Local Pensions Partnership Investments Ltd

Royal County of Berkshire Pension Fund (RCBPF) Responsible Investment Report – Q1 2024

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 2024 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:

- LPPI has been an active participant in an investor collaboration on the topic of fair reward. The outcome of this collective work is a draft framework developed for use by UK asset owners which will launch as a pilot later in 2024.
- The real estate team have engaged with an external manager to encourage the installation of solar PV systems at the direct UK properties within the LPPI Real Estate Fund.
- The Financial Reporting Council has recently published details of the process and timeframe for its review of the UK Stewardship Code. LPPI has already participated in a roundtable organised to provide feedback to the FRC from current code signatories.
- In Q1 2024 LPPI voted on 100% company proposals, supporting 86% of these.
- Investments in Brown sectors (extraction, transportation, storage, supply, and generation of energy from fossil fuels) are 1.61% of the portfolio.
- Investments in Green sectors (renewable energy generation, clean technology, and decarbonising activities) are 6.07% of the portfolio.

RCBPF RI Policy Priorities (coverage)

This section links the content in this report with RCBPF's RI policy priorities.

	Theme	**Coverage**	**Location**
E	Climate Change	TPI	p. 2-3, 11
		Green & Brown	p. 1, 4-5
		Climate Voting	p. 7
		Case Study – Manager Engagement	p. 8
	Pollution		
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S	Affordable Housing		
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		Core Stewardship	p. 5-8

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 Q1 2024 outlined below.

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 portfolio which are developing solutions based in the UK and abroad.

Listed equities (Dashboard p1)

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 24% of the total LPPI GEF.

In Q1 2024 Microsoft remains the largest holding in the GEF, with Alphabet, Visa and Accenture all remaining in the top four. Intuit, London Stock Exchange and Moody's Corp all moved up by 2 positions from the previous quarter, whilst Adobe moved down by 1 position. Nestle was replaced with Booking Holdings, 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 Q4 and Q1. In the same period the equivalent score for the benchmark was also unchanged 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 Q4.

By value, the coverage of the GEF represented within the globally high emitting companies under TPI assessment has decreased slightly from 41.6% to 40.3%, between Q4 and Q1.

The number of GEF companies in scope of TPI scoring has increased by 1 since Q4 2023, changing from 80 to 81. This increase is as a result of 3 companies dropping out of scope as they are no longer in the portfolio, and 4 companies in the TPI universe that have entered the GEF portfolio.

Of the 81 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 unchanged from Q4 2023.
- 10 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.

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 Q1 2024, 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 Q1 2024, an average of 32% of board members were female in the GEF, which is up from 30% in Q1 2023. There was 73% data coverage (down from 85% in Q1 2023), which was a result of several new 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 2024, on average 69% of board members were independent in the GEF, which is unchanged from Q1 2023. There was 73% data coverage (down from 84% in Q1 2023), which was a result of several new 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 2024, the average shareholder support for say on pay was 87% (down from 88% in Q1 2023), which indicates a high proportion of investors were supportive of the pay policies of investee companies. There was 48% data coverage (down from 62% in Q1 2023), which was a result of several new 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 Q1 2024. The geographical exposure continued to have a strong presence in the United States, remaining at 41% in Q1 2024.

Infrastructure

The geographical exposures to UK based infrastructure remained unchanged at 47% in Q1. The largest sectoral exposure remained in Traditional Energy, Renewable Energy, Waste, which makes up 38% of the portfolio.

Real Estate

Sector and geographical exposures remained similar to those reported in Q4 2023. The portfolio continued to be largely deployed in the UK, with 78% assets here. The largest sectoral exposure continued to be Living assets, making up 32% 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. As a result, in Q1 2024, 79.2% 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 Q4 2023, Brown exposure has decreased from 1.71% to 1.61%. The biggest contribution to the reduced exposure comes from the infrastructure asset class. Whilst the total value of Brown infrastructure assets remained largely stationary, RCBPF's total fund value increased more than the value of Brown assets, producing a reduction overall. Infrastructure's Brown exposure reduced from 1.08% in Q4 to 0.99% of the portfolio in Q1. Mark-to-market decrease in the value of Brown positions held in the PE asset class also contributed to the reduction registered at portfolio level.

