Royal County of Berkshire Pension Fund (RCBPF)
Responsible Investment Report – Q2 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 April - 30th June 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:

- Together with the UKSIF (UK Sustainable Investment and Finance Association), the PRI and IIGCC co-authored a public letter to the new Prime Minister Keir Starmer urging the government to seize the opportunities of net zero transition through a renewed policy focus. LPPI is a signatory to both PRI and IIGCC.
- LPPI is a member of two peer networks in the industry which have recently merged. The OPSC and the Asset Owner Roundtable recently joined to create the Asset Owner Council after the FRC stepped away from its convening role in the OPSC.
- LPPI's entity and product TCFD Reports have now been published and can be found here.
- In Q2 2024 LPPI voted on 99.6% company proposals, supporting 86.3% of these.
- Investments in Brown sectors (extraction, transportation, storage, supply, and generation of energy from fossil fuels) are 1.59% of the portfolio.
- Investments in Green sectors (renewable energy generation, clean technology, and decarbonising activities) are 5.88% 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. 3
		Green & Brown	p. 1, 4-5
		Climate Voting	p. 9-10
		Climate and nature transition of financials	p. 12-13
	Pollution	NA	NA
	Biodiversity	Case Study – Manager Engagement (Escalation)	p. 10
	Local Investment	NA	NA

S	Affordable Housing	NA	NA
G	Corporate Governance	Governance Insights	p. 3
		Core Stewardship	p. 5-8
		Good Governance	p. 11-12

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 Q2 2024 outlined below.

The Real-World Outcomes section of the dashboard features examples of positive ESG case studies, with this quarter focusing on investments held in the Real Estate portfolio. Pages 6-8 of the dashboard share information on a selection of investments within the RCBPF portfolio which are developing solutions based in the UK and abroad.

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

Sector Breakdown

Categorised by GICS[R] the largest sectoral exposures for the GEF are Information Tech. (26%), Financials (18%), and Industrials (14%).

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

Top 10 Positions

The top 10 companies (10 largest positions) make up 25% of the total LPPI GEF.

In Q2 2024 Alphabet has moved up 1 position making it the largest holding in the GEF, whilst Microsoft moved down 1 position. Visa, Accenture and Intuit all remained stationary, making up the rest of the top five. Adobe, Moody's Corp and Booking Holdings all moved up by 1 position from the previous quarter, whilst London Stock Exchange moved down by 1 position. Autodesk was replaced with Texas Instruments, which makes up the last position in the top 10.

Portfolio ESG Score

The GEF's Portfolio MSCI ESG score has not changed, remaining at 5.6 between Q1 and Q2. In the same period the equivalent score for the benchmark (MSCI ACWI) 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 Q1. By value, the coverage of the GEF represented within the globally high emitting companies under TPI assessment has decreased from 40.3% to 39.6%, between Q1 and Q2.

The number of GEF companies in scope of TPI scoring has decreased by 2 since Q1 2024, changing from 81 to 79. This decrease is as a result of 4 companies dropping out of scope as they are no longer in the portfolio, and 2 companies in the TPI universe that have entered the GEF portfolio.

Of the 79 companies in TPI scope:

- 92% (by value) are rated TPI 3 and above – demonstrably integrating climate change into their operational planning (TPI3) and into their strategic planning (TPI 4). This has slightly decresed from 93% in Q1 2024, which is a general reflection of the churn in coverage of the GEF under the TPI universe.
- 10 companies are scored below TPI 3 and are under monitoring*. Although this remains unchanged from Q1 2024, 1 company rated TPI3 and under did drop out of the portfolio whilst 1 of the new companies entering the portfolio came into scope.

**Monitoring – For all companies rated below TPI 3, we request our internal team or external managers to submit a TPI monitoring questionnaire, which aims to further understand the rationale behind its inclusion in the fund, and asks the following questions: What is their thesis & observations on climate risk for the company? Is the TPI score an accurate reflection of the company's climate risk management? What actions have been taken to encourage improvement?*

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 Q2 2023 and Q2 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 Q2 2024, an average of 32% of board members were female in the GEF, which is up from 31% in Q2 2023. There was 85% data coverage (unchanged from Q2 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 Q2 2024, on average 69% of board members were independent in the GEF, which is unchanged from Q2 2023. There was 85% data coverage (up from 84% in Q2 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 Q2 2024, the average shareholder support for say on pay was 90% (up from 88% in Q2 2023), which indicates a high proportion of investors were supportive of the pay policies of investee companies. There was 78% data coverage (up from 69% in Q2 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, reducing from 40% in Q1 to 38% in Q2 2024. The geographical exposure continued to have a strong presence in the United States, slightly reducing to 40% in Q2 2024.

