



2024 ANNUAL STEWARDSHIP REPORT

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Rachel Brothwood

Executive Director of Pensions

Creating Sustainable Futures

We remain committed and focused on delivering value to our customers.



OUR VISION

Our developing programme of investment stewardship activity continues to play a crucial role in building and nurturing a resilient investment portfolio, to deliver the returns required to provide benefits to our members over the long-term. 2023 was more stable for financial markets than the risk backdrop had indicated but the challenges for assets owners with a long-term investment horizon remain, as the global economic and political landscape continues to evolve and with this, a difficult environment to foster the changes required to benefit our people and planet.

The macroeconomic environment continues to prove challenging. As different regions and Central Banks continue to tackle inflation with varying degrees of success, we wait to see the impact this will have on interest rates and subsequently how this feeds into asset prices. Geopolitical risks remain prevalent, and the frequency, scale and impact of such more elevated. The long-term economic, environmental and human impact remain uncertain. Short-term, we continue to see the severe negative impact that conflict and climate change can have on human life which reminds us of the importance of using our voice where possible to advocate for positive change. With 2024 set to be the biggest election year in history we see the trend of heightened geopolitical risk persisting in the near term and is this is one of a number of themes which mean our approach will need to continue to evolve and adapt to our changing world and policy environment.

As long-term investors we remain focused on bigger picture themes that will play out over a longer-time horizon.

Decarbonisation, digitalisation, changing demographics and deglobalisation are examples of such longer-term trends. We aim to position ourselves to be best placed to capitalise on opportunities and manage risks associated with these to drive value for our members. Increased regulation and reporting requirements continue to be topical for the broader industry but in particular the Local Government Pension Scheme.

The future direction of pooling, governance structures and ongoing drive for increased transparency are key areas of focus which serve as a reminder of the importance of strong governance and structures throughout the value chain.

All of the above emphasise the need to have a robust approach to developing investment strategy and stewardship to deliver long-term sustainable returns and a portfolio resilient to challenges and changing market conditions. We look to constantly challenge ourselves and our approach with the assistance of our advisors to ensure we are incorporating best practice and latest thinking to help achieve our ambition of being a best-in-class asset owner focused on creating sustainable futures.

May 2024

Shiventa Sivanesan Assistant Director – Investment Management and Stewardship

Paul Nevin Assistant Director – Investment Strategy

Introduction

This marks the fourth edition of our Annual Stewardship Report, highlighting our ongoing commitment to stewardship activities as both a responsible asset owner and employer.



In March 2023 we formally completed an in-depth review of our investment strategy which was conducted in line with our triennial actuarial valuation. Focus has subsequently shifted to implementation of our new strategic asset allocation.

The execution of our investment strategy will continue to incorporate our overarching climate and net-zero objectives, affirming our ambition to be industry leaders in the active stewardship of our assets. We maintain that integrating environmental, social, and governance (ESG) factors and being responsible investors is beneficial for investment outcomes and ultimately delivers value to our members by creating sustainable investment returns.

Collaboration across industry players will be crucial in driving improving standards and we continue to work with our investment partners to enhance the level of data and analysis across our portfolio. Over the year we undertook our annual reporting on climate-related financial risks and have been working with our pooling partner, LGPS Central Limited, on developing new metrics to report on going forward as we review our broader climate strategy.

Engaging with our members around responsible investment (“RI”) has been a key area of focus over the year. In June we launched our first RI member survey to initiate dialogue with members and gauge members’ awareness and understanding around RI. The output has helped inform and shape our communication and reporting strategy which we have started to implement and will seek further feedback from members as this develops.

A significant focus in the coming years will be the further development of our internal reporting, oversight, and data framework across our investment portfolio. This will enable us to conduct more meaningful analysis and reporting across all our assets, enhance decision-making and align with the anticipated rise in climate-related disclosure requirements. We recognise the importance of being flexible in the current environment and anticipate that our approach will continue to evolve alongside industry developments and the ever-changing landscape.

Our Commitment



STRONG GOVERNANCE

Providing assurance on the services we deliver with effective decision-making.



CUSTOMER FOCUSED

Enabling, educating and supporting our customers on complex issues flexing our services to our customers' evolving needs.



GLOBAL INFLUENCE

Shaping the industry in which we operate, leading by example on key issues, including regulatory change, investment cost management, and responsible investment.



DELIVERING FOR LOCAL PEOPLE

Enhancing our reach through developing our engagement model and supporting our communities through opportunity.

This report draws upon many of our approved investment and RI policies:



Investment Strategy Statement



Responsible Investment Framework



Climate Change Framework and Strategy



Voting Principles



Climate-Related Financial Disclosure

2023 Highlights

RECOGNITION

- LAMP Investment Innovation Award 2023 for the Creation of the West Midlands Co-Investment Fund.



- Fund size: £25 million.
- Launched in partnership with West Midlands Combined Authority to provide small to medium-sized businesses in the West Midlands area funding to accelerate business growth.
- Focused on sectors including green technology, advanced manufacturing, and life science.

INVESTMENT

- **Investment in Renewable Infrastructure**
 - Increased our allocation to infrastructure investments across a range of opportunities, including mandates that focus on developing and leveraging renewable energy technologies and low carbon fuels that will accelerate the transition to a net zero economy.



NET ZERO

- 30% reduction in carbon intensity achieved in equities portfolio since 2019.
- Disclosed progress against climate targets via Paris Aligned Asset Owners progress survey.

ENGAGEMENT

748 companies engaged on
3,418 issues

- **Engagement spotlight:** HSBC Net Zero Commitment.

VOTING

37,180 votes cast at
2,882 company meetings

- **Voting spotlight:** Volkswagen's alignment with investors' Net Zero expectations.

KEY ACTIVITIES

- **Responsible Investment (RI) Survey**
 - Launched our first, pilot RI survey with 7,306 respondents
- **Strengthened our Voting Principles**
 - Stronger expectations pertaining to various issues including net zero pathways and gender/ethnicity on company boards and management teams



Our PRIDE Values

Our PRIDE objectives, which guide how we work and engage with each other, our customers, and industry – setting us apart and making us stand out from the crowd – also serve the best interests of our beneficiary members through the identification of five core themes for action.

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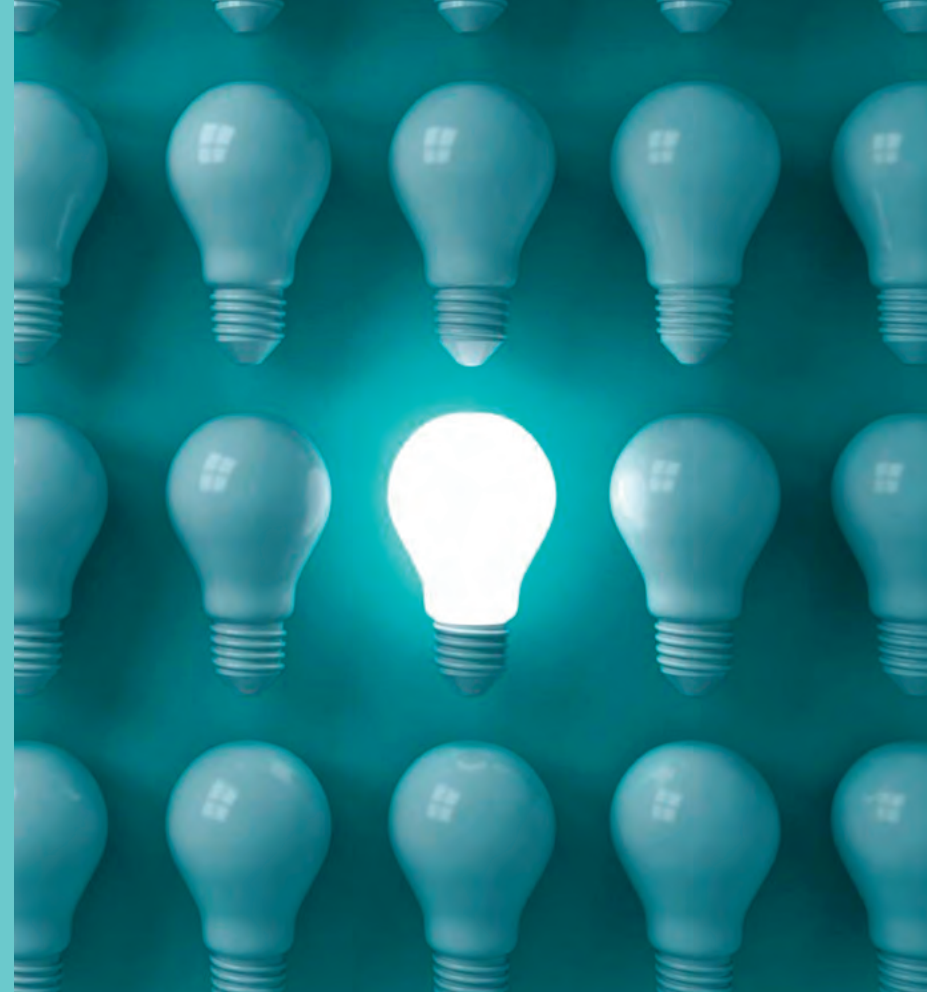
PARTNERING FOR SUCCESS

**R**RESPONSIBLE ASSET OWNER, EMPLOYER
AND LOCAL COMMUNITY PARTNER**I**

INVESTING TO INCREASE CAPACITY

**D**

DELIVERING ADDED VALUE SERVICES

**E**ENGAGING TO IMPROVE OUTCOMES
FOR CUSTOMERS

Our Engagement Themes

We have selected four engagement themes for the period to 2023¹: climate change, sustainable food systems, human rights and responsible financial management.



CLIMATE CHANGE

We believe there is overwhelming evidence to support that climate change poses both risks and opportunities to our investments. It is our view that the scale of these impacts is such that a proactive, precautionary, and evidence-based approach is needed to address them. We adopt a programme of climate change stewardship, primarily by leveraging our strategic partnerships and through our support to the Transition Pathway Initiative, the Climate Action 100+ Initiative, and the Institutional Investor Group on Climate Change.



SUSTAINABLE FOOD SYSTEMS

A sustainable food system is one that delivers food and nutrition security for all in such a way that the economic, social, and environmental bases for future generations are not compromised. There has been a shift among consumers who are increasingly aware of, and concerned by, the climate impacts of the food they eat and how sustainably it is produced. We also recognise and engage alongside partners to highlight and mitigate the risks and implications of water scarcity and use of single use plastics including the impacts on longer-term financial returns.