Compared with Q4 2023, Green activities have decereased from 6.55% to 6.07% of the portfolio. The biggest contributor was from the infrastructure asset class where a reduced valuation for some existing assets had a decreased effect towards the exposure. Infrastructure's Green exposure reduced from 6.28% in Q4 to 5.79% of the portfolio in Q1.

Investments in renewable energy generation from wind, solar, hydro, and waste make up 60% of total Green exposure, and 95% 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 January – 31st March 2024 encompassed 47 meetings. LPPI voted at 47 (100%) meetings where GEF shares entitled participation, totalling 440 resolutions voted.

Company Proposals

LPPI supported management at 86% of votable proposals in Q1.

Voting against management captured:

- Director elections or resolutions relating to directors: 62% of votes against (addressing issues including lack of independent challenge- i.e., concentration of power, inadequate levels of independence both overall and on key committees, and board composition issues: insufficient levels of diversity).
- Compensation: 15% of votes against (addressing issues including inadequate disclosure of underlying performance criteria, use of discretion, misalignment of pay and performance, and the quantum of proposed rewards).

Director Related

LPPI voted against 41 director-related resolutions across 18 companies in Q1 2024. This was 16% of all director-related votes.

Overboarding

LPPI voted against two resolutions at two companies as a result of directors being considered ‘overboarded’, in-line with our belief that directors should be able to devote sufficient time to their Board positions. We voted against a director at Bajaj Finance Limited (India: Consumer Finance) on account of the fact they serve on a total of seven public boards, which exceeds best practice in that market.

Independence

LPPI voted against 18 resolutions across six companies due to issues pertaining to lack of independent challenge either on the Board overall, or on key committees. At Lotte Corp. (South Korea: Industrial Conglomerates), an executive director was proposed to be elected to the Remuneration Committee. LPPI voted against this director’s election, demonstrating our conviction that key board committees should not be populated by executive directors, as their presence limits the independent challenge function required of key committees.

Gender Diversity

In-line with our proxy voting guidelines, which outline our expectation that Boards of Russell 3000 constituents are composed of at least 30% women, LPPI abstained on the re-election of the Chair of the Nomination Committee at HEICO Corporation (USA: Aerospace & Defence). At last year’s AGM, we acknowledged the Company’s efforts prior to the 2023 AGM to improve female representation at Board level and as a result did not cast an adverse vote on this basis, despite also not meeting our 30% threshold. We intend to follow-up with the Company to communicate the rationale behind our voting decision this year and desire to see longer term progress.

Compensation

LPPI voted against 9 compensation resolutions at 7 companies. This was approximately 17% of management filed compensation related votes.

At Analog Devices (USA: Semiconductors), LPPI voted against the named executive officers’ compensation for the year under review. This acknowledged a misalignment in pay and performance underscored by several concerns regarding incentive programs. Most notably, while annual incentives were based on objective financial metrics, the company continues to set certain target goals below prior actual achievement levels, while allowing for a high maximum payout opportunity which significantly exceeds market norms. Result: 27.5% against.

At Schindler Holding AG (Switzerland: Industrial Machinery & Supplies & Components), LPPI voted against the remuneration report on the variable compensation of the executive committee. Shareholder dissent shown at last year’s resolution on variable remuneration had not been addressed. Furthermore, transparency was deemed poor with regards to both the explanation of variable outcomes and grants of substantial discretionary pay to executives. Result: 11.7% against.

At HD Korea Shipbuilding & Offshore Engineering Co., Ltd. (South Korea: Construction Machinery & Heavy Transport Equipment), LPPI voted against the remuneration of the executives and NEDs, due to a lack of explanation as to the increased cap on total remuneration. Voting against this proposal sends a signal that shareholders require increased transparency regarding the structure of total remuneration. Result: Pass.

