

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 January - 31st March 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 Q1 2022 LPPI voted on 98% company proposals, supporting 88% of these.
- Investments in Brown sectors (extraction, transportation, storage, supply, and generation of energy from fossil fuels) are 1.47% of the portfolio.
- Investments in Green sectors (renewable energy generation, clean technology, and decarbonising activities) are 3.67% of the portfolio.
- LPPI confirmed its participation in the CDP^R non-disclosure campaign for 2022, which includes involvement in the letter campaign to drive further corporate transparency around climate change, deforestation, and water security.
- LPPI received confirmation that its Responsible Investment and Stewardship Report 2020-21 successfully met the standard required to be considered compliant with the UK Stewardship Code (2020).
- LPPI has appointed a new project manager to provide practical support for the activities flowing from net zero planning and also planning for the implementation of mandatory TCFD^R reporting.

2. RI Dashboard – Portfolio Characteristics

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

As an enhancement, LPPI has developed and added three new metrics to the Listed Equities section and included a further summary of the Robeco report, which can be found in section 4 for this quarter. The new Governance Insights aims to enhance the understanding of the Global Equity Fund (GEF) and is in response to feedback from clients that readers would benefit from additional metrics. We welcome comments on this new section and on the new sections piloted in the Q4 2021 Dashboard and Report, including feedback on ways reporting can be further enhanced.

Asset class metrics (*Dashboard pages 1 & 2*) offer insights on the composition of the portfolio and its general characteristics. See the summary for Q1 2022 outlined below.

[Listed equities \(Dashboard p1\)](#)

Sector Breakdown

Categorised by GICS^R the largest sectoral exposures for the GEF are Information Tech. (26%), Consumer Staples (16%), and Financials (13%).

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 24% of the total LPPI GEF.

In Q1 2022 Microsoft remains the largest holding in the GEF, as Nestlé, Visa and Accenture also remain in the top four. Pepsi moved up 2 positions, whilst Colgate and Starbucks moved down 1 and 2 positions respectively. Costco, Apple, and Adobe were replaced by Diageo, Alphabet and SPDR Gold Shares.

Portfolio ESG Score

The GEF's Portfolio ESG score has not changed from 5.4 between Q4 and Q1. In the same period the equivalent score for the benchmark also remained at 5.2.

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 Q4. By value, the coverage of the GEF represented within the globally high emitting companies under TPI assessment has decreased from 12% to 11%, between Q4 and Q1.

The number of GEF companies in scope of TPI scoring has increased by 1 since Q4 2021, changing from 22 to 23.

Of the 23 companies in TPI scope:

- 96% (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 97% in Q4 2021, which is a general reflection of the total market value decreasing for these companies TPI3 and higher.
- 4 companies are scored below TPI 3 and are under monitoring.

Governance Insights (New element for this quarter)

LPPI has produced three new metrics to 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 Q1 2022, an average of 28% of board members were female in the GEF. There was a coverage of 84% data availability, 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 Q1 2022, on average 68% of board members were independent in the GEF. There was a coverage of 83% data availability, 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 Q1 2022, an average of 88% were in support for say on pay, which indicates a high proportion of investors were supportive of the pay policies of investee companies. There was a coverage of 48% data availability, which was a result of a vast majority of companies not providing their outcomes for say on pay and several companies also not being in scope of the ISS database.

Other asset classes (Dashboard p2)

Private Equity

The largest sector exposure continued to be in Health Care, although reducing down from 47% in Q4 2021 to 42% in Q1. The largest geographical exposure has changed from Sweden to the United States, which now represents 36% of the portfolio.

Infrastructure

The geographical exposures to UK based infrastructure slightly increased, moving from 43% exposure in Q4 to 47% in Q1. The largest sectoral exposure remained in Traditional Energy, Renewable Energy, Waste, which makes up 37% of the portfolio.

The Real-World Outcomes section of the dashboard features examples of socially positive investments and this quarter the focus is on Infrastructure. Pages 6-9 share information on a

selection of investments within the RCBPF Fund portfolio which are developing solutions in large, small and mid-cap companies.

Real Estate

Sector and geographical exposures remained similar to those reported in Q4 2021. The portfolio continued to be largely deployed in the UK, with 74% assets here. The largest sectoral exposure continued to be Industrial assets, making up 31% of the portfolio.

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 Q4 2021, Brown exposure has increased from 1.10% to 1.47%. The biggest contributor to the increased exposure is from the Infrastructure asset class. This quarter, figures reflect a full re-evaluation based on the current categorisation process. This added some further companies within existing funds that have not previously been identified as Brown. This exercise increased Infrastructure's Brown exposure from 0.55% in Q4 to 0.80% of the portfolio in Q1. Another contributing factor has been a large mark-to-market increase reflecting the sector's strong performance of the Brown positions held in the Global Equities Fund, as well as a new position being added into fund.