HUMAN RIGHTS

Human rights, such as the right to life, right to freedom of association or right to health, protect people from discrimination, oppression and violence ensuring that fairness, dignity, and respect are upheld. A corporate's ability and commitment to remedy human rights issues, whether direct or indirect, is reflective of the strength of a company's culture, governance processes and risk management and associated with resilience to market shocks. A key focus, as a representative of an Asset Owner Diversity Charter working group and the 30% Club, is pursuing greater gender and ethnic diversity. Our stewardship work incorporates a drive for wider ranging action on equality and inclusion to drive change and increase representation.



RESPONSIBLE FINANCIAL MANAGEMENT

Companies that exercise and demonstrate high standards of financial management are often linked to greater compliance, prone to less criticism and reduced reputation risks. Tax transparency ensures fairness in that small businesses are not shouldering a heavier tax burden, ensuring tax is being paid accurately based on the jurisdiction of where value is created. We push companies for increased transparency in their reporting.

¹ Our engagement themes will be refreshed for the period 2024-2027 noting this is a historic report for 2023.

Our Fund and How We Operate

(Principles 1, 2, 3, 5, 6)

OUR MISSION

We work in partnership with 838 participating employers to support pension saving and provide benefits to 345,241 members and employees who provide public services that support communities across the West Midlands.



Part of the Local Government Pension Scheme

Member of the LGPS Central Pool

Open defined benefit scheme – with a long-term investment horizon

Working on behalf of the seven metropolitan district local authorities across the West Midlands

Our mission is to provide sustainable futures for all – engaging our customers in retirement planning, ensuring efficient pension administration and return on contributions through RI and influence for positive environmental and social benefit, to deliver long-term benefit promises.

OUR FUND



Net assets

£20.2bn²



Members

345,241



Employers

838

² All membership and employer figures are dated as of the 31st March 2023, except the net assets dated as of 31st December 2023.



OUR MEMBERSHIP

We have three membership types, with roughly a third of our membership split thirds across each category.

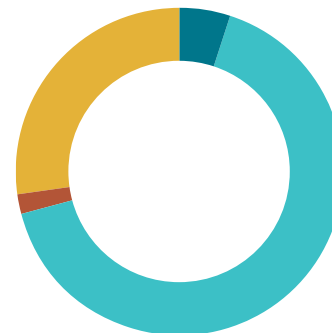
- Active members – currently employed by one of our employers and paying pension contributions into our scheme.
- Deferred members – worked for a scheme employer in the past and are entitled to receive a pension from us in the future.
- Pensioner members – are currently receiving their pension benefits from us.

The average age of our entire membership base is 55 years.

Total scheme members	Active members	Deferred members	Pensioner members
345,241	113,854	115,662	115,725

OUR EMPLOYERS

Membership of our Fund is available to all local government employees, including non-teaching staff of schools and further and higher education corporations in the West Midlands region, together with employees of scheduled and admitted bodies.



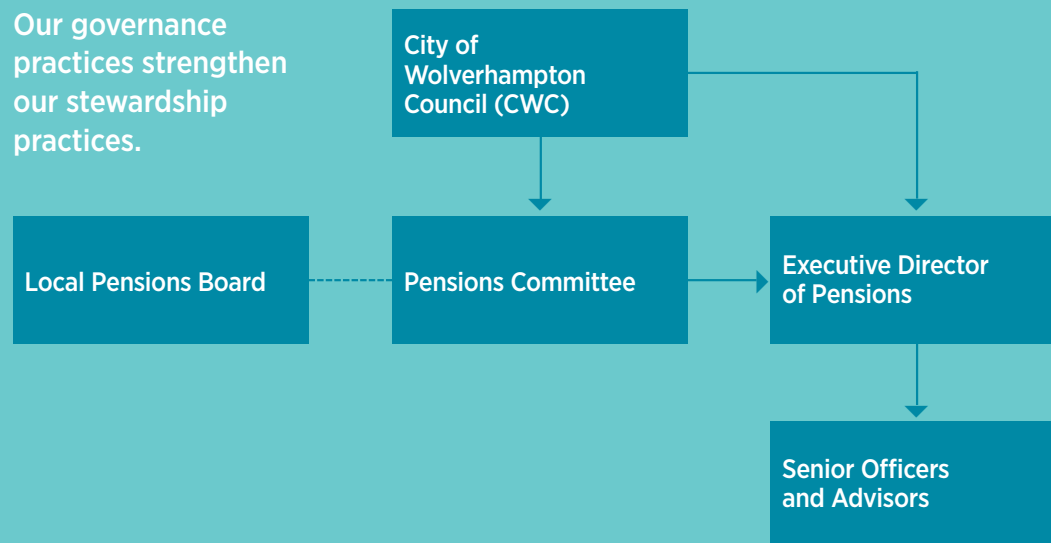
Employer base (% by number)

- Local authorities and scheduled public bodies **5**
- Academies **66**
- Further and higher education **2**
- Admitted bodies **27**

Our Decision Making



Our governance practices strengthen our stewardship practices.



³ defined by Section 4 of the Public Service Pension Act 2013

⁴ under the Local Government Pension Scheme Regulations 2013

⁵ under its constitution and in accordance with Section 101 of the Local Government Act 1972

⁶ as required by the Public Service Pensions Act 2013

⁷ Key duties of the Pensions Committee are detailed in our Governance Compliance Statement 2022

SCHEME MANAGEMENT AND GOVERNANCE

We are committed to providing strong governance.

The City of Wolverhampton Council (CWC) is our Scheme Manager³ and administering authority⁴. CWC have delegated responsibility for the management of our pension fund to our Pensions Committee⁴ and our Executive Director of Pensions⁵. Our Pensions Board⁶ assist in the good governance of the scheme by ensuring compliance with legislation and statutory guidance. Together the Pensions Board and Committee make up our 'Governing Bodies'. Our governance arrangements are outlined in the diagram above.

PENSIONS COMMITTEE

Members of our Pensions Committee are responsible for our activities, ensuring that they are managed in the best interest of all our members, employers, and beneficiaries⁷. Pensions Committee members must therefore take a non-political approach to the decisions they take. Our Pensions Committee membership is made up of ten City of Wolverhampton Councillors, together with one representative from each of the six metropolitan district councils across the West Midlands. They all hold voting powers on the Committee. The Committee invites representatives from the trade unions to sit as observers who actively participate in discussion but do not have voting rights.

Our Pensions Committee has oversight and monitors the implementation of our RI and stewardship practices and policies to ensure effectiveness and continuous improvement. We report to Pensions Committee on a quarterly basis on our RI activities. During 2023, the Committee approved the following RI publications or updates, except for the Responsible Investment Framework which was formally approved in March 2024:

- Responsible Investment Framework
- Voting Principles
- Annual Stewardship Report
- Climate-Related Disclosure Report

PENSIONS BOARD

Our Local Pensions Board (Board) assists with the good governance of the LGPS by monitoring compliance in line with statutory regulation and guidance. We explore and debate emerging risks and issues with our Board, who are representative of the Fund's membership and employer base, providing a forum for engaging customer perspectives.

Our Board is made up of five member and five employer representatives all of whom have equal voting rights. Our Board members are non-political and must consider our overriding objective, which is to pay members benefits when they fall due. The Board receive training opportunities and developing policy alongside the Pensions Committee.

GOVERNING BODY TRAINING

Our governance structure is structured according to the stipulations of local government pension schemes. We are committed to building the knowledge and skills appropriate for our governing bodies, particularly those that rotate on an annual basis, in an evolving regulatory⁸ and best practice landscape. We firmly believe that the benefits over the long-term are essential to the effective governance and management of our Fund.

RI continued to form a pivotal part of our 2023 governing body training and induction programme. In-house structured training was provided on our RI Framework, our RI approach and along with training on potential new climate metrics which have been developed to enhance our climate-related risk management and disclosure.

External training was delivered by our investment managers, such as our property manager, and via multiple guest speakers at the LGPS Central RI Summit and the annual Local Authority Pension Fund Forum (LAPFF) conference.

Training hours	Pensions Committee	Local Pensions Board
740.5 hours	467.5 hours	273 hours

SCHEME OFFICERS AND ADVISORS

Internal Investment Committee (IIC)

Our Internal Investment Committee is responsible for the day-to-day management of the investment portfolio and oversight of assets including the implementation of the Investment Strategy Statement (ISS), asset allocation and RI Framework. The IIC meet monthly to discuss and review our RI activities and developments.

Investment Advisory Panel (IAP)

Our IAP comprises two external advisors who provide challenge, oversight, and support assurance to our Pensions Committee including the review of our RI policies by providing expert and market experience. The IAP meets on a quarterly basis. The IAP undertakes an annual assessment, which includes an independent review of the performance of the IIC.

⁸ The Fund's Governing Body Training Policy is reviewed and approved annually and reflects the requirements of CIPFA's LGPS Knowledge and skills framework. Pensions Committee are detailed in the Fund's Governance Compliance Statement 2023

Our Team

The investment team is led by two members of our pension fund's Senior Leadership Team. Our Assistant Director for Investment Management & Stewardship is CFA qualified with a background advising pension schemes on investment strategy and implementation. Their primary focus is to monitor and work with investment managers to improve their approach to RI and ESG integration in line with our RI Framework.

Alongside is our Assistant Director for Investment Strategy, who is a qualified actuary with 20+ years' experience in the investment industry in a variety of different roles. Their primary focus is to undertake and implement our Investment Strategy as we pivot to a new strategic asset allocation aligning to our revised funding levels.

Our assistant directors are supported by a wider investment team consisting of an Investment Manager, Investment Officer, Investment Assistant and two Investment graduates. There are also two dedicated RI roles to support the stewardship of assets, ESG integration and RI monitoring alongside the investment process.

- Our Responsible Investment Officer who holds a PhD in Climate Change and is currently undertaking the Investment Management Certificate (IMC),
- Our Responsible Investment Analyst, who holds a Master's degree and is studying towards the CFA Certificate in ESG Investing qualification.

Collectively, we bring an array of skills, qualifications (CFA and IMC) and abilities gained from experience working in a range of sectors and organisations, including undertaking additional training to develop and grow within specified roles. This includes tailored resource focused on the development, implementation, and delivery of our RI objectives.

Further details on our wider approach to people development can be found in Our Peoples Strategy and Appendix 1.



Conflicts of Interest

Our [Conflicts of Interest Policy](#)⁹ sets out our approach to identifying, reporting, reviewing and mitigating potential and actual conflicts to ensure appropriate management. We acknowledge that it is not always possible to eradicate conflicts, and take a balanced view on their mitigation, management and record keeping.

Our failure to recognise actual and potential conflicts may impede our ability to effectively deliver for our members and employers, cause reputational damage and may lead to regulatory enforcement.