Shareholder Proposals

There were 17 shareholder proposals at 7 companies during Q1.

At Analog Devices' AGM, LPPI supported a shareholder proposal calling for the Company to adopt a simple majority vote. Very simply, the elimination of the supermajority vote requirement enhances shareholder rights. This is of particular importance to LPPI given our status as minority shareholders. Result: Pass, 89.6% of shareholder votes were in favour.

At Apple's AGM, LPPI supported a shareholder proposal requesting the Company report on the use of Artificial Intelligence. The company's lack of disclosure regarding AI limits shareholders' ability to evaluate the risks associated with the use of AI or the actions the company is potentially taking to mitigate those risks. Improved transparency and the disclosure of an ethical guideline may alleviate shareholder concerns. Result: Fail, 37.5% of shareholder votes were in favour.

At Deere & Company's AGM, LPPI voted against a shareholder proposal filed by the National Legal and Policy centre (NLPC) which called for the company to report on GHG reduction policies and their impact on revenue generation. NLPC criticised Deere's commitment to sustainability and viewed decarbonisation as a detriment to the Company and its clients' financial outcomes. The NLPC take the view that the 1.5 degrees goal is political and not scientifically based, which is clearly a view LPPI opposes. In terms of financial materiality to the company, Deere aims to produce more efficient equipment, making them less reliant on fossil fuels and thus insulated from regulation and market action. Subsequently, this is also financially advantageous to customers from a time and energy usage perspective. Result: Fail, 1.5% of shareholder votes were in favour.

Climate Voting

In Q1, meetings of 9 companies in LPPI's climate voting watchlist occurred, of which there was 1 climate-related vote against management. LPPI voted against the re-election of the Director deemed responsible for environmental health at HEICO Corporation's (USA: Aerospace & Defence) AGM. This was considered appropriate as the company operates in a high impact sector (as defined by the Net Zero Investment Framework), and has neither made a commitment to decarbonise, nor set any tangible carbon reduction targets.

No companies in the CA100+ universe held a meeting during Q1.

Companies typically avoided climate-related 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

Apple received a voting alert from LAPFF in Q1 2024, covering six resolutions. LPPI voted the same direction as LAPFF 83% of the time. For the one resolution where we voted differently, on Apple's compensation, LPPI noted the concerns highlighted by LAPFF, but took comfort in the fact management had taken shareholder feedback on-board, and made positive changes to the long-term incentive plan (LTIP).

4. Active Ownership

Case Study – Manager Engagement

The real estate team have engaged with an external manager to encourage the installation of solar PV systems at the direct UK properties within the LPPI Real Estate Fund. The engagement has resulted in every prospective direct investment being assessed for solar PV installation as part of the investment underwrite. Currently, roof mounted solar PV systems are in operation at 12 sites overseen by the external manager. During 2023 these systems generated an estimated 485,895kWh of electricity.

Given that a number of assets within the portfolio have been owned by the Fund for some time, the real estate team asked the manager to carry out a re-assessment of all assets without PV to check whether the position had changed. An advisor was appointed, taking on responsibility for project managing the installation of PV systems. The process was divided into three stages:

- Stage 1: engaging with tenants, conducting feasibility studies and undertaking financial viability modelling.
- Stage 2: overseeing technical assessments, grid connections, planning and advising on the required legal agreements with tenants.
- Stage 3: procuring, installing, and commissioning solar systems.

The external manager has completed the initial assessment of suitable sites in the existing portfolio for PV installations and 24 additional sites across the UK have been identified with a total estimated system size of 22,000kW. From these, a further 6 sites have undergone stage 1 assessments including tenant engagement and financial modelling. In 2024 they aim to advance to stage 2 and 3 for these sites.