Infrastructure

The geographical exposures to UK based infrastructure slightly increased, moving from 47% exposure in Q1 to 48% in Q2. The largest sectoral exposure remained in Traditional Energy, Renewable Energy, Waste, which makes up 36% of the portfolio.

Real Estate

Sector and geographical exposures remain similar to those reported in Q1 2024. The portfolio continued to be largely deployed in the UK, making up 79% of the portfolio. The largest sectoral exposure continued to be Living assets, making up 34% 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 Q2 2024, 79.4% 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 Q1 2024, Brown exposure has decreased from 1.61% to 1.59%. The biggest contribution to the reduced exposure comes from the GEF asset class. This decreased exposure is a result of a reduced mark-to-market valuation for some existing Brown assets held in the fund. This has decreased GEF's Brown exposure from 0.54% in Q1 to 0.50% of the portfolio in Q2.

Compared with Q1 2024, Green activities have decreased from 6.07% to 5.88% of the portfolio. The biggest contributor to the deceased exposure is from the Infrastructure asset class. The figures reflect a decrease in the mark-to-market valuation of some existing Green assets held in the RCBPF on-balance sheet funds of the portfolio. This has decreased Infrastructure's Green exposure from 5.79% in Q1 to 5.59% of the portfolio in Q2.

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 April – 30th June 2024 encompassed 241 meetings. LPPI voted at 240 (99.6%) meetings where GEF shares entitled participation, totalling 240 resolutions voted. One meeting was not voted due to issues with Power of Attorney (PoA) documentation at the sub-custodian level. While LPPI raised this with the Custodian in advance of voting season, it was not in place in advance of company meetings.

Company Proposals

LPPI supported management at 84% of votable proposals in Q2.

Voting against management captured:

- Director elections or resolutions relating to directors: **37%** 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: **19%** 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).

Case Studies – Director Related

LPPI voted against management on 170 director elections or director-related resolutions at 90 companies in Q2 2024. This was 9% of all director-related votes.

Overboarding

LPPI voted against six resolutions at six 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 Ayala Land, Inc. (Philippines: Real Estate Management & Development) because, at the time of the AGM, they served at a total of six public boards, which exceeds best practice in that market. Result: this resolution was passed by shareholders (exact % unavailable).

Independence

LPPI voted against 61 resolutions across 27 companies due to issues pertaining to lack of independent challenge either on the Board overall, or on key committees. At Hermès International SCA (France: Textiles, Apparel & Luxury Goods), LPPI cast votes against three directors due to them being considered non-independent by our proxy voting advisor, ISS, and the Board having an insufficient percentage of independent directors (28.6%). This demonstrated our conviction that Boards in developed markets should be populated by at least a majority of independent directors. Furthermore, we recognised that their association with the Company's founding family (the rationale for their lack of independence) meant that they also indirectly benefit from the company's unequal voting structure, therefore diluting minority shareholders' rights. Result: the three directors received between 5.9%-4% dissent.

Gender Diversity

LPPI voted against 16 resolutions across 14 companies due to issues pertaining to lack of 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, we voted against a director at Molina Healthcare, Inc. (USA: Health Care Providers & Services). Female representation at Board level was just 22%, a trend which had continued for at least the last four years. While LPPI's voting guidelines suggest that we direct our adverse vote instruction against the Chair of the Nomination committee, in the case of Molina Healthcare, we deemed this counterproductive since the Chair of the Nomination Committee is female. Therefore, we directed the adverse vote against a male member of the Nomination Committee who also serves as Chair of the Audit committee, which is responsible for the appointment of the external auditor, whose tenure exceeded LPPI's preferred limit of 20 years. Result: 9.3% dissent.

Case Studies – Compensation

LPPI voted against management on 81 compensation resolutions at 40 companies. This was approximately 19% of management filed compensation related votes.