Body	Identification	Management
<p>West Midlands Pension Fund</p>	<p>We acknowledge the role we play in representing, collaborating, and determining aspects which have the potential to impact our customers.</p> <p>Potential conflicts may arise with City of Wolverhampton Council, who is both our administering authority and one of our participating employers.</p> <p>Conflicts may arise between us and our employers, between our employers, and in events such as restructuring and the transfer of services.</p>	<p>To manage potential conflicts with our administering authority, we:</p> <ul style="list-style-type: none"> • allocate and manage our own operating budget, finance, and investment activity¹⁰; • operate from a separate office location to CWC¹¹; and • have a dedicated senior LGPS Officer¹² (our Executive Director of Pensions) responsible for the management of Fund resources (including our people). <p>To manage potential conflicts with our employers, we:</p> <ul style="list-style-type: none"> • have policies in place to review and manage conflicts, including though clarification of our role often facilitating the provision of information to both parties, for example in the instance of a merger between two of our employers.
<p>Our People</p>	<p>We have established a policy and process for managing personal dealings of our officers.</p> <p>No employees have elements of remuneration linked to performance, selection or their work with our investment providers and advisers.</p>	<p>Our officers must report personal dealings to our Investment Compliance team to monitor the potential for insider dealing.</p>

⁹ Our Conflicts of Interest Policy was approved by Pensions Committee in September 2022

¹⁰ in line with LGPS regulatory standards

¹¹ under legally enforceable lease arrangements, separate to the Council building

¹² in line with the Scheme Advisory Board Good Governance Project

Body	Identification	Management
Governing bodies	<p>Pensions Committee CWC has adopted the national standard on Code of Conduct and the Nolan Principles on Public Life for its elected Councillors who sit on our Pensions Committee as the decision-making body.</p> <p>Local Pensions Board The Pension Board¹³ has a Code of Conduct for its membership (created on the same principles as that for elected councillors).</p>	<p>Conflicts of Interest Covered in induction training for new governing body members to ensure that they understand the requirement to declare pecuniary interests in relation to their roles.</p> <p>Declaration of Interests Required in matters being discussed and decided annually, and at the start of all meetings. Meeting minutes are recorded and published online, as is a register of interests.</p> <p>Managing Actual Conflicts Members who have an actual conflict of interest will be prevented from participating in discussions and voting on the matter being considered¹⁴, and therefore be excluded from the decision-making process. Members must then withdraw from the meeting and not remain in the room while the matter is discussed.</p>

We identified conflicts of interests for our governing bodies in 2023, with one ongoing conflict with one of our employers regarding a corporate transaction. Examples of hypothetical examples of conflicts of interest are included in Appendix 2a.

Management of Conflicts of Interest for Third Parties

The effective management of conflicts of interest is a key component of our due diligence process of all of our asset managers, service providers and stewardship services. We expect our managers to have robust controls and procedures in place around conflict management and to demonstrate commitment to managing conflicts fairly. In order to meet this requirement, we regularly request and review our managers' conflicts of interest policies.

We monitor and oversees LGPS Central's management of conflicts of interest and its compliance monitoring framework, during the review and appointment of service agreements. We expect an appropriate level of reporting on conflicts of interest in relation to advisory arrangements that are in place with LGPS Central.

An example of a conflict of interest from our underlying investment managers is included in Appendix 2b.

¹³ in line with the requirements of the Public Service Pensions Act

¹⁴ even if the conflict is already declared on the register of interests

Engaging our Stakeholders

Our member engagement aims to cultivate a shared vision for a sustainable and secure futures.

Our commitment to RI fosters trust and empowers members to participate in conversations that impact their retirement security. Our Engagement Strategy¹⁵ ensures clear communication of our investment stewardship approach and alignment with our member values. Through knowledge sharing and open dialogue, we aim to equip members with an understanding of how their concerns are addressed in our investment practices.

RESPONSIBLE INVESTMENT SURVEY

In 2023, we ran a pilot RI survey. The survey was designed to initiate a conversation with beneficiary members on the topic, gauge member awareness, understanding and appetite for RI, and to inform our actions moving forward. We conducted this project because we believe we have a responsibility to communicate and inform our members about our practices and were keen to hear their thoughts and opinions on key themes.

The survey ran for three weeks across May and June 2023 collecting a total of 7306 responses, representing 2.2% of our member base.

The results indicated that members have a lack of understanding as to what RI means, but generally associate RI with positive attributes. Younger members (age <35) showed more interest in ESG issues and climate change but were less engaged with their pensions than individuals aged 55+, including those close to retirement or already retired.

This important exercise highlighted that there is an opportunity to increase awareness and understanding of our approach and how this is evolving to ensure we address risks to the Fund and respond to those issues which are important to our members. Acting upon our findings, we began the following initiatives:



¹⁵ In reference to the RI-specific engagements with members. The wider Fund has an extensive Customer Engagement Plan to support members at all stages of their pension journey as detailed on our [website](#).

Increasing communication through engagement forums:

In 2023 we conducted three engagement forums engaging both our active and pensioner member base. These sessions were designed to raise member awareness of our approach to RI, facilitate discussions with members on RI matters, gain insight on member views and address any queries members may have. Notably, members raised questions regarding our asset base, divestment policies, and sought clarity on forthcoming communications.

Publishing our first Responsible Investment leaflet:

Through the engagement forums, we discovered a need for improved RI communication. It also became apparent that certain members prefer physical publications for accessibility reasons. As such, in September 2023 we created our first RI leaflet to be distributed at our Member Roadshows, with electronic versions also sent to members. The leaflet outlined our commitment to RI explaining the alignment with safeguarding investment returns, as well as the guiding principles and approaches to investment stewardship. The leaflet included practical examples and evidence of implementation, showcasing our activities.

Renewing our Investments' webpages:

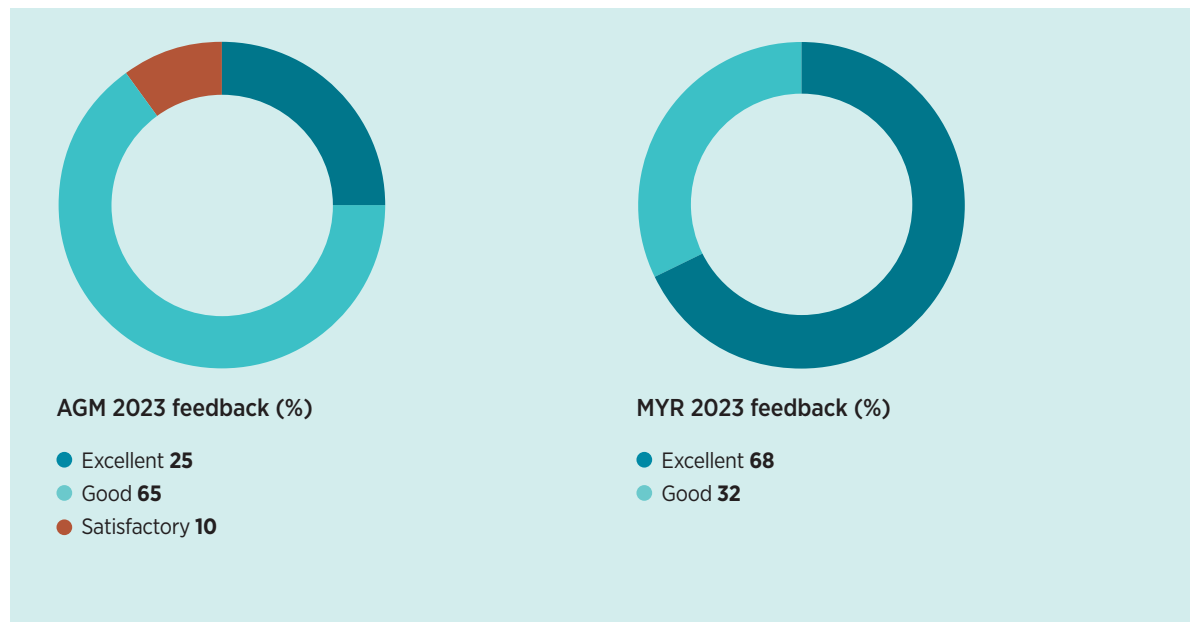
Continuing the theme of communication, in 2023 we began updating our website. We are looking closely at the pages related to Investments and RI to improve stakeholder engagement, improve user-friendliness and better showcase our achievements. Our plan involves creating new content and improving the page layout to ensure members can easily find the information they need. We anticipate completing this ongoing project in 2024, aiming to significantly improve our communication of Investment and RI activities to our members.

Engaging with our stakeholders

We recognise that a wide range of stakeholders take interest in investment and stewardship activity. We actively engage our employers on climate risks as part of our covenant monitoring programme and discuss funding development and the support we can provide to their employees to assist in managing change and retirement planning.

In 2023, the Investment Workshop at the AGM featured an update on our approach to setting investment strategy in the context of an integrated risk management framework taking into account employer covenant and the funding strategy. The changing market environment outlined the potential financial and ESG risks in the short-term, highlighting the need for robust, ESG-integrated investment strategy.

Feedback to the right was collected from our employers at our 2023 AGM and Mid-Year Review for the Investment Workshop and Investment Update respectively.



We pride ourselves on delivering communications of a high standard, regularly collecting feedback from both our members and employers at events to improve the delivery of our services. We continue to adapt our programme and approach in response to feedback received.

Our Investment Approach

(Principles 1, 4, 6, 7, 8, 9)

As a public sector pension scheme, we are focused on delivering value to our members. By investing responsibly on their behalf, we generate returns to help secure their long-term defined benefits in retirement, at the same time as utilising our scale to drive positive change through our investments around the world.



Alongside our members and employers, we have a shared motivation to address environmental, social and governance risks, to protect the value of our investments, access opportunities which contribute to positive change and raise standards to support the long-term sustainability of our people and our planet.

Our Investment Beliefs

Our Statement of Investment Beliefs underpin our approach to investment strategy, implementation, monitoring, and stewardship framed around our core beliefs:

OBJECTIVES

Setting clear and well-defined objectives are essential to achieving success and being able to appropriately reflect our long-term ambition.

GOVERNANCE AND ORGANISATIONAL

We believe having effective governance structures and policies will enable rigorous and tested decision making and will add value over the longer-term. Transparency and cost effectiveness provide key tenets of a well-governed Fund.

ASSET ALLOCATION AND IMPLEMENTATION

We adopt a long-term approach to investing as our liabilities stretch far into the future, but in so doing seek to also take a proactive approach to the management of assets, taking into account the risk/return profile of different investment opportunities over a range of time periods. Strategic asset allocation is the most important driver of our investment outcomes and is a key determinant of risk and return. Our investment strategy encompasses our approach to risk management, risk tolerance, return and liquidity requirements in order to meet our strategic objectives.