5. 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 38 companies in the LPPI Global Equities Fund (GEF) and 16 companies in the LPPI Fixed Income Fund (FIF), accounting for 22.4% and 3.4% of the total portfolios respectively.

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 broken down into sub-sectors, and rated on success/progress (shown as a %). For this quarter, four themes have been removed from the progress chart: Sound Environmental Management (details yet to be released), Social Impact of Gaming (details found below), Responsible Executive Remuneration (details found in Q4 2023 report), and AGM engagement 2023 (details yet to be released).

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 Active Ownership Report: Content Overview

Fashion Transition

In 2023 Robeco launched the Fashion Transition engagement theme that addresses key social and environmental concerns throughout the fashion and cosmetics ecosystem. The theme targets the ESG dimensions of the industry that Robeco believe are key to enable a transition towards better practices, as well as mitigate regulatory, transition and reputational risks in the coming years. More specifically, they focus on four main areas covering decent work, natural resources, circular models and stakeholder engagement and governance.

Despite the fashion industry's ongoing efforts to establish respectful and secure working environments, human rights and labour rights abuses remain prevalent in parts of the value chain. To uphold 'Decent work' among direct and indirect workers, companies must not only have strong social policies covering core human rights and International Labor Organization (ILO) principles. They must also showcase adequate implementation, through due diligence, monitoring and grievance systems, all with a vision to improve terms of employment.

One other key objective of the engagement will be to move companies to more 'Circular models'. Robeco expect brands and companies to explore and develop relevant circular strategies and targets, applicable to key aspects of the business. Given the current linear set-up of the industry's business models, Robeco believe fashion companies face two key challenges to move towards more circular and responsible practices: to bring sustainable processes and innovation pilots to scale, and to access quality and reliable sustainability data to facilitate key business decisions.

Tax Transparency

Robeco have launched a new engagement theme focusing on tax transparency where they aim to promote better disclosures from companies.

The goal of the Tax Transparency engagement theme is to push for more accountability and meaningful disclosures on corporate tax practices. Additionally, Robeco aim to further their understanding of modern tax policies, and uncover meaningful best practices. To this end, they have grouped their expectations into three main categories: policy and principles, tax governance and systems, and tax transparency.

Engagement candidates were selected via a multi-step process:

1. Screen their clients and own investment universe for companies with low effective tax rates of 15% or less, news flow indicating tax disputes or controversies, and relevant investment exposure.
2. Apply fundamental analysis to narrow down the list of candidates.
3. Assess key holdings that were nominated by their investment specialists, which may have an effective tax rate above 15% but for which tax constitutes a relevant factor.

Following this process, they initiated engagements with the most relevant and engageable companies. These companies are mainly located in the US, and are operating in the healthcare and information technology sectors.

Natural Resource Management

In 2022, Robeco expanded their environmental engagement program to include the responsible management of natural resources and the mitigation of significant Principal Adverse Impacts (PAIs) on the environment. The Natural Resource Management engagement theme focuses on companies for whom the management of water and waste is a financially material issue, or where they have a significant actual or potentially negative environmental impact.

In the engagement with companies, Robeco have observed a continuing effort of companies to work across their sites to explore alternative uses for waste to external landfills. In July 2022, Robeco started engaging with companies from three high water use or water scarce sectors: Chemicals (fertilizers and resource extraction); Oil & Gas (shale gas); and Paper & Pulp (operating in South Africa, a water scarce area). November 2022, they nearly doubled the companies under engagement by adding cases from the Breweries and UK water utilities sectors. In 2023, they closed the engagement with the first couple of companies; 50% successfully and 50% without success due to them being unresponsive to Robeco's outreaches. At the end of 2023, Robeco transferred some cases to a different theme with an aligned but more holistic engagement focus, such as biodiversity and climate change.

Until now, Robeco have engaged the companies on their exposure to water risks, with the focus on those operating in high water-stress areas, as well as those deemed to have high water consumption. However, in the remaining one-and-a-half years of the theme they plan to steer the engagement more towards waste issues, where the focus is on companies that generate hazardous waste and are at risk of polluting the environment and adversely affecting the communities that host them.

Social Impact of Gaming

From 2021 to 2023, Robeco engaged with some of the world's largest listed video game publishers. The engagement aimed to address the social impacts of video games related to depictions of violence and diversity, the safeguards for harassment, and the amount of time and money spent playing them.

This theme is now coming to a close. Whilst one company has been transferred to the Sustainable Development Goals (SDGs) theme, where Robeco continue to discuss these topics as well as cybersecurity and corporate governance. Of the remaining companies, 80% of cases were closed successfully.

Employee satisfaction and wellbeing received a lot of attention from the companies under engagement. Each one implemented one or more of the following initiatives to address weaknesses in their human capital management: workplace conduct and reporting systems, diversity policies, targets, and the appointment of dedicated diversity officers. Overall, 80% of the companies closed this objective successfully, with the remainder concluding the objective unsuccessfully despite positive progress, due to outstanding strained employee relations.

Many companies were hesitant to implement concrete guidelines or measures to address the issues surrounding in-game diversity and violence as this is deemed ‘creative’ as part of the storylines. Nonetheless, a few companies took their first steps towards fostering more in-game diversity by expanding character representation in key titles and developing tools to evaluate diversity in them. Others made positive progress by clearly stating intentions to address in-game diversity in future titles.

Companies have taken concrete steps towards safeguarding players’ well-being, instilling features in their games to combat inappropriate behaviour between players, or to better control the time and money spent, often with a focus on children. Robeco closed the objective ‘safeguarding online communities’ successfully for just above half of the companies, however, there remains room for a more proactive and structured application of principles and features in games.

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 Q1 2024.

Fair Reward Framework

LPPI has been an active participant in an investor collaboration on the topic of fair reward and specifically the challenges of evaluating what and by whom value is created and how that activity is rewarded. The outcome of this collective work is a draft framework developed for use by UK asset owners which will launch as a pilot later in 2024. The draft framework reflects responses received to a consultation at the end of 2023 about key indicators for inclusion in a tool which supports the evaluation of company rewards. The pilot will collate information for a first cohort of companies (FTSE100) providing users with access to information on all the indicators in one place, online, without charge.

Convened by the Church of England Pensions Board and Brunel Pension Partnership in partnership with the High Pay Centre, the Fair Reward Framework has been developed with input from 11 UK Asset Owners, including Friends Provident Foundation, Nest, Pension Protection Fund, People’s Partnership, Railpen, Scottish Widows, and Universities Superannuation Scheme alongside LPPI.

LPPI recently committed to providing financial support for the pilot which will trial the tool, confirm its practical usefulness to investors, and consider options for broader rollout (subject to a sustainable financing model).

Industry Participation

During the quarter, LPPI's Responsible Investment Manager spoke on a panel at Informa Connect's ISSB Standards, TCFD & Climate Risk Reporting Conference 2024, Europe's largest event on climate risk reporting. LPPI discussed lessons learned from using TCFD reports to drive better engagement on climate risk internally and externally with companies and investors alongside representatives from ITV and the UN Environment Programme.

Our Responsible Investment Manager also shared their insights on their career and experiences in sustainable finance to date in the Sustainable Finance Careers Guide, published by Chronos Sustainability, to help inform and inspire young professionals thinking of entering the field. You can find the resource here.

IIGCC NZIF 2.0

IIGCC opened a consultation to review their updated Net Zero Investment Framework (NZIF) – NZIF 2.0. As a signatory to the Net Zero Asset Manager Initiative, and user of the IIGCC's NZIF, LPPI responded to the consultation to provide feedback on the changes they have proposed relating to the application of the framework to external managers.