At the **LVMH Moët Hennessy Louis Vuitton SE** (France: Textiles, Apparel & Luxury Goods) 2024 AGM, shareholders had the opportunity to vote on both the remuneration report for the year under review as well as the new remuneration policy. In deliberating our decision, LPPI acknowledged that the significant success LVMH was enjoying at the time of the AGM was undoubtedly a symptom of the CEO and vice-CEO's positive management. However, we noted ISS' concerns in both the retrospective report, and the forward-looking policy surrounding a lack of disclosure on targets and payout scales for both the annual bonus and long-term incentive plan, the performance period and criteria in the long-term incentive plan and a lack of derogation clause. Furthermore, shareholders were asked to approve Antonio Belloni's remuneration policy for the year, despite the fact he will step down from his role as vice-CEO following the AGM, when he will move to head up LVMH Italy. All these points considered, we felt the need to hold the company to the same level of account as other portfolio companies and voted against all resolutions pertaining to remuneration. Results: 15.5%- 19% dissent.

At the **Tesla, Inc.** (USA: Automobiles) 2024 AGM, shareholders were given the opportunity to ratify an already granted pay package to CEO, Elon Musk- the 2018 stock options plan. This was the second time shareholders were able to opine, but this time had the benefit of hindsight. LPPI agreed with the recommendation of our proxy advisor, ISS, and voted against the resolution. Despite the company's successes and the significant performance hurdles which Musk successfully overcame, the total award was deemed excessive. Furthermore, as Tesla shareholders, LPPI felt the award did not succeed in focusing Musk on the interests of Tesla and its shareholders rather than his outside business activities. Finally, there remains a lack of clarity with regards to Musk's future compensation policy. Result: 23.8% dissent.

At the **Davide Campari-Milano NV** (Italy: Beverages) 2024 AGM, shareholders were given the opportunity to vote on both the retrospective remuneration report, and the forward-looking remuneration policy. LPPI took into account our voting at previous years' AGMs; we opposed the remuneration report in 2022 and 2023, and the resolutions also received significant overall shareholder dissent (75% of free-float votes). This was due to a lack of transparency surrounding performance metrics, and the possibility the policy allows for excessive quantum. While we acknowledged that the new policy is an improvement on its predecessor (it proposed implementing a cap on the long-term incentive plan), it did not fully remedy concerns expressed by shareholders on the previous policy. Results: 10.2% & 10.3% dissent.

Shareholder Proposals

There were 180 shareholder proposals at 57 companies during Q2.

Environmental:
A shareholder resolution was filed by the 'As You Sow Foundation Fund' at **Alphabet, Inc.'s** (USA: Interactive Media & Services) 2024 AGM calling for the company to 'Report on Climate Risk in Retirement Plan Options.' LPPI voted in favour of the proposal and therefore against the recommendations of management. Whilst Alphabet does have an internal committee which assesses potential investment risks (including those pertaining to climate change) to beneficiaries, it is unclear whether these are adequately communicated to them. A report of this nature would be beneficial to both beneficiaries and investors and would provide useful insight and transparency into high-emitting companies within retirement portfolios. (Result: 6.6% dissent)

Social:
A shareholder proposal was filed at **Nestlé SA's** (Switzerland: Food Products) 2024 AGM by an investor group convened by ShareAction calling for the company to 'Report on Non-Financial Matters Regarding Sales of Healthier and Less Healthy Foods'. LPPI overrode the recommendation from our proxy advisor, ISS, to vote against the proposal and therefore support management, and instead chose to abstain. We rationalised that support for this proposal would equate to advocating change in Company strategy, which would detract from that already in place. Moreover, it seemed counterproductive to promote growth in one segment of the Company's product portfolio to the detriment of others. However, a large part of the proponent's broader argument was compelling. More than 50% of Nestlé's sales do not meet the Health Star Rating (a widely used indicator) healthier threshold of 3.5 or above. This is material for the Company as failing to manage the issue may increase the likelihood of financial and regulatory risk (e.g. sugar taxes/potential for fines) which may also result in reputational risk. From a broader societal perspective, it felt important to consider the global scope of Nestlé's products and distribution and its subsequent role in promoting healthy products, as well as maintaining integrity with regards to their labelling and marketing. This is particularly significant when considering the costs associated with growing levels of obesity worldwide, and the financial strain placed on the public sector (such as in the UK, a principal market for Nestlé) with national health services. Result: 12.1% dissent - this included 'abstain' votes.