RESPONSIBLE INVESTMENT

As long-term owners of capital (assets), we believe that investing responsibly is key to ensuring the long-term value of the assets in which we invest are protected and where possible, enhanced. Investing responsibly and engaging as long-term owners reduce risk over time and has been proven to positively impact investment returns. We integrate RI into the way we select and steward all assets.

CLIMATE CHANGE

We adopt an evidence-based approach to climate change and believe there is overwhelming evidence to support that climate changes poses both risks and opportunities to our investments.

We consider the impact of climate change in both our asset allocation and individual investments when making decisions.



Our Investment Strategy

Our Investment Strategy Statement¹⁶ (ISS) sets out our investment objectives and target asset allocation. Our ISS is informed by our Funding Strategy Statement (FSS) and our employer covenant monitoring framework.



¹⁶ LGPS regulations require administering authorities to prepare and maintain an Investment Strategy Statement ("ISS"). Together, with the Funding Strategy Statement, these ensure an integrated approach to funding and investment strategy and risk management supporting us in meeting the regulatory funding requirements.

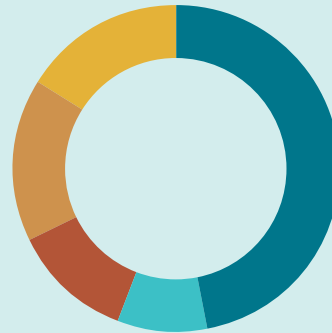
Together these provide an integrated and risks-conscious approach. We aim to meet our long-term liabilities through the effective management of assets and by being responsive to the changing markets in which we invest, whilst meeting our fiduciary duty.

With an increasing focus on investment governance and continuing to strive for efficient portfolio management, we seek to:

- allocate and transition assets in the context of a developing and moving market backdrop;
- build on our enhanced approach to stewardship, ensuring alignment and integration of RI across the investment chain;
- further develop our monitoring and oversight framework; and
- continue to develop opportunities for scale benefit through the LGPS Central pool.

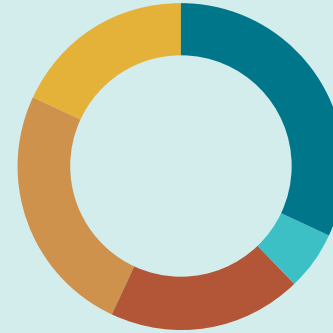
Investment Strategy Developments over 2023

Following our in-depth investment strategy review in 2022/23, we began implementing significant changes to our long-term strategic asset allocation target to align with and support delivery of our long-term funding objective.



Current Asset Allocation (%)

- Liquid growth **47**
- Illiquid growth **9**
- Liquid income **12**
- Illiquid income **16**
- Stabilising **16**



Target Asset Allocation (%)

- Liquid growth **32**
- Illiquid growth **6**
- Liquid income **19**
- Illiquid income **25**
- Stabilising **18**

These changes were carefully considered and informed by advice and dialogue with our scheme actuary, investment consultants, risk advisors and independent investment advisors.

Our target strategic asset allocation, which we aim to meet by March 2025, will significantly reduce investment risk while providing a sufficient level of expected return, all with the aim of securing members' benefits.

Given the scale of change, we will take a phased approach to transitioning to the new strategy with further work to take place around the integration of RI across the whole portfolio including improving integration of RI in private assets to enhance underlying mandates to meet our ambition to support the development of sustainable futures.

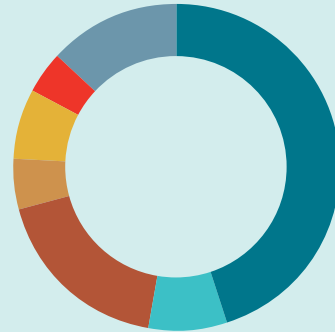
We are also developing a comprehensive reporting framework which incorporates ESG in the investment decision-making and monitoring process.

Our Assets Under Management

A breakdown of our assets by asset class, geography and proportion held with our Pooling company as of 31 December 2023 is shown to the right.

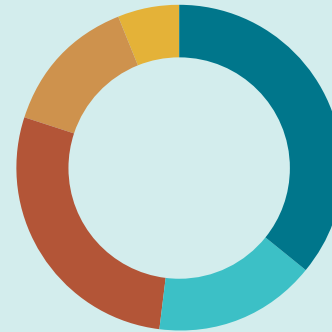
£20.2bn

Total AUM



Current AUM (%)

- Equity **45**
- Private equity **8**
- Fixed income **18**
- Infrastructure **5**
- Property **7**
- Private debt **4**
- Stabilising/low risk **13**



Regional allocation (%)

- UK **36**
- Europe **16**
- North America **28**
- Asia **14**
- Other **6**



Asset invested with pooling company (%)

- With pooling company **48**
- Outside pooling company **52**

Our Investment Time Horizon

We adopt a long-term approach to investing, recognising the open nature of the scheme, ongoing benefit accrual and pension liabilities developing over time.

We invest in:

GROWTH ASSETS

to generate a return in excess of the risk-free rate over the long-term.

INCOME ASSETS

to generate an income return over the long-term that meets future liabilities and reduces funding volatility.

STABILISING ASSETS

to reduce volatility of the funding level to changes in interest rates and inflation expectations as well as providing income to meet cashflow payments as they fall due.



We leverage our unique position as a long-term investor with a long-term time horizon due to our ongoing active membership base. This is reflected in our strategic allocation to illiquid or long-term assets. Many of these investments are positioned to benefit from an 'illiquidity premium', generating potentially higher returns to match our long-term obligations. Over 2024 and 2025, we expect this segment of the portfolio to grow towards our target allocation, further solidifying our long-term financial sustainability.

Our investment strategy is reviewed annually and approved annually by our Investment Committee and Pensions Committee respectively, and reset with changes approved triennially alongside our actuarial valuation to capture changes within our membership (and employer) profile and funding levels.

Turning Our Investment Beliefs Into Outcomes

Case Study: West Midlands Co-Investment Fund

- 'Partnering for Success'
- 'Responsible Asset Owner, Employer and Local Community Partner'

We launched the West Midlands Co-Investment Fund (WMCO) with the West Midlands Combined Authority (WMCA) in early 2023, aiming to accelerate £50m in investment for local businesses with high growth potential up to £1 million in equity for expansion, development, and growth. Focused on high-growth small-to-medium sized enterprises (SMEs) in sectors like green tech and life sciences, the co-investment fund aligns with our sustainable practices, aiming to generate both investment returns and economic and social benefits for the community.

In 2023, the WMCO made an investment into an award-winning Afro hair care company, Nylah's Naturals. The funding will support the company's mission to create non-toxic, natural hair care solutions for Black women. With a focus on addressing hair loss and care for the underserved Black community, the investment will facilitate key hires enabling Nylah's Naturals plans to expand globally. The company aims to celebrate and address cultural discussions around hair and beauty in modern society.



Our Responsible Investment Approach

Protecting and enhancing our member's pensions through active stewardship and RI.

We champion active stewardship and engagement to seek investment for a real-world change, engaging to improve outcomes and ensuring the strong governance we build within our own organisation is reflected within the assets we invest in.

We believe that it is our fiduciary duty to monitor financially material environment, social, and governance risks as part of the implementation and oversight of our investment strategy and which is critical in providing sustainable futures for all. Where appropriate we will look to rationalise our portfolio to have meaningful allocations – creating opportunity for greater influence over outcomes to positively drive change.

Our RI Framework sets out our three-pillar approach for the integration of RI both before (selection of investments) and after the investment decision (the stewardship of investments) and transparency and disclosure of our RI activities through quarterly Pensions Committee meetings, our Annual Stewardship Report and Climate-related Financial Disclosures.

RESPONSIBLE INVESTING IN ACTION

Listed below are some examples of the effectiveness of our RI approach during 2023 and how this has helped serve the interests of our stakeholders:

- Enhanced climate risk analysis through the addition of new climate risk and data quality metrics and increased the coverage of the portfolio undertaken in this analysis by 6.8%.
- Considered the alignment towards the Department of Housing and Levelling Up Communities' (DLUHC) upcoming mandatory climate risk reporting following consultations in December 2022 by undertaking a gap analysis.
- Dedicated RI training for our governing bodies (provided by external specialists) focusing on areas such as climate analysis and also specific asset class approaches.
- Involved in working groups such as the Occupational Pensions Stewardship Council about member engagement, and the Asset Owner Diversity Charter (AODC) to promote Diversity and Inclusion within the asset management industry (further information of our involvement on page 48).
- Strengthening of our Voting Principles and expectations of companies in relation to diversity, disclosure, and sustainability as part of our targeted engagement strategy.

Our Action on Climate Change

We are fully committed to aligning with the goals of the Paris Agreement and net zero ambition by 2050 or sooner.

As long-term investors, climate change presents risks and opportunities that form a part of our critical thinking in the way we approach investment and our Fund's wider objectives and delivery themes including global influence and delivering for local people.

We recognise the need to address climate change on a global scale. Climate-related risks are financially material; we acknowledge our role in ensuring the shift to a low carbon economy and ensuring a "just transition" for workers and communities, with the potential for substantial economic and social benefits.

PROGRESS TO DATE

Our Climate Change Framework and Strategy captures our aspirations to address and mitigate climate change including a 50% reduction in the investment portfolio's carbon emissions by 2030 and aiming to align to net zero by 2050. In 2023 we:

- reported against our Paris Aligned Asset Owner Target through the survey on progress;
- made a commitment to an infrastructure fund that focuses on investing in low carbon and core infrastructure assets;
- achieved 30% reduction in our total equities carbon footprint¹⁷ between 2019 and 2023; and
- had 36% of companies within our total equities portfolio recording a carbon risk management quality score¹⁸ of 4/4%.



¹⁷ Carbon footprint is calculated by working out the carbon intensity (Scope 1+2 Emissions / \$M sales) for each portfolio company and calculating the weighted average by portfolio weight.

¹⁸ The TPI framework evaluates companies based on their climate risk management quality and their carbon performance. The former includes an assessment of policies, strategy, risk management and targets.

Stewardship of Assets

Assets held outside the LGPS Central pool

SELECTION

Our mandate design and manager selection process (where undertaken directly) has set criteria for managers to undertake and report a programme of active engagement with underlying companies, provide ESG metrics, with investment principles and process tested for alignment with our investment beliefs, including those in relation to RI and climate change. Appointed managers are expected to be PRI signatories and adhere to the UK Stewardship Code.