Compared with Q4 2021, Green activities have slightly increased from 3.52% to 3.67% of the portfolio. The change again reflects the re-evaluation of Infrastructure assets, where new positions have been incorporated and several existing companies have now been identified as Green. This has increased Infrastructure's Green exposure from 3.32% in Q4 to 3.43% of the portfolio in Q1.

Investments in renewable energy generation from wind, solar, hydro, and waste make up 51% 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 Equity 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 January - 31st March 2022 encompassed 56 meetings and 491 resolutions voted. LPPI voted at 98% meetings where GEF shares entitled participation. The shortfall reflects the application of Do Not Vote to a Russian position that was not fully liquidated before trading restrictions were introduced.

Company Proposals

LPPI supported 88% of company proposals in the period.

Voting against management concentrated on:

- the election of directors (addressing individual director issues, overall board independence, and over-boarding), 29% of votes against company proposals.
- non-salary compensation (addressing inadequate disclosure of underlying performance criteria, use of discretion, and the quantum of proposed rewards), 46% of votes against company proposals.
- the support of shareholder resolutions, covering topics including climate change, human rights, diversity, and political lobbying (14%).

Case Study – Directors Related

LPPI voted against 5 resolutions across 2 companies due to a lack of Board independence. Result (only one disclosed): 13.5% Against.

LPPI voted against 6 directors across 3 companies due to the lack of diversity on the Board. Result (only one disclosed): 15.0% Against.

At Svenska Handelsbanken AB (Sweden: Diversified Banks), LPPI voted against the Board Chair due to overboarding. Result not disclosed.

Case study – Non-Salary Compensation

LPPI voted against 27 out of 63 (42.9%) compensation votes across 30 companies.

At Apple (USA: Technology Hardware, Storage & Peripherals), LPPI voted against the say-on-pay. This was driven by the lack of transparency over the terms of the equity grant, the fact it was 50% time-based, and the choice of metrics on the performance element. Result: 35.6% Against.

At Hologic (USA: Health Care Equipment), LPPI voted against the say-on-pay. This was driven by insufficient responsiveness following the low support for last year's remuneration report. Result: 29.5% Against.

At SimCorp A/S (Denmark: Application Software), LPPI voted against the say-on-pay. This was due to the downwards discretion applied to in-flight LTIPs. Result: not disclosed.

Shareholder Proposals

LPPI supported 8 out of 14 (57%) shareholder resolutions over the quarter. At Costco Wholesale Corporation (USA: Hypermarkets & Super Centres), LPPI supported the shareholder resolution requesting Costco adopt short, medium, and long-term science-based greenhouse gas emissions targets across their value chain to achieve net zero by 2050. The vote passed with 69.9% support.

At Apple (USA: Technology Hardware, Storage & Peripherals), LPPI supported a resolution urging the company to produce a third-party audit considering the impact of the company's policies and practices on its stakeholders. The vote passed with 53.6% support. LPPI supported a second resolution at Apple that passed with majority support (50%). It requested the company report on risks associated with the use of concealment clauses (e.g. non-disclosure agreements) in the context of potential barriers to accountability with regards to harassment. LPPI also supported three further shareholder resolutions at Apple that did not pass covering forced labour, human rights, and gender pay gaps. Support ranged from 31.7% to 33.7%.

At Starbucks (USA: Restaurants), LPPI supported a shareholder resolution seeking a report assessing the effectiveness and outcomes of company efforts around the prevention of discrimination and harassment in the workplace. The vote did not pass but received support of 32.1%.

Shareholder Engagement

Company and manager engagements are underway on an ongoing basis, directly through board seats and Limited Partner Advisory Committees (LPAC) for private market assets, and more conventionally through shareholder engagement with listed companies.

LPPI's engagement partner Robeco has completed a full quarter of engagement activity. The RI Dashboard (page 4) presents engagement headlines for the quarter which confirm the Robeco Active Ownership Team undertook 37 activities in total, and the predominant focus (by topic) was Environmental Management.

Page 5 of the Dashboard summarises the status of each live engagement theme (as it stood at the end of Q1 2022).

The Active Ownership Report at Appendix 2 provides detailed narrative on thematic engagements underway with listed companies (representing shares held by the Global Equities Fund, or corporate bonds held by the LPPI Fixed Income Fund).

Case study – Manager Engagement

As part of regular portfolio monitoring, LPPI completed the third annual responsible investment review discussions with our external equities managers in Q1. This is an in-depth assessment that is complementary to regular quarterly, thematic, and ad hoc discussions. This year, our delegate managers completed our updated responsible investment due diligence questionnaire giving us an updated point-in-time baseline for their practices. Highlights from conversations included finding out developments in their thinking and processes around net zero, reiterating our net zero ambition and explaining the implications, and sharing our greater expectations around human rights.

4. Robeco Summary (New element for this quarter)

Global Controversy

Robeco have refined the Global Controversies engagement theme which considers companies that have breached international norms such as the UN Global Compact (UNGC). The changes focus on internal governance, data, and engagement principles.

To enhance governance, a Controversial Behaviour Committee (CBC) has been established. It meets on a quarterly basis and has oversight and decision-making responsibilities related to the controversial behaviour of corporates and the response of the Robeco Active Ownership team. Feeding the CBC discussions is data from SustainAlytics' Global Standards Screening (GSS) research which monitors for breaches of international norms including the UNGC. Finally, Robeco have improved the engagement process undertaken when the CBC agrees on the need to open an enhanced engagement case. This includes the application of a five-point engagement plan and a stricter escalation strategy at the annual progress reviews in the event of unsatisfactory progress.

As a result of these changes, Robeco expects to see more companies entering the Global Controversies theme and hopes target companies will take more proactive approaches in mitigating and addressing their impact to stakeholders.

Lifecycle Management of Mining

While holding the key for the future of clean technologies, mineral extraction can come at high costs for biodiversity and local communities. Robeco have identified four key engagement objectives for the integration of sustainability across a mine's lifecycle.

- Water risks: a focus on policies and transparency, including engagement with the CDP^R to encourage mining companies to disclose to their annual water survey.
- Tailings safety: a focus on safety monitoring and transparency in addition to mitigating action where high risk dams have been identified.
- Asset retirement: assessing how companies integrate closure activities into the mine business plan prior to operations beginning. Includes the short, medium, and end-of-

life planning processes throughout the mine's life, covering environmental, social and economic considerations.

- Financial assurances: assurances provided for mine closure must cover the operator's cost of reclamation and closure as well as redress any impacts that a mining operation causes to wildlife, soil and water quality.

The engagement results to date have been mixed, finding that mining companies often follow different asset retirement standards depending on their age and location. More importantly, disclosures do not provide investors with sufficient information to assess the extent to which companies have appropriate financial assurances to finance the costs of mine closures and land rehabilitation.

Improving the Brazilian Proxy Process

According to Robeco, Brazil has long been a thorn in the side of everyone involved in the proxy voting chain. The country has a complicated proxy voting system that is especially unsuitable for international investors. Robeco joined forces with Brazil's Stewardship Association and sent a letter to engage with Brazil's stock exchange and regulator to seek improvements. The engagement is already beginning to yield results against key objectives. Especially encouraging was the commitment from Brazilian Securities and Exchange Commissions (CVM) to create a working group to focus on the issues related to the exercise of voting rights by national and foreign shareholders at AGMs to enable the necessary regulatory improvements for the effective protection of minority shareholders. Furthermore, the letter urges issuers to adhere to the timely disclosure of documents in both English and Portuguese.

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 Q1 2022.

Co-signing CDP Letters

CDP (formerly the Carbon Disclosure Project) runs a non-disclosure campaign on an annual basis. The objective of the campaign is to drive further corporate transparency around climate change, deforestation, and water security. This is an opportunity for investors to actively engage companies and encourage participation from those that have received the CDP disclosure request but have not provided a response. During Q1, LPPI identified relevant focus companies in the Global Equities Fund across all three environmental pillars and confirmed our participation for 2022 which includes involvement in the letter campaign.

WWF Plastics

LPPI supported the WWF-led Business Case for a UN Treaty on Plastic Pollution. It called on governments to ensure high ambition in the then forthcoming UN Environment Assembly international negotiations, laying the groundwork to drive the transition to a circular economy for plastics globally and at scale. This aligned with engagement LPPI undertakes directly and through Robeco Active Ownership on packaging waste at our portfolio holdings. The talks

were widely considered a success, with the UN setting the ambition of completing a draft global legally binding agreement by the end of 2024 to address the full lifecycle of plastics. Additionally, the role of business in supporting the legally binding treaty was highlighted by a number of representatives during the negotiations.

Robeco Active Ownership – Acceleration to Paris Engagement Theme Launch

As part of Robeco Active Ownership's new climate engagement theme, Robeco identified 200 companies with the largest carbon footprints in the Robeco investment universe. LPPI was invited to co-sign private letters to target companies (where Robeco was able to obtain contact details) outlining engagement expectations to mark the start of the engagement theme. 29 companies, who were identified as laggards, received personalised letters and will be the focus of more intensive engagement from Robeco. 113 companies, whose current actions are more developed, received generic letters and are not expected to receive further correspondence. The remaining companies did not receive letters due to the lack of contact details. While LPPI holds only six of the 200 target companies, Robeco were keen for investors' voices to be heard across the investable universe and hence was a signatory to all letters.

6. Other News and Insights

Climate Lobbying, Investment Standard for Lobbying

In March 2022, leading international investor groups unveiled the new Global Standard on Responsible Climate Lobbying which provides a framework to ensure companies' lobbying and political engagement activities are in line with the goal of restricting global temperature rise to 1.5°C above pre-industrial levels. The Standard calls on companies to make formal commitments to responsible climate lobbying, to disclose the funding and other support they provide to all trade associations involved in climate change-related lobbying and to take action if lobbying activity undertaken by them, or their trade associations, runs counter to the goals of the Paris Agreement^R. Investors supporting the Standard commit to championing responsible lobbying activity by engaging with those companies whose lobbying practices do not align with the Standard.

Global Standard on Tailings Dams

Following further engagement with the 256 companies that were contacted regarding their support for and implementation of the Global Tailings Management Standard, the Church of England Pensions Board have launched an online company database on Tailings Standard Implementation.

The team also continues to work closely with partners UN Environment Programme in the creation of the Independent Global Tailings Management Institute and with the support of the International Advisory Panel. They are pleased to note that the International Council on Metals and Mining (ICMM) has re-engaged with the Advisory Panel and are meeting regularly with them to ensure an Institute can be created as soon as possible and with the confidence of all stakeholders.

Stewardship Code

In March 2022, LPPI received the Financial Reporting Council's assessment that our Responsible Investment and Stewardship and [Report 2020-21](#) successfully met the standard required to be considered compliant with the UK Stewardship Code (2020). LPPI has duly been [listed](#) as a signatory to the 2020 Code which sets a significantly higher standard for stewardship disclosure than the prior Code it replaced.

All Signatories to the 2020 Code are required to produce annual reporting on stewardship activities which meets all the disclosure requirements in full every year. Failing to continuously meet the standard can result in being delisted as a signatory.

Net Zero Update

LPPI's commitment to net zero by 2050 remains a priority focus. A first climate action plan is due to be published in October setting out initial targets and actions. LPPI has appointed a project manager to provide practical support for the activities flowing from net zero planning and also planning for the implementation of mandatory TCFD^R reporting. The project manager will give practical support to efforts already underway to select a data provider, undertake portfolio analysis and make decisions on the approach to target setting, monitoring and engagement.

Boycott, Divestment, Sanctions (BDS) Update

The Public Service Pensions and Judicial Offices Act 2022 passed into law at the beginning of March and included power for the Secretary of State to make guidance to authorities that administer public sector pension schemes (including the LGPS) that they may not make investment decisions that conflict with the UK's foreign and defence policy.

The power to make guidance now exists, but will not be utilised without a period of consultation to allow consideration and comment on the detail of any proposed guidance and its impact.

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

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>

CDP

CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.

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.

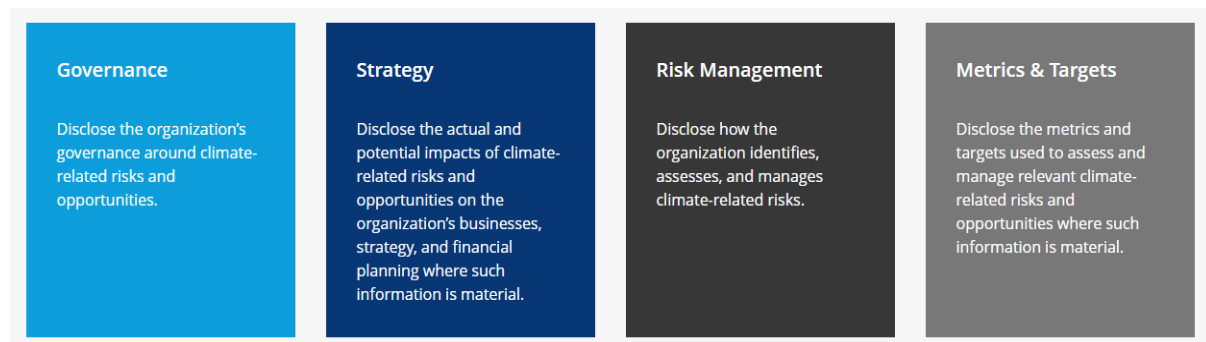
MSCI - Morgan Stanley Capital International

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.