Governance:
A shareholder proposal was filed at **NVIDIA Corporation's** (USA: Semiconductors & Semiconductor Equipment) 2024 AGM by John Chevedden calling for the Company to 'Adopt a Simple Majority Vote'. LPPI voted in favour of the proposal; it's worth noting that management didn't provide a recommendation to vote against the proposal as is usually the case with shareholder resolutions. This is indicative of a trend seen at several other US companies this proxy season. As minority shareholders, LPPI is generally supportive of proposals of this nature as the elimination of supermajority vote requirements enhance our rights as shareholders, giving us a more meaningful representation when expressing our views through proxy voting. (Result: Pass, 88.9% of votes in favour).

Climate Voting

In Q2, AGMs of 24 companies in LPPI's climate voting watchlist occurred, of which there were 19 climate-related votes against management, and one abstain vote.

Within the Climate Action 100+ universe, nine companies held in LPPI's Global Equities Fund had AGMs in Q2. Of those companies, we cast an adverse vote against management-filed resolutions on account of climate at three companies: **Suzano SA** (Brazil: Paper & Forest Products), **Berkshire Hathaway, Inc.** (USA: Financial Services) and **Grupo México SAB de CV** (Mexico: Metals & Mining). Additionally, we supported a shareholder-filed proposal on climate 'Disclose Plan to Link Executive Compensation to GHG Emissions Reduction Goals' at **Cummins, Inc.** (USA: Machinery) as we believed it to be proportionate and material. Companies typically avoided climate-related votes against management where disclosure or target-setting has improved or there is evidence of adequate progress prior to reporting (e.g. as ascertained through engagement calls).

LPPI cast an adverse vote on account of inadequate climate action at the AGM of **PPG Industries, Inc.** (USA: Chemicals) This was because, in-line with the Net Zero Investment Framework (NZIF)'s categorisation, the company operates in a high-impact sector. Whilst we were encouraged that the Company has set medium-term GHG reduction targets across scopes 1-3 (scopes 1 & 2: 50% by 2030 and scope 3: 30% by 2030 using a 2019 baseline), which have been validated by the Science-Based Targets initiative (SBTi), the Company lacks any short or longer-term targets and has not committed to Net Zero 2050. With regards to which director was deemed accountable, we learned from the company's annual report that the nomination and governance committees have responsibility for the ESG programme, and therefore cast a vote against the committees' Chair.

At **AMG Critical Materials NV** (Netherlands: Metals & Mining), LPPI cast a vote against the adoption of the financial statements and statutory reports as a result of the company's climate inaction. In-line with NZIF, the company is deemed to be high impact and had only disclosed its scope 1 & 2 emissions (while >90% of its emissions are scope 3). Furthermore, at the time of LPPI voting ahead of the AGM, the Company had neither set any credible emissions reduction targets, nor a Net-Zero 2050 commitment. Finally, the Company has not clearly indicated whether there is a Board member responsible for climate, therefore, LPPI directed the vote against the annual report and accounts.

LPPI cast an adverse vote on account of inadequate climate action at the AGM of **ONEOK INC.** (USA: Oil & Gas Storage & Transportation). This was due to the company operating in a high impact sector as defined by NZIF, and while we were encouraged that the Company discloses its emissions across scopes 1-3, it has only committed to target reducing its scopes 1&2 emissions (while >80% of its emissions are scope 3) over the medium term and has not set a Net Zero 2050 commitment. According to the Company's sustainability report, it targets reducing its scopes 1&2 emissions by 30% by 2030. However, we noted that they have done a lot to bottom out their strategy, particularly on methane, carbon foot printing and future business lines which are low carbon. The company's reporting states that the CEO holds ultimate responsibility for ESG, therefore we rationalised that we would abstain on the CEO's re-election and follow-up. Should we not see any improvement, we may choose to ratchet up our escalation and vote against their re-election at next year's AGM.

LAPFF Voting Alerts

LAPFF issued voting alerts for 10 companies held in the GEF over Q2, covering 47 individual resolutions. LPPI voted in the same direction as LAPFF for 38 votes (81%). In the majority of cases where LPPI took an opposing view to LAPFF, resolution quality was considered poor.

4. Active Ownership

Case Study – Manager Engagement (Escalation)

In mid-March 2024, LPPI made the decision to divest from and exclude an industrial conglomerate incorporated in Bermuda, with significant operations in Asia, from one of our externally managed portfolios.