Since NZIF's release in April 2021, new components have been developed for asset classes not initially covered, and supplementary guidance has been released as the investor networks gain more experience through implementation. The NZIF 2.0 document draws together the new guidance and evolves the framework, based upon three years of implementation experience. For instance, recommended action points and disclosures have been updated in line with industry best practice.

Most of the noticeable changes are to asset class guidance, specifically an update to the Sovereign Bond guidance which has evolved with the advent of improving analysis tools and stewardship practices. There are also further updates and clarifications to the Real Estate guidance. In addition, IIGCC have included asset class components released during the last three years, which include: Infrastructure (2023), Private Equity (2023), Private Credit (2024). There is also reporting guidance for Hedge Funds and Derivatives (2023), along with the inclusion of more detailed metrics on Climate Solutions for Listed Corporate Debt and Equity (2023).

PRI Strategy Review

In late 2022 the Principles for Responsible Investment (PRI) ran a global signatory consultation titled 'PRI in a Changing World'. Work has subsequently been underway on a new organisational strategy supportive of the PRI's future role and delivery model. Details released via a consultation paper published in March 2024 entitled "Strategy Consultation 2024 – Responding to a changing world" sought comments and feedback from signatories by May 2024.

LPPI is a PRI signatory of long standing. Having participated in the original 2022 consultation we have also submitted a response to the 2024 consultation. The PRI's proposed organisational strategy addresses two overarching objectives: to maximise the value PRI delivers to signatories in a rapidly evolving environment and to deliver on the PRI's mission to create a sustainable financial system that benefits the environment and society as a whole. LPPI are generally supportive of the direction of travel and welcome the clarity of purpose which confirms that PRI cannot deliver all things to all people and need to prioritise and specialise.

The four focus areas outlined in the strategy consultation are:

1. Driving signatory progression on RI while streamlining PRI mandatory reporting
2. Strengthening regional RI ecosystems and extending our reach in emerging markets and developing economies
3. Amplifying signatory impact by supporting and leading collaborative initiatives
4. Strengthening the enabling environment for RI by influencing government and multilateral policy and financial market practices

The proposals explain different expectations around signatory reporting requirements which will be streamlined going forward, the focus moving from assessment against a single standard (through exhaustive completion of a comprehensive suite of indicators) to more tailored disclosure which demonstrates progress against locally set objectives for responsible investment practices and outcomes.

LPPI recognise that objective external benchmarks benefit clients and stakeholders assessing LPPI's stewardship. The PRI's decision to move away from prescriptive scored assessment recognises responsible investment is increasingly diverse, a single standard has become progressively more difficult to define and rate signatories against, and the PRI's priority focus is facilitation. The introduction of progression pathways seeks to encourage reporting which reflects the circumstances and level of maturity of signatory organisations, maintain accountability to the six principles and deliver insight on the activities and outcomes being prioritised. Further information on progression pathways will be shared once work to define their design is progressed in partnership with signatory representatives.

7. Other News and Insights

Taskforce on Social Factors

The Taskforce on Social Factors (TSF) issued its final report in March 2024. The TSF was formed following the Department for Work and Pensions' (DWP) consultation "Consideration of social risks and opportunities by occupational pension schemes" with the aim of supporting pension scheme trustees and the wider pensions industry to consider social factors in pension scheme investments.

The final guidance published on 7 March 2024 comprises a suite of papers collectively encouraging good practice supportive of social factors receiving more attention from trustees.

Reflecting the DWP's sponsorship of TSF, the guidance references regulatory requirements applicable to UK occupational pension schemes rather than to the LGPS directly (where asset pooling and significant delegation are relevant), but the papers published online nevertheless contain applicable insights.

Within the “Quick Start Guide for Pension Fund Trustees” the “What are social factors?” section immediately acknowledges an obvious source of complexity – the breadth and variety of factors which can be identified as social, which creates practical challenges for framing and application.

As an addition to current industry standards and an accessible source of reference, the guidance may prove helpful to Pension Fund Committee members if insights and guidance are translated into an LGPS context, and the subject matter resonates with priorities or areas of interest identified by the pension fund.