We aim to be aware of and monitor financially material Responsible Investment (RI) issues in the context of investment and manager selection, whether this is through directly appointed external managers, or funds managed by LGPS Central. We extend this principle of 'engagement for positive change' to the due diligence, appointment, and monitoring of fund managers across all asset classes.



DUE DILIGENCE

We collect the following information from each manager before they are appointed where applicable to the asset class:

- Copy of their RI or stewardship policies (or equivalent) which articulates how RI factors, whether stemming from research, stewardship activities or other sources, are integrated into their investment process.
- Case studies or examples of where RI issues have influenced an investment decision.
- Information on the process for integrating any third-party RI data into their company financial models, investment strategies and portfolio construction.
- Fee transparency and evidence of disclosure, noting commitment to sign up to the LGPS Code of Transparency as a condition of appointment.
- RI reporting format.
- Whether they are a signatory of the UN-backed Principles for Responsible Investment (PRI) and UK (or other) Stewardship Code.

FUND MANAGER APPOINTMENTS

We assess the RI capability of a fund manager as a factor within each of the people, process, and performance categories. When appointing a fund manager, we take a balanced consideration of all relevant factors including RI. However, we pay particular attention to adherence to relevant soft regulatory codes depending on the market in which it invests. In practice, this means we are willing

to hire a fund manager at an early stage of developing our RI approach so long as there is a demonstrable RI commitment and a willingness to improve in their approach over a short and defined time period. In alignment with the guiding principle on "Engagement and Collaboration", we believe that there is added value in working with managers to develop their approach.

FUND MANAGER MONITORING

Each fund manager is expected to report to us at agreed intervals how their RI activities are contributing to improved long-term risk-adjusted returns. Examples of information that can be provided in aid of this objective include but are not limited to the following:

- How the manager integrates the consideration of RI issues into its investment and stewardship activities.
- How investment and stewardship functions are combined to protect and/or enhance value.
- Any outcomes arising from the manager's engagement with companies and their effectiveness.
- Financial metrics used to assess the risks within the portfolio and how these change over time and/or relative to comparable benchmarks.

We continue to develop our 'Internal Monitoring Framework', capitalising on new internal data functions to automate and streamline data for efficient portfolio oversight and management. We request data from our external managers on a quarterly basis providing a suite of performance and ESG related metrics.

Assets held within the LGPS Central pool

INTEGRATION OF RESPONSIBLE INVESTMENT

LGPS Central employs a rigorous external manager selection and monitoring process that fully integrates RI and Engagement (RI&E). LGPS Central's RI Integrated Status (RIIS) defines products that embed RI in their investment processes. This is overseen by the LGPS Central Director of RI & Engagement and the relevant LGPS Central Investment Director for the product(s) and put to approval to the LGPS Central Investment Committee. The criteria are as follows:

- RI beliefs relevant to the asset class or mandate in question.
- Relevant RI related documentation that supports the decision to invest, e.g. policies and procedures at external managers or co-investors.
- Fund managers factor RI and ESG into their selection of portfolio assets.
- RI reviews are carried out by fund managers at regular intervals (usually quarterly).
- Stewardship responsibilities are carried out thoroughly (engaging with companies, shareholder voting, industry participation).
- Fund managers are transparent in their reporting to clients.

How RIIS differs per asset class:

- **Active Equities** – LGPS Central takes that view that ESG risks are not effectively priced (both in developed and emerging markets), the extent to which ESG factors apply to a stock or sector varies and engagement with companies are an active part of portfolio management. As part of manager selection, these beliefs must be shared with the managers. During manager monitoring, the manager is assessed by analysing portfolios in Bloomberg, inspecting managers' responses to quarterly data requests, and questioning managers during quarterly calls. Managers are expected to justify new positions with analysis on the ESG risks and opportunities facing the company.
- **Passive Equities** – Stewardship and voting are the main tool for ESG integration. LGPS Central believes that index tracking funds diversify away from idiosyncratic ESG risk, but not systemic risk. Therefore, thematic stewardship is utilised, through the adoption of Engagement Themes which are agreed with Partner Funds, to mitigate long-term market risks and positively influence corporate practices.
- **Fixed Income** – ESG integration may vary by issuer type (corporate, sovereign, supranational, municipal, etc.) as reflected by the selection process for Fixed Income mandates. For LGPS Central's Multi Asset Credit Fund, the manager was asked to provide three examples, per issuer type, explaining how RI is incorporated in all aspects of the portfolio, which is monitored during quarterly review meetings.
- **Private Equity** – LGPS Central adopts a five-pillar scoring framework that covers: policy, people, process, performance, and transparency & disclosure to assess managers during selection and monitoring. For high-risk funds, either due to sector or geographical location, a more rigorous due diligence assessment is conducted. After appointment managers must report material ESG incidents. For co-investments, the manager is expected to establish ESG-related KPIs with investee companies, which is reported and updated annually.

MANAGER SELECTION

LGPS Central's manager selection process comprises a standard questionnaire, request for proposal and manager meetings, with RI&E assessments embedded throughout. Managers are then monitored through LGPS Central's internal portfolio analysis, inspection of the manager's responses to quarterly data requests, and via dialogue at quarterly meetings. Quarterly meetings are used to evaluate whether a manager is successfully applying the ESG processes observed on appointment and assess its effectiveness. Since LGPS Central invests across a range of asset classes, monitoring and ESG integration may differ per asset classes.

LGPS Central score managers on four components of their RI&E approach. Reflecting its importance, the RI&E component carries 13% of the weight in the overall score.

1. Philosophy, people, and process
2. Evidence of integration
3. Engagement with portfolio companies
4. Climate risk management

MANAGER MONITORING

Active Equities and Fixed Income

Active equities and fixed income managers are expected to complete a quarterly ESG questionnaire including number of engagements and corresponding weight in the portfolio. The RI&E team conducts quarterly monitoring meetings with external managers to ensure appropriate levels of ESG integration.

LGPS Central adopts a Red, Amber, Green (RAG) rating for manager monitoring; ratings are updated quarterly following manager meetings:

- Green (manager shows clear strengths tailored to requirement).
- Amber (manager warrants closer scrutiny with potential for going on "watch list").
- Red (manager fails to convince, warrants formal review with potential manager exit).

For primary private equity funds, LGPS Central conducts a RI&E review, based on fund literature and RI&E questions, every 2-3 years using a five-pillar scoring framework. Managers are rescored on each pillar and assessed on progress since initial due diligence.

For co-investment funds, LGPS Central sets and tracks ESG related key performance indicators, which are measured and reviewed annually to ensure relevancy to company strategy and/or regulatory requirements.

Assurance and Audit

We have a range of internal and external review and assurance processes which support good stewardship across our Fund.

ASSURANCE

Stewardship Policies

Our Stewardship Policies and Reports:



Annual Stewardship Report



Climate-Related Financial Disclosure Report



Climate Change Framework and Strategy



Responsible Investment Framework



Voting Principles

Our Responsible Investment Framework and Voting Principles are reviewed and updated annually by our investment team and Assistant Director of Investment Management and Stewardship before going through our Internal Investment Committee for debate, challenge and sign off. These policies are then approved by our Pensions Committee.

Reviews aim to capture developing initiatives and our response to emerging industry standards and best practice. Any new policies or framework will be developed with our investment consultants and advisors prior to review and approval by our Internal Investment Committee.

Investment Managers

In 2023, we continued to develop our internal independent compliance and risk function to aid further development of our assurance programme alongside the developing regulatory framework and rising expectations and standards. Actions undertaken to review our external managers' process include:

- Undertaking quarterly meetings, and ad-hoc meetings where necessary, with our external investment managers to challenge their approach and investment philosophy in relation to original conditions of the mandate, investment performance and investment stewardship.
- Sending out an assurance questionnaire to asset managers on an annual basis to evaluate managers' systems, processes, oversight, and controls in relation to its investment processes.
- Requesting for asset managers to provide their Internal Control Report aligned with best practice and standards such as the AAF01/20, SAS70, SSAE16.

AUDIT

West Midlands Pension Fund

An internal audit was conducted on our investment procedures in 2023 when using the pooling provider LGPS Central, but also pertain to all investment decisions by us.

The audit adhered to Public Sector Internal Audit Standards and assessed:

- the approval process for a pooled investment;
- operational systems for executing the investment decision; and
- monitoring and reporting practices for this investment.

This high-level review based on a sample of transactions from the past year revealed a robust system of investment governance. The audit also recommended some improvements around decision logs, audit trail and review policies, which were implemented immediately.

City of Wolverhampton

Our administering authority, City of Wolverhampton Council, provides an internal audit to evaluate the effectiveness of our governance, risk management and control processes. These processes are essential in ensuring good stewardship and governance of our assets. The internal audit forms part of our assurance framework which helps identify and manage risks that effect the achievement of the business objectives.

In addition to setting our policy and investment parameters, our Pensions Committee regularly review the performance of our service providers and investment managers including LGPS Central in terms of service delivery, product development and the wider pool in progress towards meeting the investment pooling objectives to deliver increased capacity to invest with strong governance and enhanced returns.




Our Service Providers

We work with our partners, customers, peers, and stakeholders to design, enhance, and deliver services that meet their needs as well as supporting the wider LGPS and pensions industry to shape the environment in which we work.

We utilise the expertise of external providers to assist in the provision of our service delivery. External provider appointment follows a formal procurement and review process, with a range of bespoke frameworks to facilitate re-tender exercises and ensure services are up to date with access to developing market practice and tools.

Each contract is logged in an internal contract management register with a designated senior officer responsible for the overall management of that contract. Service levels are reviewed formally on an annual basis with feedback and regular review meetings conducted.

In some circumstances (typically for investment advisors and consultants) formal objectives are set in conjunction with the advisor, with performance monitored against these agreed objectives on an annual basis with the output shared with the service provider.

Service provider	Expertise	Provision
<p>Pool Company – LGPS Central</p> 	<ul style="list-style-type: none"> Bespoke approach to RI integration through the in-house 'RI Integration Status' into all their investment products. Suite of RI policies in place together with an appointed engagement provider to support regular engagement, monitoring, and reporting. An experienced RI & Engagement Team consisting of an RI Director, Head of Stewardship, Net Zero Manager, RI Manager, and three analysts from a diverse range of academic backgrounds. 	<ul style="list-style-type: none"> Providing analysis and advice, including climate risk monitoring, to support implementation of our Investment Strategy Statement and RI Framework. Reporting on voting and engagement activity on a quarterly basis including a detailed annual report on engagement and voting outcomes.
<p>Engagement and Voting (via LGPS Central)</p> 	<ul style="list-style-type: none"> Global voting and engagement provider with dedicated in-house specialists in subject matter areas. Engages with regulators, industry bodies and other standard setters to shape capital markets and the environment in which companies and investors can operate more sustainably. 	<ul style="list-style-type: none"> Reports on voting and engagement activity across relevant pooled funds and specific segregated mandates (for voting outcomes only) every quarter, as well as providing a more detailed overview of engagement progress and voting outcomes on an annual basis.
<p>Risk Advisor</p> 	<ul style="list-style-type: none"> Integrated team of actuarial and investment consultants providing holistic risk advice. Advising on the integration of investment and funding strategy including risk modelling. 	<ul style="list-style-type: none"> Support and advice in relation to funding and investment strategy reviews including independent analysis and challenge. Undertaking climate risk scenario analysis via LGPS Central to identify potential portfolio impacts across different climate scenarios.