The Company is a complexly structured conglomerate, which has both full and partial ownership over both conglomerates and companies. The conglomerates in its value chain, in turn, control companies, therefore exposing the Company to many industries with operations in Asia. Some industries the company is exposed to pose significant ESG risks: principally palm oil production and gold mining. Underlying companies operating in these sectors have been accused of alleged forced land reclamation and deforestation, human rights abuses, and mining activities threatening the habitat of an endangered species.

The decision to exclude the stock was not made in haste or without both direct and indirect engagement. LPPI's Responsible Investment team first brought the ESG issues associated with the stock to the attention of the asset manager of the underlying portfolio in May 2022. After a moratorium on the mining activity described above, the Company announced plans to resume and expand gold mining operation in early 2024. LPPI then engaged with the asset manager of the underlying portfolio and with the Company directly in a collaborative group setting led by another asset manager.

In assessing options for maintaining our holding in the Company, we considered the investment thesis and the company's position in the broader Global Equities fund alongside our ability to engage and reduce the ESG risks identified. We came to the conclusion that divesting and placing the company and specific subsidiaries on an exclusion list was the appropriate action.

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 13 companies in the LPPI Fixed Income Fund (FIF), accounting for 27.0% and 3.3% 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, one theme has been added to the progress chart: AGM engagement 2024.

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

Good Governance

This proxy season one fundamental question overshadowed many of the other topics of discussion: Is shareholder democracy still functional in upholding the best interests of all shareholders? This was triggered partly when Exxon Mobil decided to take legal action against Arjuna Capital and seeking to get a shareholder resolution asking for Paris-aligned carbon reduction targets to be taken off the agenda. Together with several other institutional investors, Robeco signed a petition asking companies to resolve their differences with shareholders via a constructive discussion, or if necessary to take their challenges to the SEC, rather than resorting to the courts. In the end, the court declared ExxonMobil's claim redundant, as the shareholder had made an unconditional and irrevocable pledge not to file a similar resolution again.

During the 2024 voting season, Robeco did not nominate board members in the US via the universal proxy card, but they did file shareholder resolutions at several companies, for example around further reporting on risks related to climate change. Moreover, they made formal suggestions for new board nominations, particularly in Brazil.
As part of their high-intensive engagement process, Robeco leveraged their ownership rights by physically attending a variety of shareholder meetings in the UK and the Netherlands; using this venue to engage with investee companies on key sustainability risks, impacts and opportunities, and encouraging companies to build future-proof models.
As part of their engagement activities, Robeco attended the annual shareholder meetings of the following companies:

Unilever – Where their discussion centred around the sustainability implications of the fast-moving consumer goods company's recent strategy changes under its new leadership. The CEO and Chair reassured investors of Unilever's continued focus on sustainability, with ambitions having become a lot more focused on measurable and controllable impacts.

Adyen – A Dutch payments company, where Robeco discussed how better guidance could be given to the market to reduce volatility.

Labor practices in a post Covid-19 world

The engagements, which were initiated in 2021 and have now been concluded, focused on the systemic labour challenges across some of the sectors most impacted throughout the pandemic.

Their engagements with hotel groups explored how fair wage standards could be incentivised through their franchising contracts and fees, for example by offering reduced fees for hotels accredited as paying living wages. While this is a challenging area due to legal issues over competition rules and other employer restrictions, they were pleased to see one hotel group updating its franchising policy to mandate a minimum 14-week maternity leave globally. This served as a blueprint to improve labour practices despite complex indirect labour relations.
One common strategy to remain being seen as an attractive employer, often while hoping to overshadow the lack of progress of wages and sick pay, was the strong focus on human capital development and the prospects for career growth. This proved to be one of the engagement objectives that brought the most successes. Some of the best practices that emerged during the engagement included designing individualised employee career paths, reporting on internal promotion rates, conducting inaugural pay equity assessments, and exploring alternative ways to assess diversity metrics such as by looking at educational backgrounds or similar metrics.

CASE STUDY

Meituan - In 2021, Meituan, one of the two largest Chinese online food delivery companies, was confronted not only by courier protests but also faced legally mandated labour standard revisions by the Chinese government. Through Robeco's continued dialogue with the company, they were pleased to see Meituan come out as best practice when it comes to aligning its algorithm with health and safety priorities. Over the last three years, Meituan regularly revised its delivery algorithm with a focus on reducing road accidents, embedding more reasonable delivery time limits and routes, as well as amending incentive and penalty structures to no longer incentivise reckless driving. Besides embedding accident insurance coverage for each delivery, the company also included mandatory trainings and delivery restrictions if couriers are flagged repeatedly for road safety violations. Altogether, these measures have already started to reduce accident rates across its workforce.

Climate and nature transition of financials

In 2021, Robeco launched their engagement theme on the climate transition of financial companies. They selected a group of listed banks, spread across a variety of markets, for engagement. The banks were selected based on their exposure to carbon-intensive sectors, their lending practices, and their overall sustainability scores. The climate impact of a bank is based on the magnitude and allocation of its capital and services across carbon-emitting sectors, known as their 'financed emissions'.

Robeco adopted the framework of the Task Force on Climate-related Financial Disclosure (TCFD), with the aim of helping banks to improve the development and reporting of their climate transition strategies. After three years of engagement, they were able to close the first set successfully. These banks were able to address climate change challenges well and on time. Robeco concluded that climate change was being sufficiently addressed, and that further engagement would not be necessary, not least as the banking sector is being heavily engaged by investors, NGOs and central banks across Europe. However, Robeco were unable to close the engagements with banks from the US and Asia effectively. While almost all the EU banks have progressed well in decreasing their financed emissions, the US banks showed little positive progress, and progress was slow at the Asian banks.

Given the mixed engagement results so far, Robeco have concluded that it would be wise to continue their engagements in this sector, since the need to focus on financed emissions has grown in importance. Therefore, they have decided to extend the theme, using the more advanced and granular frameworks that have since been developed, such as from the Transition Pathway Initiative (TPI) for banks and their own Traffic Light assessment.

Robeco have also observed growing attention towards nature or biodiversity as material risks for financials. This has triggered a strong desire to start engagement on the biodiversity risks and opportunities that the banking sector is facing. They have therefore added specific requirements within each objective, targeting both climate and biodiversity indicators. As such, they have renamed the theme to ‘Climate and nature transition of financial institutions’.

SDG Engagement

It has been two and a half years into the Sustainable Development Goals (SDG) engagement theme, through which Rebco encourage companies to improve their impact on one or more of the 17 UN Sustainable Development Goals.

Since the start of this theme, Robeco are pleased to see their early efforts continue to materialise in 2023, reflected in the progressing status of milestones and overall cases. They have been able to meet more companies in person, not only at each other’s place of business, but also at key global conferences, such as COP28 in Dubai. They are seeing that investing their time and effort in these relationships has yielded many of these companies to reciprocate. They are increasingly reaching out to ask for Robeco’s feedback on prospective policy or reporting changes, allowing them to tap directly into their internal processes.

As Robeco address multiple SDGs and topics in each engagement, they track companies’ progress by evaluating to what extent they have met their expectations on specific asks. Over the last year, the majority of the milestones achieved were linked to SDG 12: ‘Responsible consumption and production’, and SDG 13: ‘Climate Action’, which align with the distribution of the SDG linkages across the total milestones they set across engagements.

Last year, Robeco began sending out a survey to companies participating in the theme in order to get feedback on the dialogue and gain insights into their level of investor contribution for the specific milestones they had selected. The survey starts with several questions related to quality of the engagement dialogue from the companies’ perspective, and the mean score of statements indicating the level of contribution they had to the outcomes of the milestones. The results show that most companies felt that Robeco’s engagement specialists were well-informed and focus on issues that are both financially material to the company, as well as material for society.

Looking forward, Robeco are expecting to build on their engagements by refining the milestones, honing in on the opportunities they have crafted in their relationships, and critically evaluating where opportunities they had identified haven't yet materialised.

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 Q2 2024.

Investor Letter to the new Prime Minister

LPPI is a signatory to the Principles for Responsible Investment (PRI) and a member of the Institutional Investor Group on Climate Change (IIGCC). Following the general election in July, together with the UKSIF (UK Sustainable Investment and Finance Association) PRI and IIGCC co-authored a public letter to the new Prime Minister Keir Starmer urging the government to seize the opportunities of the net zero transition through a renewed policy focus.

The letter was shaped by, and expresses the views and interests of, investors represented by the three membership bodies. The principal joint call was for a supportive policy environment and a co-ordinated "whole of government" approach to the delivery of the UK's net zero strategy which will create the investment setting capable of attracting and retaining the private capital needed to generate economic benefits through accelerating green industries, technologies and jobs.