Taskforce on Social Factors: A Guide to Considering Social Factors in Pension Scheme Investments

Law Committee Paper

The Financial Markets Law Committee (FMLC) has published a helpful paper on the topic of climate change and sustainability as twin concerns for UK pension fund trustees.

The paper provides a short general explanation (in 14 pages) on the legal position for pension fund trustees integrating sustainability considerations into the fulfilment of their fiduciary duties. It covers the topic in terms that are understandable to pension fund trustees and acknowledges the uncertainties and difficulties trustees may face.

The paper frames and interprets sustainability considerations as financial factors integral to performing the primary investment duty of balancing returns against risks. As a brief, up to date, and authoritative addition to existing coverage of this topic, it is likely to be a helpful read and prove a useful reference document.

Pension Fund Trustees and Fiduciary Duties – Decision-making in the context of Sustainability and the subject of Climate Change (February 2024)

TCFD Update

TCFD recommendations set out how organisations across sectors and geographies should disclose climate-related financial information. The recommendations are structured around four thematic pillars that reflect core elements of how organisations operate: Governance, Strategy, Risk Management, and Metrics and Targets.

Originally created as voluntary guidelines, TCFD recommendations have subsequently been incorporated into compulsory reporting requirements introduced by regulators and standard setters. As such, LPPI are in the final stages of issuing our first mandatory entity TCFD report, covering the period of 2023, which will be published on our website in the coming weeks.

FRC UK Stewardship Code Review

The Financial Reporting Council has recently published details of the process and timeframe for its review of the UK Stewardship Code.

The Code last underwent an update in 2020 when a significantly increased range of expectations and disclosure requirements were introduced for prospective signatories. LPPI has been a signatory to the Stewardship Code since our inception. We consider standards set by the code and the external assessment of our compliance with it an important external quality standard giving assurance to our clients about the approach and practices we follow in managing their assets.

Details of the review are available from the FRC website. Following an initial period of fact finding, a formal consultation will take place over the summer, with a new Code expected in 2025 for implementation in 2026.

LPPI has already participated in a roundtable organised to provide feedback to the FRC from current code signatories on appropriate matters for consideration, which include the proliferation of reporting requirements which exert a heavy and expensive resourcing burden.

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:

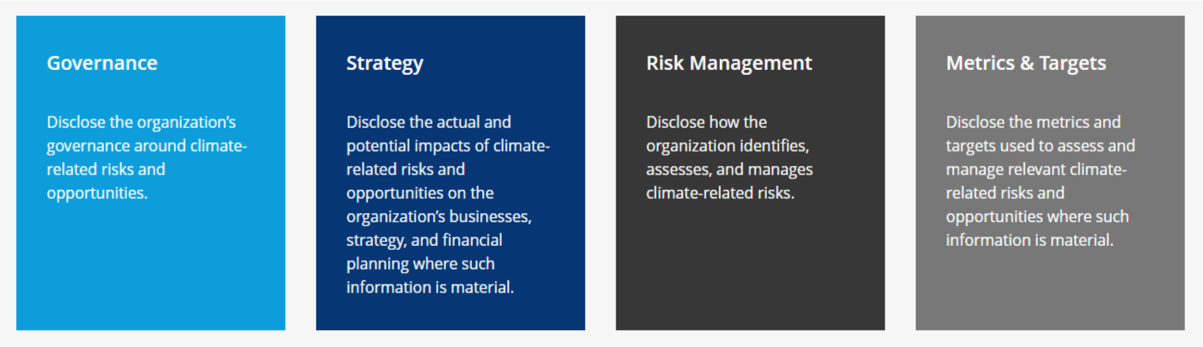
- substantially reduce global greenhouse gas emissions to limit the global temperature increase in this century to 2 degrees Celsius while pursuing efforts to limit the increase even further to 1.5 degrees,
- review countries' commitments every five years,
- provide financing to developing countries 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.