Service provider

Expertise

Provision

Investment Consultant*



- Advice on a variety of specialised topics leveraging the breadth of knowledge and expertise internally to support our objectives.
- Utilising a range of specialist tools and in-depth analysis to provide recommendations on our investment strategy and strategic asset allocation.
- Supporting with the oversight, portfolio construction and mandate design, particularly within the context of pooling.

- Instrumental in the planning and implementation of our new strategic asset allocation via a comprehensive transition plan which is being administered.
- Conducting analysis on current investments and evaluating potential investment prospects. Their guidance and insights have supported our decision-making processes and management of any assets performing outside of expectations.
- Undertaking Value-at-Risk assessments and stress tests to identify the risk exposure of the portfolio and setting the appropriate risk budget accordingly.
- Aided in creating a liquidity waterfall, enhancing our risk management and scenario planning. This safeguards our ability to meet our commitments by outlining strategies for accessing cash in different scenarios.
- Supporting our progress towards our RI goals through continuous integration of ESG factors into their guidance, promoting relevant sustainable investment practices.

*to March 2024

Actuary



- A team of specialists with extensive experience in providing actuarial support for local government and defined benefit pension schemes.
- Experience in providing ongoing monitoring of funding, assessing the level of employer contributions and in response to changes within the employer base and Scheme regulation

- Undertook our triennial actuarial valuation and liability modelling over 2022/23, as part of our risk management framework, quantifying our funding levels and confirming the contribution rates for employers.
- Identifying significant sources of funding risks that impact our ability to pay future funding benefit payments through sensitivity and risk analysis and integrate appropriate measures to our existing funding risk management.

USING OUR VOICE

Our role on national and industry bodies ensures the voices of our customers are heard by those responsible for the LGPS and its regulation, placing our members and employers at the centre of decisions which impact their futures.



Our officers actively engage in the development of policy, guidance and tools which support the administration, funding, investment, risk management, stewardship, and good governance within the LGPS. We also continued to support and founder the development of LGPS National Frameworks, including those for Actuarial and Benefit Consultancy services (available to all LGPS funds and employers) and Investment Stewardship.

As the industry comes together to enhance action on climate risk and develop initiatives and tools to aid pension savings, we continue to partner for shared gain and remain committed to delivering a valued and sustainable fund, ready and able to drive efficiencies through a proactive approach to change. We actively engaged in policy development through our memberships and participation with industry bodies, developing consultation responses on Department for Levelling Up, Housing and Communities (DLUHC) Governance and mandatory reporting of climate change risks.

Consultation: Local Government Pension Scheme (England and Wales) - Next steps on investments

In 2023, the government launched a consultation seeking input on various proposals concerning the investments of the LGPS. These proposals cover aspects such as asset pooling, supporting UK levelling-up initiatives, increasing investment in private equity, regulating investment consultancy services, and updating investment definitions. As a leader within the LGPS, we believe it is our duty to participate in these discussions to contribute to the best outcomes for our members and stakeholders. We remain committed alongside our peers to creating operational efficiencies across the LGPS, aligning with the ambitions of the DLUHC and protecting the interests of our members.

Consultation: FCA Diversity and inclusion in the financial sector – working together to drive change

The Financial Conduct Authority (FCA) consultation, that launched in September 2023, encourages firms with a Part 4A FSMA permission to report on their diversity and inclusion practices, providing a minimum standard for companies and provide clarity on expectations from a regulatory standpoint. We fed into the consultation, as a member of the Asset Owner Diversity Charter (AODC), in alignment with the proposals and direction the regulatory space was undertaking to ensure that diversity and inclusion is being factored into company's business practices and culture. We strongly believe there is a link between diversity and inclusion to business performance and ultimately investment returns.

Best Practices: Member Engagement through Occupational Pension Stewardship Council (OPSC)

We recognise that we can shape our industry, not just through the regulatory space, but also by sharing knowledge and best practices with peers and like-minded investors. As a member of the OPSC, we shared our methodology and experience in launching a pilot of our RI member survey, which aims to capture our members' understanding and appetite for RI content. Our learnings and approaches were shared with other members of the OPSC, mainly pensions schemes, with the intention of supporting others with member dialogue.

RISK MANAGEMENT

By horizon scanning and monitoring emerging drivers for change we are able to be more agile and effective in identifying both risks and opportunities

2023 delivered another year of turbulence for institutional investors, amplifying existing challenges and forcing a deep dive into risk management strategies and asset allocation.

The possibility of an economic hard landing became more apparent, driven by increasing interest rates meant to tackle ongoing inflation. This delicate situation threatened asset valuations across the board, highlighting the need for and value of risk management and diversification within the strategy. Geopolitical tensions, exacerbated by the ongoing and increasing number of regions impacted by war and conflict, further disrupted global supply chains, adding fuel to inflationary pressures, and introducing additional uncertainty.

We have a clear responsibility: building strong portfolios that can handle the complex and unpredictable financial world. This means actively managing exposures to changes in interest rates and monitoring emerging risks like a potential backlash against ESG practices and the disruptive potential of technological advancements like AI. Consistent stress testing, scenario planning, and strong governance are key to navigating challenges and protecting the future interests of our fund members.

To support our identification of risk, we undertake the following measures:

Risk identification method	Benefit
Working closely with our advisors	We work closely with investment advisors to monitor and address portfolio vulnerabilities, conduct stress tests, and manage our risk budget. This partnership ensures proactive risk management, guiding strategic decisions to uphold portfolio stability and performance.
Collaboration with industry peers	We engage in LGPS roundtable discussions to understand and address industry risks. These forums offer valuable insights into challenges concerning asset owners, especially regarding engagement and ESG factors, fostering a collective approach to risk management and sustainable investing strategies.
Appointing specialist asset managers	With dedicated resources for research and analysis, specialist asset managers conduct thorough risk assessments to better anticipate market shifts within their niche. Their focused expertise allows for appropriate identification of emerging potential threats.
Dialogue with asset managers	Continuous monitoring and transparent reporting ensure that we stay informed about managers' exposure to different risk factors. The meetings facilitate discussions on risk assessments, enabling proactive dialogue to address emerging concerns promptly.
Regular updates on macroeconomic conditions from our advisors	We receive a quarterly macro update and bespoke weekly newsletter from experienced advisors, providing insights and awareness of macroeconomic risks and other potential threats. Their insights often prompt further research, directly influencing discussions with asset managers and contributing to our oversight and decision-making process.

To address the risks that have been identified, we undertake the following management and controls:

	Risks identified	Management/Control
Investment risk	<p>Assets do not deliver the return required to meet the cost of benefits payable. Potential drivers:</p> <ul style="list-style-type: none"> • Inappropriate asset allocation and risk management. • Investment market performance/volatility. • Manager underperformance. • Concentration risk that a significant allocation to any single asset category and/or region/sector and its underperformance relative to expectation would result in difficulties in achieving funding objectives. • RI risks that are not given due consideration by us or our investment managers. 	<ul style="list-style-type: none"> • Investment strategy is considered in context of our liabilities and return requirements set within our Funding Strategy Statement. • Asset liability modelling and stress testing to set strategic benchmarks within Investment Strategy Statement, with annual review. • Regular monitoring of strategic asset allocation and returns relative to benchmark. • Regular monitoring of manager performance. • Diversified portfolio with exposure to a wide range of asset classes, portfolio holdings and different management styles. • Inflation risk mitigated through holding a diversified portfolio of growth and inflation-linked assets. Inflation risk is considered annually in the review of the Strategic Investment Allocation Benchmark (SIAB) and triennially as part of the actuarial valuation.
Asset risk	<p>Potential drivers relating to investment mandates and their performance relative to the strategic investment allocation benchmark:</p> <ul style="list-style-type: none"> • Concentration risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives. • Illiquidity risk that we cannot meet our immediate liabilities because it has insufficient liquid assets. • Currency risk that the currency of our assets underperforms relative to the SIAB. • Manager underperformance when our asset managers fail to achieve the rate of investment return assumed in setting their mandates. 	<p>Asset risks at the whole fund level are mitigated by the setting and review of the SIAB. At the asset class level asset risks are mitigated by risk controls within individual asset mandates:</p> <ul style="list-style-type: none"> • Constraining how far Fund investments deviate from the SIAB by setting diversification guidelines and the SIAB strategic ranges. • Investing in a range of investment asset mandates, each of which has a defined objective, performance benchmark, eligibility criteria and permitted ranges for individual securities which, taken in aggregate, constrain risk within. • Investing across a range of liquid assets, including quoted equities and bonds. This recognises our need for access to liquidity in the short term. • Robust financial planning and clear operating procedures for all significant activities including regular review and monitoring manager performance against their mandate and investment process. • Appointing several investment managers. In doing so we have considered the risk of underperformance by any single investment manager.

	Risks identified	Management/Control
Systemic risk climate	<p>We view climate change as a systemic risk that affects all assets. Considerations:</p> <ul style="list-style-type: none"> • Integration of climate risk monitoring and management into external manager mandates. • Identification of physical and transitional risks within the portfolio. • Ability to accurately measure and monitor both backward and forward looking climate-related risks. • Undertaking climate scenario analysis at regular intervals to understand the potential impact on portfolio returns to differing climate scenarios. 	<p>Our Climate Change Framework and Strategy outlines the approach to address climate change not limited to:</p> <ul style="list-style-type: none"> • defining our Climate Pledge - a set of beliefs that guide our approach to addressing climate change; • target setting for absolute carbon reduction, increase asset data coverage and reduction of our operational emissions; • setting climate change as one of four engagement priorities for 2020-2023 aiming to decarbonise through engagement; • continuing to develop and refine climate risk management metrics, as best practice and methodologies evolve and develop to better aid in our understanding of climate-related risks and their impacts; • regular disclosure and reporting on climate-related risks and on progress to achieving carbon reduction for accountability and transparency; and • Collaborating with initiative groups and peers to influence change on a global scale and enable the transition to a lower carbon economy.

By actively embracing this ever-changing environment and adjusting risk management strategies accordingly, we can more effectively steward and enhance the value our investments and in turn, our members' futures.

Our Engagement and Voting Strategies

(Principles 9, 10, 11)

OUR ENGAGEMENT APPROACH

We recognise both the risk and opportunity in holding companies that have a financially material exposure to environmental, social and governance risk factors.

We adopt a policy of risk monitoring and engagement to positively influence company behaviour and enhance shareholder value, influence that would be lost through a divestment approach.

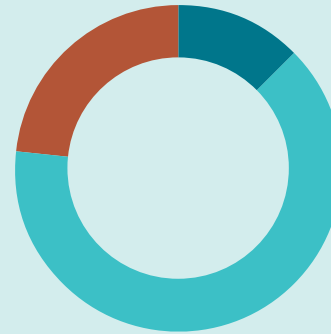
ENGAGEMENT OUTCOMES 2023

EOS²⁰ engaged with 748 companies on our behalf of during 2023 on 3,418 ESG issues and objectives



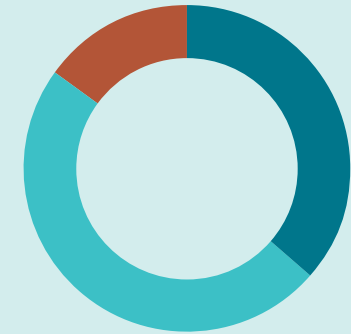
Global theme²¹ (%)

- Environmental **35.1**
- Social **26.3**
- Governance **26.4**
- Strategy, risk & communication **12.2**



Environmental by issue (%)

- Circular economy & zero pollution **12.6**
- Climate change **64.3**
- Natural resource stewardship **23.1**



Social by issue (%)

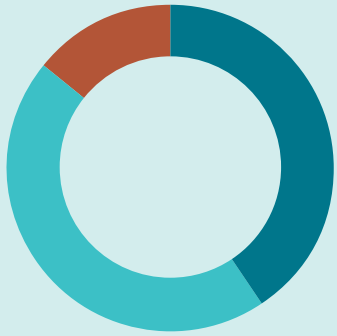
- Human and labour rights **36.6**
- Human capital **48.5**
- Wider societal impacts **14.9**

²⁰ Engagements are also undertaken by the asset managers who manage the securities, but has not been reflected in the following statistics

²¹ Totals may not sum to 100% due to rounding

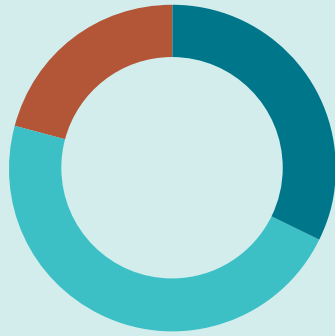
The provision of stewardship via our pool company means that, at this point in time, the quantitative breakdown of our engagement outcomes above captures engagements executed solely by EOS. It should be noted that the figures do not account for the direct, and equally as important, engagement carried out with companies by asset managers we engage directly. For this report we capture a variety of geographical and thematic company engagements undertaken by our managers qualitatively within the engagement case studies examples given on page 40 onwards. This is equally the case for the engagement outcome statistics on page 38.

As we develop and enhance our internal engagement and voting monitoring processes during 2024, it is our intention that our reported outcome statistics reflect all of our engagements, via our stewardship providers, our pool company, and by our asset managers. We aim to be fully transparent about our engagement scope, outcomes and effectiveness, to not only enhance the value of our assets, but advocate and drive industry wide influence and progress.



Governance by issue (%)

- Board effectiveness **40.6**
- Executive remuneration **45.3**
- Investor protection & rights **14.1**



Strategy, risk & communication by issue (%)

- Corporate reporting **32.3**
- Purpose, strategy & policies **46.9**
- Risk management **20.8**



ENGAGING OUR PORTFOLIO COMPANIES

We are aware of the challenges in demonstrating effective engagement and take a pragmatic approach based on materiality and the likelihood of improving outcomes to ensure effective stewardship across the portfolio. We focus on larger, growing, and prospective investments where managers are more inclined to engage, and we have the greatest opportunity to add value.

Our approach includes bottom-up engagement – which targets specific issues within individual companies – and top-down engagement – which identifies themes of long-term economic significance and relevance for our stakeholders. We will, either directly, collaboratively, through specialist service providers (e.g. EOS or LAPFF) or via fund management arrangements undertake engagement opportunities aiming to:

- hold constructive dialogue with investee companies;
- encourage disclosure on RI issues; and
- participate in the development of public policy on RI issues.

We have four engagement themes: Climate Change, Sustainable Food Systems, Human Rights and Responsible Financial Management, which were selected to run between 2020 and 2023. Our engagement themes determine our engagement priorities and the way that we vote and link closely to systemic and material financial risks of our investments.



ENGAGEMENT CASE STUDIES


CLIMATE CHANGE

Stewardship strategy: Engagement is conducted through LGPS Central, external investment managers and other relevant parties and via key collaborative initiatives including CA100+, IIGCC and the TPI.

Measures of success: We assess progress against the underlying objectives of the CA100+ engagement project, and against improvements on TPI scores for management quality and carbon performance.

Our aims are to see:

- A reduction in our portfolio's carbon emissions against a 2019 baseline – assessed through annual climate risk monitoring.
- A proportional increase in the numbers of companies in our portfolio setting net zero targets with credible transition plans.

Company	HSBC	
Asset type	Corporate bond	
Geography	Global	
Engagement via	External Corporate Bond Manager	
Engagement type	Disclosure and Target Setting	



Objectives	<ul style="list-style-type: none"> • HSBC has committed to achieving net-zero carbon emissions by 2050 yet faces complexity due to its significant presence in carbon-intensive sectors, especially in Asia. • HSBC aims to advocate for and partner with clients in their decarbonisation efforts. • The aim of the engagement was to urge HSBC to improve disclosure on its long-term climate strategy and ensure progress in client engagement on the subject.
Engagement strategy	<ul style="list-style-type: none"> • In 2023, our external managers' ESG analyst met with HSBC to evaluate HSBC's progress against its long-term climate strategy. • HSBC were encouraged to share more information about their climate engagement model. • Our manager also stressed the importance of HSBC publishing a comprehensive climate transition plan to provide investors with greater insight and potentially serve as an industry model.
Outcome	<ul style="list-style-type: none"> • Post engagement HSBC made significant progress against its climate-related initiatives. They implemented a pilot client engagement model for high-emitting sectors, scoring clients on their transition plans to inform decision-making at both portfolio and business levels. The climate engagement model pilot underwent rigorous audits for independence. • HSBC established their 'Sustainability Centre of Excellence' in 2022, ensuring that relationship managers had access to relevant expertise for client engagement. In January 2024 HSBC published its 'Net Zero Transition Plan'. <ul style="list-style-type: none"> - The plan places an emphasis on financing decarbonisation rather than divestment and is seen as a potential industry model.
Next steps	<ul style="list-style-type: none"> • Our manager will continue to monitor HSBC's disclosures and practices, with a focus on tracking the implementation and progress of HSBC's climate strategy. • Specific attention will be given to how HSBC integrates its climate engagement efforts into credit-making decisions and portfolio management activities, ensuring ongoing evaluation and scrutiny of the bank's commitment to sustainable practices.

ENGAGEMENT CASE STUDIES

Company	Various companies across tech, consumer, services and healthcare sectors
Asset type	Private equity
Geography	Mainly Europe and North America
Engagement via	External Private Equity Manager
Engagement type	Disclosure and Target Setting
Objectives	<ul style="list-style-type: none"> As part of its net zero strategy, the private equity manager encourages its portfolio companies to set validated Science-Based Targets (SBTs) as appropriate.
Engagement strategy	<ul style="list-style-type: none"> In 2023, the manager engaged with a number of portfolio companies on climate change topics through 1-to-1 or group sessions. The manager facilitated two webinars for portfolio companies during New York Climate Week 2023 which addressed carbon footprints and setting targets. Various portfolio companies were also invited to attend a product demonstration by a tech-led platform for carbon accounting and targets.
Outcome	<ul style="list-style-type: none"> The manager achieved its interim milestone in 2023, with validated Science-Based Targets covering 13% of invested capital, and a further 13% committed to set SBTs.
Next steps	<ul style="list-style-type: none"> Going forward, the manager will engage with portfolio companies on climate-related risks and opportunities, where it is material and appropriate. This includes planned group sessions with selected portfolio companies to discuss climate topics such as SBTs and carbon platform use cases. The manager will also continue to engage 1-to-1 with portfolio companies, as relevant.

ENGAGEMENT CASE STUDIES

SUSTAINABLE FOOD SYSTEMS

Stewardship strategy: Through LGPS Central, investment managers and stewardship providers, we leverage investor collaboration opportunities, for example, through the PRI Plastics Working Group. Voting forms part of the engagement strategy, and we consider co-filing or supporting shareholder resolutions that relate to better risk management.

Measures of success:

- We aim for positive interactions at senior levels of target companies and acknowledgement of potential risks affecting the security of our food systems, along with commitments to strategies or targets to manage those risks.
- We aim to support investor expectations – e.g. as expressed by the PRI Working Group – in dialogue with companies.

Company	Nestlé	
Asset type	Equities	
Geography	Global	
Engagement via	LAPFF	
Engagement type	Raising Industry Standards	



Objectives	<ul style="list-style-type: none"> • LAPFF met with Nestlé to assess and understand the integration of regenerative agriculture into its strategy. The objective was to understand Nestlé's specific goals, initiatives, and progress in implementing regenerative practices, along with its contributions to climate change mitigation and biodiversity conservation.
Engagement strategy	<ul style="list-style-type: none"> • LAPFF engaged with Nestlé to gain insights into the strategies and initiatives involved in implementing regenerative agriculture. Discussions covered how this integration would be part of Nestlé's broader climate strategy and its impact on biodiversity. The focus was on evaluating Nestlé's commitment to sustainable practices.
Outcome	<ul style="list-style-type: none"> • The meeting provided insights into Nestlé's commitment to regenerative agriculture. While the long-term effectiveness is yet to be measured, the discussions indicated a strong commitment from Nestlé. Further evaluation will be necessary to gauge the impacts of the strategies implemented.
Next steps	<ul style="list-style-type: none"> • Continued engagement with Nestlé is planned, with a specific focus on monitoring the implementation of their regenerative agriculture practices. Additionally, scrutiny will be extended across the agri-food sector to observe how others are incorporating similar strategies into their business practices as new methods and technologies become available.

