick positive/negative impact as appropriate. If there is no impact, or a neutral impact, state 'Not Applicable'.
More information on each protected characteristic is provided in the EQIA Guidance document (available on the intranet).

	Details and supporting evidence	Potential positive impact	Potential negative impact
Age			
Disability			
Sex			
Race, ethnicity and religion			
Sexual orientation and gender reassignment			
Pregnancy and maternity			
Marriage and civil partnership			

Armed forces community			
Socio-economic considerations e.g. low income, poverty			
Children in care/Care leavers			

5. Impact Assessment and Monitoring

If you have not identified any disproportionate impacts and the questions below are not applicable, leave them blank and proceed to Sign Off.

What measures have been taken to ensure that groups with protected characteristics are able to benefit from this change, or are not disadvantaged by it? For example, adjustments needed to accommodate the needs of a particular group
Where a potential negative impact cannot be avoided, what measures have been put in place to mitigate or minimise this? • For planned future actions, provide the name of the responsible individual and the target date for implementation.
How will the equality impacts identified here be monitored and reviewed in the future?

6. Sign Off

Completed by: Damien Pantling	**Date**: 18/02/2023
Approved by:	**Date:**

If this version of the EQIA has been reviewed and/or updated:

Reviewed by:	**Date**: