Local Pensions Partnership Investments Ltd

Royal County of Berkshire Pension Fund (RCBPF) Responsible Investment Report – Q4 2023

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 2023 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:

- The PRI[R] recently released the results for the 2022/23 reporting cycle, with LPPI achieving 4 and 5 stars and scoring over 70% in each module.
- GLIL[R] Infrastructure has entered a new strategic partnership with the London-listed Bluefield Solar Income Fund, as part of a commitment to drive investments in UK-focussed solar energy assets in 2024.
- LPPI reviewed and updated two current RI policies during Q4 2023, our Shareholder Voting Guidelines and Annex on ESG Integration.
- In Q4 2023 LPPI voted on 98% company proposals, supporting 85% of these.
- Investments in Brown sectors (extraction, transportation, storage, supply, and generation of energy from fossil fuels) are 1.71% of the portfolio.
- Investments in Green sectors (renewable energy generation, clean technology, and decarbonising activities) are 6.55% of the portfolio.

RCBPF RI Policy Priorities (coverage)

This section is a new addition to help reference and link RCBPF's RI policy with the content in this report.

	Theme	Coverage	Location
E	Climate Change	TPI	p. 2-3, 11
		Green & Brown	p. 1, 4-5
		Climate Voting	p. 7
		Net Zero Update	p. 12
	Pollution		
	Biodiversity	Robeco Overview (Nature action 100)	p. 8-9
		Nature Action 100 Update	p. 11
S	Local Investment		
	Affordable Housing		

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 & 2*) offer insights on the composition of the portfolio and its general characteristics. See the summary for Q4 2023 outlined below.

<u>Listed equities (Dashboard p1)</u>

Sector Breakdown

Categorised by GICS[R] the largest sectoral exposures for the GEF are Information Tech. (24%), Financials (18%), and Industrials (15%).

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 25% of the total LPPI GEF.

In Q4 2023 Microsoft remains the largest holding in the GEF, with Alphabet, Visa, Accenture and Nestle also all remaining in the top five, although Alphabet moved up 1 position above Visa. Adobe, Intuit, London Stock Exchange and Moody's Corp also all remained in the same positions. Booking Holdings was replaced with Autodesk, which makes up the last position in the top 10.

Portfolio ESG Score

The GEF's Portfolio ESG score has not changed, remaining at 5.6 between Q3 and Q4. In the same period the equivalent score for the benchmark was also unchanged at 5.5.

Transition Pathway Initiative (TPI)

TPI[R] has recently released v.5.0 of its Management Quality ratings methodology. As outlined further in section 6 of this report, the update has doubled the number of companies in the TPI assessment universe and introduced a new Level 5 to the assessment staircase which provides greater differentiation and insight into company transition plans.

The increased TPI universe brings a larger number of GEF owned companies into scope compared with the position in Q3 2023. By value, the % of the GEF covered by TPI ratings has increased from 11% to 42%, and the number of GEF companies in scope of TPI scoring has grown by 49, increasing from 31 to 80 companies between Q3 and Q4 2023.

Of the 80 companies in TPI scope:

- 93% (by value) are rated TPI 3 and above – demonstrably integrating climate change into their operational planning (TPI 3), their strategic planning (TPI 4) and into their transition planning and implementation (TPI 5). This is up from 90% in Q3 2023, which confirms most of the 49 additional companies have been rated TPI 3 and above.
- 9 companies are scored below TPI 3 currently and are under monitoring.

Governance Insights

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

The timeseries graph on the RI Dashboard (Page 1), shows the past performance of the governance insights. This allows tracking of changes both quarterly and annually between Q1 2022 and Q4 2023, which provides a more informative perspective for comparison.

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 2023, an average of 32% of board members were female in the GEF, which is up from 29% in Q4 2022. There was a coverage of 85% data availability (up from 84% in Q4 2022), 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 2023, on average 69% of board members were independent in the GEF, which is up from 68% in Q4 2022. There was a coverage of 85% data availability (up from 84% in Q4 2022), 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 2023, an average of 89% were in support for say on pay (up from 88% in Q4 2022), which indicates a high proportion of investors were supportive of the pay policies of investee companies. There was a coverage of 78% data availability (up from 69% in Q4 2022), which was a result of several companies not being in scope of the ISS database.

Other asset classes (Dashboard p2)

Private Equity

The largest sectoral exposure continued to be Health Care, remaining at 40% in Q4 2023. The geographical exposure continued to have a strong presence in the United States, remaining at 41% in Q4 2023.

Infrastructure

The geographical exposures to UK based infrastructure slightly decreased, moving from 49% exposure in Q3 to 48% in Q4 2023. The largest sectoral exposure remained in Traditional Energy, Renewable Energy, Waste, which makes up 40% of the portfolio.

Real Estate

The largest sectoral exposure has now changed from Industrial to Living assets, making up 29% of the portfolio in Q4 2023. The portfolio continued to be largely deployed in the UK, slightly increasing from 75% in Q3 to 77% in Q4 2023.

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. As a result, in Q4 2023, 76.7% of the total portfolio is in scope of Green and Brown. 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 2023, Brown exposure has decreased from 1.96% to 1.71%. The biggest contribution to the reduced exposure comes from the Infrastructure asset class. The figures reflect one company, identified as Brown, leaving the portfolio from an existing fund which reflects the opportunity to realise assets at an attractive valuation and re-deploy capital in other attractive opportunities. This has reduced infrastructure's Brown exposure from 1.23% in Q3 to 1.08% of the portfolio in Q4 2023. Other contributions were from the GEF asset class, where another company identified as Brown also left the portfolio.

Compared with Q3 2023, Green activities have slightly decreased from 6.76% to 6.55% of the portfolio. The biggest contributor to the decreased exposure is from the Infrastructure asset class. The figures reflect a mark-to-market decrease in the value of Green positions held in portfolio. This has decreased infrastructure's Green exposure from 6.44% in Q3 to 6.28% of the portfolio in Q4 2023.

Investments in renewable energy generation from wind, solar, hydro, and waste make up 61% of total Green exposure, and 96% 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 2023 encompassed 40 meetings. LPPI voted at 39 (98%) meetings where GEF shares entitled participation, totalling 319 resolutions voted. LPPI did not vote in one meeting:

- LPPI applied "Do Not Vote" at one company due to it being a Russia-linked holding that could not be liquidated prior to the introduction of trading restrictions.

Company Proposals

LPPI supported 85% of company proposals in the period.

Voting against management captured:

- the election of directors: 37% of votes against (addressing issues including overall board independence, and company specific issues such as diversity).
- compensation: 37% of votes against (addressing issues including inadequate disclosure of underlying performance criteria, use of discretion, and the quantum of proposed rewards).

Case Study – Director Related

LPPI voted against 16 director-related resolutions across 10 companies. This was 10% of all director-related votes.

LPPI voted against 1 resolution (which included a bundle of four directors) across one company due to concerns around board independence levels. At XP Inc. (Cayman Islands: Investment Banking & Brokerage), LPPI voted against a group of directors for serving as non-independent members of the key board committee. Result: not disclosed.

LPPI voted against eight directors at two companies in relation to minority shareholder rights. Members of Governance Committees were targeted where problematic governance practices (including the presence of a classified board and multiple share classes with unequal voting rights) existed. For example, at Oracle Corporation (USA: Systems Software), LPPI withheld support for seven incumbent members of the Governance Committee. This was due to substantial pledging activity and significant concerns regarding risk oversight. Result: 24.1% against.

LPPI voted against four directors across four companies due to a lack of board gender diversity. This reflects LPPI's proxy voting guidelines which require companies in the FTSE350 and Russel 3000 to have at least 30% women on the Board.

Case Study – Compensation

LPPI voted against 16 compensation resolutions at 8 companies. This was approximately 37% of management tabled compensation related votes.

At Oracle Corporation (USA: Systems Software), LPPI voted against the say on pay. This reflected an inadequate evaluation of amendments to the Omnibus Stock Plan, based on an assessment of the estimated cost, plan features, and grant practices using the Equity Plan Scorecard (EPSC). Result: 29.0% against.

At RPM International Inc. (USA: Speciality Chemicals), LPPI voted against the say on pay. This was warranted given that the compensation committee demonstrated only limited responsiveness to last year's low say-on-pay vote result. While the company engaged with investors following last year's annual meeting, the proxy does not detail the portion of investors the company met with, nor if directors participated. Although the company made certain improvements to the pay programs, it is unclear if such changes fully address investor feedback. Lastly, an unmitigated pay-for-performance misalignment was again identified at the company and raised concerns regarding the level of discretion in the annual incentive program and certain overlapping performance periods in the long-term program: 24.2% Against.

At Copart, Inc. (USA: Diversified Support Services), LPPI voted against the say on pay. Following last year's relatively low say-on-pay vote result, the compensation committee demonstrated only limited responsiveness. The company, including independent directors, engaged with investors and disclosed certain feedback received. However, the disclosed shareholder feedback was relatively vague, and the committee made only limited changes to address investor concerns, LPPI voted against. Result: 19.9% against.

Shareholder Proposals

There were 6 shareholder proposals at 2 companies during Q4.

- At Microsoft Corporation (USA: Systems Software), one resolution requested a report on risks of operating in countries with significant human rights concerns, which LPPI supported. Result: 33.6% For.
- At Oracle Corporation (USA: Systems Software), one resolution sought the disclosure of median pay gaps across race and gender which LPPI supported. Result: 31.4% For.

Climate Voting

In Q4, there were no climate-related votes against management.

One company in the CA100+[R] universe held a meeting during Q4, although none of the company proposals were climate related.

Companies typically avoided votes against management where disclosure has improved or there is evidence of adequate progress prior to reporting (e.g. as ascertained through engagement calls).

LAPFF Voting Alerts

There were no LAPFF Voting Alerts for GEF holdings in Q4 23.

4. Active Ownership

Case Study – Manager Engagement

As part of LPPI's second phase of Net Zero target setting, the Fixed Income team undertook an in-depth Net Zero engagement initiative with each external manager in their portfolio. Each manager was provided with a list of requirements, in-line with IIGCC Net Zero Framework, that outlined the specific methodologies and measurements that LPPI would need to set their Net Zero targets for corporate bond holdings. These requirements focused on providing information in the following areas: alignment with the IIGCC categorisation framework, emissions intensity baseline, coverage baseline, engagement baseline and engagement strategy. Focused meetings were also held with each manager on portfolio implications from the different potential net zero targets. In light of these discussions, we opted for a benchmark relative approach, and one based on weighted average carbon intensity.

Overall, we are pleased with the response that our managers have demonstrated. All managers have been able to meet the initial reporting requirements and have also now integrated these metrics into their quarterly reporting packs. This provides LPPI with a platform to monitor and track progress against its Net Zero targets.

5. Robeco Summary

<u>Engagement (Public Markets): Robeco *(Dashboard page 4)*</u>

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 43 companies in the LPPI Global Equities Fund (GEF) and 15 companies in the LPPI Fixed Income Fund (FIF), accounting for 25.4% and 3.1% of the total portfolios respectively.

<u>Engagement (Public Markets): Robeco *(Dashboard page 5)*</u>

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 broken down into sub-sectors, and rated on success/progress (shown as a %). For this quarter, four new themes have been added to the progress chart: Nature Action 100, Modern Slavery in Supply Chains, Tax Transparency and Fashion Transition.

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

Robeco Active Ownership Report: Content Overview

Modern Slavery in Supply Chains (NEW THEME)

Through their complex supply chains, companies across the globe are exposed to modern slavery and forced labour risks. This is a new engagement theme for Robeco, with the theme focusing on enhancing companies' effectiveness in identifying and addressing modern slavery risks across their supply chains.

Robeco will aim to enhance companies' effectiveness in identifying and addressing the risks associated with modern slavery issues, going beyond formal human rights policies and processes. The engagement will also focus on how companies provide impacted stakeholders with effective remediation measures and prevent future recurrence by working closely with suppliers and establishing the right accountability structures within the organisation.

Modern slavery is present in almost every country in the globalised world economy. The Middle East shows the highest prevalence of it, while the Asia-Pacific region has the largest absolute number of forced labour cases, at over 15 million cases. Nevertheless, the main beneficiaries of modern slavery (through their consumption of products) are the major developed economies. With this in mind, Robeco selected a list of companies to engage with based on their multi-layered supply chains, the nature of operations for raw materials production, and the geographical areas in which they and their suppliers operate.

One of the most important actions is to conduct human rights due diligence. Robeco expect companies to identify risks according to aspects like sourcing from conflict regions, workplace characteristics and the types of raw materials sourced, and to take appropriate actions. One of the challenges they expect to face is lack of quality information regarding lower-tier suppliers which is needed to assess whether the companies under engagement are well positioned to identify and remediate modern slavery risks and impacts.

Nature Action 100 (NEW THEME)

Nature Action 100 was launched in September 2023 against the backdrop of aligning investor action to contribute to the Global Biodiversity Framework (GBF). It mobilises institutional investors to establish a common high-level agenda for engagements, and a clear set of expectations to drive greater corporate ambition and action to stem biodiversity loss.

The initiative targets 100 companies in eight key sectors that are deemed to be systemically important in reversing biodiversity loss by 2030, such as chemicals, food, and metals and mining. As a first step, the 100 companies targeted for engagement have received a letter from the group outlining six timely and necessary corporate actions needed to protect and restore nature. Dialogues will be held from 2024 onwards.

In terms of engagement expectations, companies are encouraged to set a public commitment to minimise biodiversity impacts and to conserve and restore ecosystems by 2030. They should set time-bound, science-based targets that are based on assessments of their nature-related dependencies, impacts, risks and opportunities.

Robeco are a participant in Nature Action 100 and reviewed their investment exposure to biodiversity risks across sectors and markets, as well as taking into account their clients investment exposure, before selecting sectors and companies that they wanted to engage with. They observedthat biodiversity risks are concentrated in three sectors, and exacerbated where allocations are to emerging markets. As a result, they prioritised their engagement with eleven companies across these three sectors: Materials (chemicals), Consumer Staples (retail, food and beverage, household and personal products) and Consumer Discretionary (retail).

Net-zero Carbon Emissions

The Net-zero engagement theme encourages companies to embrace a decarbonisation strategy to ensure their long-term viability, competitiveness and license to operate. Robeco's engagement activities set the expectation for companies to set long-term net-zero targets, and to substantiate them with credible short- and medium-term emissions reduction strategies, implementing transition plans that ensure a reduction in real-world emissions over the next decade.

Since the start of this theme three years ago, and the expansion of the number of companies under engagement in March 2022, Robeco have registered positive progress for almost all the companies under engagement. The industries which have registered the highest level of progress are the steel and cement sectors. Considered to be the hard-to-abate industries, these companies showed meaningful improvements, especially in disclosing detailed capital alignment and decarbonisation strategies.

Although the oil and gas industry has been subject to several initiatives to address the net-zero transition, Robeco feel that there is still room for improvement, especially in outlining reduction targets for Scope 3 emissions, and reallocating capex away from potentially stranded fossil fuel assets. Indeed, as they witnessed in the last three years, setting targets for Scope 3 emissions has been one of the main challenges on the net zero pathway for oil and gas companies. Having originally witnessed early progress coming from this sector, some companies unfortunately have reached a standstill in their decarbonisation pathways after the global energy crisis. Therefore, Robeco plan to intensify and escalate their engagement efforts in the next year to seek further improvements.

Responsible Executive Remuneration (CLOSED THEME)

In 2020, Robeco launched its ‘Responsible executive remuneration’ engagement theme which is now coming to a close. Throughout the three years of engagement, Robeco reviewed the remuneration policies and disclosures, relevant key performance indicators (KPIs), and incentive structures at a set of European and American companies. Their project focused on four broad objectives: equity compensation; pay for performance; quantum (i.e., height of pay) and the link to equity; as well as structure and oversight.

Overall, Robeco found that executive pay levels have spiralled up, but this trend has been less apparent across the average workforce, hence not necessarily reflecting an increase in productivity.

Nike case study:

In response to the effects of the pandemic, US athletic footwear company Nike implemented a “more flexible” short-term incentive structure based on two equally weighted, six-month performance periods. Robeco flagged their concern regarding the lack of transparency on certain adjusted performance goals, and were satisfied that the company has since transitioned back to the historical design whereby short-term incentive payouts are earned based on year-long targets.

Proxy voting – Market insight

Corporate governance at State-Owned Enterprises (SOEs) continues to be a complex topic, yet it is gaining importance as SOEs’ role in global markets grows. SOEs are amongst the largest corporations in many countries and account for a growing share of the corporate landscape. Given their size and positioning in high-impact sectors, SOEs also play a significant role in achieving the Sustainable Development Goals (SDGs). The consequences of poor corporate governance in SOEs will therefore extend far beyond the boardroom.

Good governance in SOEs is, however, far from being a simple matter. If an SOE is run well and sufficient checks and balance are in place, state control can provide stability. If not, political involvement may also have downsides. The growing awareness of the importance of SOEs to our economies and the governance challenges that they face have prompted many countries around the world to roll out reforms. These initiatives point out the fact that there is no one-size-fits-all recipe for reform.

Robeco expect SOEs to have proper safeguards in place, such as the establishment of committees comprising independent members to oversee conflicts of interest, super-majorities or 'majority of minority' voting provisions, and a transparent process for board nominations. If they see that insufficient safeguards are in place, they will hold companies accountable. For example, they would oppose article amendments that would lead to a negative impact on minority shareholder rights or to a deterioration in the process for director nominations. Similarly, they would oppose related party transactions that are not subject to an adequate oversight process that ensures minority shareholder rights are protected. Where a company has not ensured adequate minority shareholder protections, Robeco would seek further engagement.

6. 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 2023.

Nature Action 100 Update

As reported last quarter, LPPI is a founding participant of Nature Action 100, a new global investor engagement focused on driving greater corporate ambition and action to tackle nature and biodiversity loss. The initiative focuses on companies in key sectors deemed to be systemically important in reversing nature and biodiversity loss by 2030.

LPPI applied to be the lead engager on 3 of the initial 100 companies, those held by the internally managed section of LPPI's Global Equities Fund. We have received confirmation that LPPI will be part of the groups collaborating to engage with two of these companies: PepsiCo and Costco Wholesale Corp.

Nature Action 100 is currently seeking an expert consultant to provide research and analysis on corporate performance on nature related issues.

TPI Update

In November 2023, the Transition Pathway Initiative (TPI[R]) provided an update to investors on the launch of v.5.0 of its Management Quality methodology, releasing data in 'Beta[1]' format. The new framework aims to set a higher standard for companies to meet, and to provide greater differentiation of high-performing companies. This reflects the reality that previously stretching indicators have become more standard practice, driven by, for example, greater investor interest in environmental, social and governance (ESG) investment strategies, and a proliferation of corporate net-zero target setting.

Key highlights of the TPI update include:

- The new framework raises the bar by adding a new level (Level 5), which aims to give greater insight into the rigour of companies' transition plans and whether they are being credibly implemented.
- TPI have increased the number of companies under assessment, adding 469 to the current TPI universe, which takes the total to 1,061 companies. This is the largest

[1] Beta – This is an early version that contains most of the major features, but which is not yet finalised.

expansion to date of the company universe assessed through the TPI MQ framework and materially increases the % of the GEF within ratings coverage.

The updated ratings approach is strongly aligned to the IIGCC Net Zero framework LPPI is using. We are currently considering how best to utilise the new information and the impact that doing so will have on our approach to evaluating Net Zero alignment.

GLIL

GLIL[R] Infrastructure has entered a new strategic partnership with the London-listed Bluefield Solar Income Fund, as part of a commitment to drive investments in UK-focussed solar energy assets in 2024.

As part of the agreement, GLIL is set to invest £200 million in a 247MW portfolio of operational solar energy assets. It will also acquire a 50% stake in a separate 100MW portfolio of solar assets and it will allocate fresh funds for Bluefield Solar's development pipeline. More information outlining the phased approach to the strategic partnership can be found here.

7. Other News and Insights

Principles for Responsible Investment (PRI)

LPPI has been a signatory to the PRI[R] since 2018. We produce and submit detailed reporting on our activities annually, for assessment and scoring.

The PRI has recently released the results for the 2022/23 reporting cycle. LPPI's results are summarised below.

Module	LPPI Scores	PRI Median	AO Peer Group Median	IM Peer Group Median
Policy Governance and Strategy	4 stars (77%)	3 stars (60%)	4 stars (77%)	4 stars (76%)
Indirect – Manager Selection, Appointment and Monitoring - Listed Equity – Active	5 stars (94%)	3 stars (57%)	4 stars (70%)	3 stars (57%)
Indirect – Manager Selection, Appointment and Monitoring - Fixed Income – Active	5 stars (94%)	3 stars (58%)	4 stars (68%)	3 stars (58%)
Confidence Building Measures	4 stars (80%)	4 stars (80%)	4 stars (70%)	4 stars (80%)

Peer group: Asset Owner/Investment Manager, Europe, £10-50bn AUM

This is a very pleasing outcome which demonstrates the high standards LPPI works to. For each module LPPI achieved 4 or 5 stars (5 being the highest score available) and we reached a score of over 70% in each module. We also scored significantly higher than the PRI median and either equalled or were significantly above our peer group median. We cannot compare our scores in 2022/23 like for like with our 2020/21 results because assessment was on a different basis, however, comparison of our headline statistics confirms continued strong performance.

Net Zero Update

In Q4 2023, LPPI formally submitted a second phase of net zero targets covering direct real estate and our corporate bond holdings to the IIGCC's Net Zero Asset Managers Initiative[R]. We are pleased to confirm that these targets were approved as compliant and have now been published on the official NZAM website here.

FCA Industry Code of Conduct for ESG Ratings

The International Capital Market Association (ICMA) and the International Regulatory Strategy Group (IRSG) have launched a voluntary code of conduct for Environmental, Social and Governance (ESG) ratings and data products providers, found here. The FCA appointed the ICMA and IRSG to convene and develop a globally consistent voluntary code for those providing third-party data and ratings which is increasingly being relied upon by the market.

The code of conduct aims to foster a trusted, efficient and transparent market, by introducing clear standards for ESG ratings and data product providers, and clarifies how such providers can interact with wider market participants. Based on IOSCO's (International Organization of Securities Commissions) recommendations, the code sets out six principles with the aim of:

a. improving the availability and quality of information provided to investors at product and entity levels;
b. enhancing market integrity through increased transparency, good governance and sound systems and controls; and
c. improving competition through better comparability of products and providers

The codes six principles:

1. Good governance
2. Securing Quality (Systems and Controls)
3. Conflicts of Interest
4. Transparency
5. Confidentiality (Systems and Controls
6. Engagement (Systems and Controls)

Responsible Investment Policy Review

Our Stewardship Committee's oversight of LPPI's RI Policy includes reviewing existing policies to an annual cycle to ensure they remain up to date.