The letter is available from the IIGCC website.

Asset Owner Council Meeting

LPPI is a member of two peer networks in the industry which have recently merged. The OPSC and the Asset Owner Roundtable recently joined to create the Asset Owner Council after the FRC stepped away from its convening and supporting role in the OPSC. The new AOC aims to bring together the best elements of each of the previous structures to support collegiate learning amongst stewardship practitioners across the asset owner community.

All those who were members of the previous two groups have been invited to join including LPPI. LPPI's Responsible Investment Manager has also become a member of the AOC Steering Committee. The PRI has stepped in to coordinate alongside volunteer Chairs from the membership base, and the FRC has committed to provide some resources to the group going forwards.

The group met in its new format for the first time in May. Amongst other matters, the group agreed the top priority themes of the group which will inform the new workplan and maintained a commitment to run work streams from previous formats e.g. the stewardship alignment, corporate governance and alphabet workstreams.

7. Other News and Insights

TCFD Reports - Published

TCFD Recommendations and Recommended Disclosures, published for voluntary adoption in 2017, have progressively become part of compulsory disclosure requirements.

The Financial Conduct Authority requires firms to prepare and publish a report consistent with the TCFD Recommendations and Recommended Disclosures for our company as well as TCFD reports for our authorised funds by the end of June each year. LPPI's entity and product TCFD Reports have now been published and can be found here.

LPPI in the Media

Interviews with LPPI's Head of Responsible Investment have recently featured in two industry publications. Questions focussed on LPPI's approach to responsible investment, stewardship and sustainable investment in partnership with client pension funds.

- Portfolio Institutional (article published June 2024)
- ESG Investor (article published July 2024)

IIGCC Nature Guidance

The IIGCC held its Net Zero Summit at the start of London Climate Week which provided an opportunity to hear about the raft of new workstreams and guidance updates they are making to the NZIF framework as part of the official launch of NZIF 2.0. LPPI's Responsible Investment Manager attended and joined a workshop to feedback on the IIGCC's proposals for a new set of guidance on nature and biodiversity risk. The focus was on the AFOLU sector which has recently become a 'high impact' sector and attendees were keen for it to avoid the pitfalls of previous guidance in this area which focuses on metrics and targets which are difficult to obtain. LPPI will follow the development and review the applicability once in its final form.

For Reference

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

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

Paris Agreement
The Agreement is a legally binding international treaty to tackle climate change and its negative impacts. The Agreement includes commitments from all countries to reduce their

emissions and work together to adapt to the impacts of climate change. It entered into force on 4 November 2016.

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

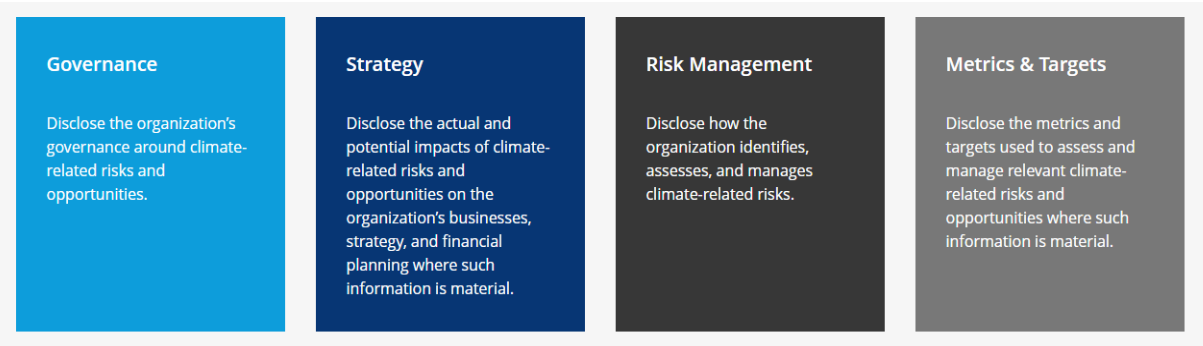
- substantially reduce global greenhouse gas emissions to limit the global temperature increase in this century to 2 degrees Celsius while pursuing efforts to limit the increase even further to 1.5 degrees,
- review countries' commitments every five years,
- provide financing to developing countries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

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

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

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

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



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

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

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

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