Two current policies were reviewed and updated during Q4 2023:

Shareholder Voting Guidelines (SVG)
Our SVGs explain the priorities we have identified and the standards we follow in deciding how shares held by LPPI's Global Equities Fund will be voted at company meetings.

Amendments have been made to include the consideration of nature and biodiversity as part of the effective management of climate change, with direct reference made to LPPI's commitment as a signatory to Nature Action 100.

Reflecting new listing rules introduced by the Financial Conduct Authority, we have amended the diversity standards we will apply to nomination committees. LPPI will consider withholding support for the Chair of the Nomination Committee where a UK company Board does not have

- 40% female representation and at least one senior board position held by a woman, unless this has been adequately explained.
- at least one director from a minority ethnic background, unless this has been adequately explained.

Annex on ESG Integration
This Annex outlines LPPI's ESG beliefs and explains our approach to the integration of ESG considerations within investment management. Minor amendments have been made to;

- incorporate reference to the UK Sustainability Disclosure Requirements (SDR) published by the Financial Conduct Authority (FCA) in November 2023

- reflect the operation of decision-making arrangements as part of underwriting under delegation from our Investment Committee to the Chief Investment Officer.

LPPI's Stewardship Committee also considers areas for policy development or for the articulation of our approach to improve transparency. In Q4 2023 LPPI published a new Annex on Human Rights which briefly explains how we manage salient human rights risks in accordance with internationally applicable standards of practice.

All current LPPI RI policies are publicly available from LPPI's corporate website.

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:

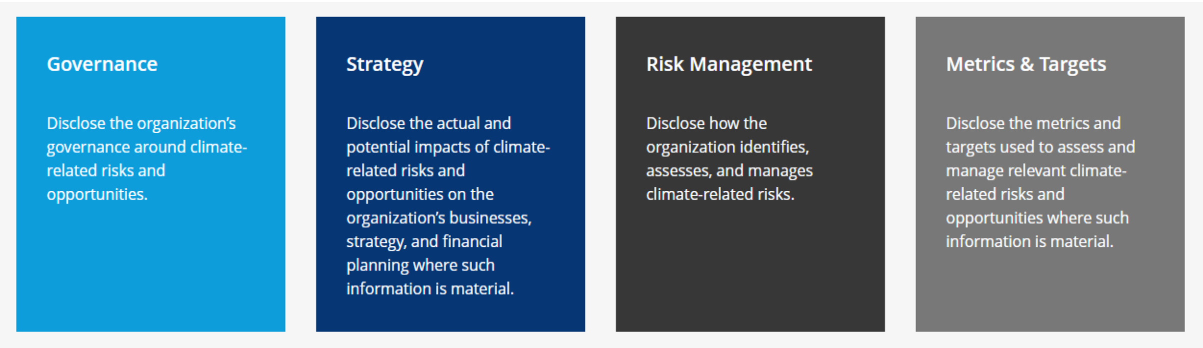
- substantially reduce global greenhouse gas emissions to limit the global temperature increase in this century to 2 degrees Celsius while pursuing efforts to limit the increase even further to 1.5 degrees,
- review countries' commitments every five years,
- provide financing to developing countries 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. 1,061 companies are rated TPI 0-5* for Management Quality based on 23 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 committed to integrating Environmental Social and Corporate Governance considerations into their stewardship practices.

GLIL - https://www.glil.co.uk/
GLIL is an innovative collaboration between aligned and like-minded investors who are seeking investment into core infrastructure opportunities predominately in the United Kingdom. LPPI manages the portfolio of assets and is the Alternative Investment Fund Manager.