ENGAGEMENT CASE STUDIES

HUMAN RIGHTS

Stewardship strategy: We will leverage investor collaboration opportunities, for example Rathbone's Modern Slavery Engagement Initiative. Voting will as far as possible be engagement led, and we will consider co-filing or supporting shareholder resolutions that relate to better risk management on human rights risks.

Measures of success:

- We aim for positive interactions at senior levels of target companies and acknowledgement of human rights risks.

Company	Telecommunications	
Asset type	Equities	
Geography	US	
Engagement via	LGPS Central	
Engagement type	Adopting UNGP Human Rights Approach	

Objectives	<ul style="list-style-type: none"> • LGPS Central engaged with a company operating in the telecommunication sector on the adoption of the United Nations Guiding Principles on Business and Human Rights (UNGPs) across its business operations. • The company operates in disputed territories as well as in countries with poor human rights records. Unlike its competitors, the company does not undertake human rights due diligence and its approach to human rights is not integrated in the any terms of references of its governance committees.
Engagement strategy	<ul style="list-style-type: none"> • LGPS Central initially sent a letter to the company asking for further disclosure on its human rights approach. • LGPS Central secured a meeting with the company after sending a second letter to the company. • LGPS Central met with the company's Investor Relations and two members of the Compliance Team.
Outcome	<ul style="list-style-type: none"> • LGPS Central providing a detailed review of the company's human rights approach compared with the practices adopted by its competitors. • The company deems its own human rights approach as satisfactory (although not compliant to the UNGPs). Following initial engagement, the company did not engage with a follow-up meeting. • LGPS Central has escalated its concerns by informing the company that it is likely that a dissent vote will be cast against the chair of the company at the next AGM due inadequate engagement progress.
Next steps	<ul style="list-style-type: none"> • As part of the escalation, LGPS Central will also raise this matter with external managers holding the stock on behalf of LGPS Central. • This process is line with LGPS Central's escalation policy and Voting Guidelines.

ENGAGEMENT CASE STUDIES

RESPONSIBLE FINANCIAL MANAGEMENT

Stewardship strategy: We will leverage investor collaboration opportunities, for example through the PRI Tax Investor Working Group. Voting will form part of engagement, and we will consider co-filing or supporting shareholder resolutions that relate to better risk management (through tax policy, board oversight, country-by-country reporting).

Measures of success:

- We aim for positive interactions at senior levels of target companies and acknowledgement of lack of tax transparency as a business risk, along with commitments to strategies or targets to manage those risks.
- We aim to support investor expectations – as expressed by the GRI tax standard and the UK Fair Tax Mark – in dialogue with companies.

Company	Power Integrations	
Asset type	Equities	
Geography	USA	
Engagement via	External Equity Manager	
Engagement type	Raising Industry Standards	



Objectives	<ul style="list-style-type: none"> • The objective of the shareholder engagement was to persuade Power Integrations to discontinue the inclusion of the tax rate as a component of the company's financial model.
Engagement strategy	<ul style="list-style-type: none"> • The engagement aimed to advocate for a business shift in focus towards emphasising the company's differentiated technology, intellectual property, markets, and operational execution in its financial reporting.
Outcome	<ul style="list-style-type: none"> • The first conversations were had back in 2022, talking with a newly hired investor relations executive, who was recruited for the company's first capital markets day. During this talk, ideas were proposed that organising taxes in a certain way is not helpful for society and does not make the company stand out for positive reasons. • The engagement urged that the company should stop including the tax rate in their financial plans and instead focus on their unique technology. Suggestions to improve how they report on their impact and ESG efforts were also offered.
Next steps	<ul style="list-style-type: none"> • Recognising the limited influence as a relatively small shareholder and the challenge posed by systemic changes such as those related to corporation tax, a decision was made to conclude the engagement for the time being. • Whilst the engagement has concluded, ongoing monitoring of the company's performance and issue management will persist, potentially exploring alternative methods like public policy engagement in the future.

Whilst engagement in this example was unsuccessful, we will continue to monitor financial risks within portfolio companies before they become material, and seek to engage with the company when the opportunity arises to influence change.

Engagement Theme Review for 2024-2027

Since our four engagement themes were established in 2020, we recognise that the global, economical, political and investment landscape has changed, and thus presents risks and opportunities to asset owners. In light of this, our RI team reviewed our engagement themes in 2023 to ensure that they were fit for purpose for the coming years. This included conducting an industry review to gauge the investment risks pertaining to our peers and wider investment industry. Time was also taken to consider the most pressing global challenges and opportunities by analysing NGO research, such as the World Economic Forum's Global Risk Register, and United Nation's Sustainable Development Goals. Additionally, we considered evolving UK policy, regulation and guidance for pensions schemes, including a growing focus on social and biodiversity risks. Finally, we also engaged in discussions with our pooling company, LGPS Central, and our sustainability-focused asset managers to discuss their own engagement strategies and implementation of the engagement themes.

We want to ensure our engagement efforts have the most relevance to global risks and opportunities, as well as reflect the materiality of assets within the portfolio and will be fit for purpose for the coming years. We have communicated our engagement priorities with LGPS Central and other relevant stakeholders. We believe that finding commonality and improving alignment of engagement priorities will foster more impactful engagements and practical reporting.



ESCALATION

Escalation is a key component of stewardship. We expect managers to be ready to escalate any engagement where there is lack of progress relative to engagement objectives, on any material ESG topic. If an engagement with company is unsuccessful, we expect managers and/or stewardship providers to:

- Escalating engagement through a different person of authority in the company.
- Consider filing or supporting a shareholder resolution.
- Voting against unresponsive directors of company boards.
- Participate in certain individual and class action securities litigations.



Each year the Local Authority Pension Fund Forum (LAPFF) and LGPS Central engage with numerous companies, often directly with company chairs, on our behalf. When company dialogue is too slow, LAPFF escalates its engagements through issuing voting alerts for company's Annual General Meeting (AGM) proposals or filing shareholder resolutions with companies to progress action on a given issue. To leverage engagement outcomes, LAPFF often works with other asset owners and managers. LGPS Central's escalation approach is detailed in their Annual Stewardship Report.

During 2023 we asked managers to pay particular attention to companies' climate transitions, or lack thereof, in line with the Paris Accord. This is part of a broader discussion with external managers around the implementation of our net zero targets.

Company	TE Connectivity Ltd.
Asset type	Equities
Topic engaged	Climate change
Geography	US
Issue/reason for engagement	For one of our external managers, this company is a top emitter of the investment strategy, therefore net zero and decarbonisation targets are high priority. Engagement was in tandem with other investors and IIGCC, who sent a letter early 2023, requesting the company to disclose their corporate net zero transition plan, that would provide more clarity on how near-term, Science based Targets Initiative (SBTi) targets would be achieved. The request was acknowledged, but TE Connectivity ignored several follow up attempts from investors.
Escalation method	A letter was written to the Chair of the company, which included our managers' voting intentions at the forthcoming AGM if the company failed to respond to engagement. Several other investors also signed the letter adding further weight to the request.
Outcome	The escalation was successful, with a meeting scheduled with the company. The company also confirmed that their Corporate Responsibility team plans to announce progress against its goals in May 2024.



Company	Vestas
Asset type	Equities
Topic engaged	Sustainable food systems
Geography	UK/Denmark
Issue/reason for engagement	The company was identified by our manager for having high exposure to biodiversity implications and sought to engage the company on their approach to managing this risk. The company was reluctant to provide any further details and then later indicated that this was not a priority for them.
Escalation method	Our manager initiated a collaboration engagement with like-minded investors to question Vestas and their biodiversity impacts. Through collaboration, our managers would be able to emphasise a greater sense of urgency of the issue to the company. A letter was written to the CEO calling for the company to support nature conservation and to consider biodiversity impacts alongside the energy transition. It requested the company to make clear its position on biodiversity and publish its approach to mitigating negative impacts and maximising positive biodiversity impacts.
Outcome	The company responded in detail by disclosing their bird and bat protection systems, environmental impact assessment and specialist consultants to support their biodiversity strategy. Further engagement will continue to see how investors can support the upcoming strategy and monitor developments.




Company	Insurance Company
Asset type	Equities
Topic engaged	Human rights
Geography	US
Issue/reason for engagement	The company had several allegations relating to workplace behaviour. Our manager reached out to the company on several occasions to discuss said allegations and to understand the related risks on the matter.
Escalation method	Multiple outreach emails were sent with the intention to set up a call with the company.
Outcome	Following discussions with the company, our manager believed that the company's response was not constructive. The manager made a decision to exit the position in the company. Our manager believes that if an engagement is not successful then the company's risk is significantly higher. This means the return outlook has changed, and therefore the company no longer meets our managers' investment philosophy and thesis.




WORKING IN PARTNERSHIP


We believe working collaboratively with other investors will deliver improvements to the way in which companies are managed and provide opportunity to influence wider policy which can positively impact long-term returns.

Joining forces across the asset owner community provides opportunity to influence corporations, regulation, and policy on a large scale. As one of the largest UK pension schemes, we aim to collaborate with industry working groups and like-minded investors to lead by example, instil best practice and address global issues. We need to tackle climate change at an increasing pace globally, which will require that all companies, industries, governments, policy makers, capital markets, asset owners and individuals act together and with a common goal.

We review our memberships and participation in working groups annually to prioritise and focus on areas that are consistent with our engagement themes and areas/issues that are underrepresented by the market, reiterating our desire to lead by example and drive a positive impact.

Industry initiatives	Contribution	Effectiveness
<p>Asset Owner Diversity Charter (AODC)</p> 	<p>Founding member of an asset owner working group established to formalise a set of actions for asset owners to improve diversity across the investment industry.</p> <ul style="list-style-type: none"> • Providing input into the strategic direction of the working group. • Supporting in-person events and conversations. • Undertaking data analysis of all asset managers that have completed the AODC questionnaire to understand the direction of the industry. 	<ul style="list-style-type: none"> • The AODC hosted their second person event in 2024 covering the progress of the industry thus far. • Participated in the FCA Consultation: Diversity and inclusion in the financial sector. • Established an advisory committee to oversee and guide the direction of the working group.
<p>Climate Action 100+ (CA100+)</p> 	<p>Member of the engagement initiative comprising 700+ investors with a combined \$68 trillion assets under management. CA100+ engages 170 companies on climate risk that are considered high emitters and contribute the most to global greenhouse gas emissions.</p>	<ul style="list-style-type: none"> • Robust, targeted, and strong investor collaboration that forms part of our engagement program for climate change risk management. • CA100+ Benchmark Framework embeds structure and rigour to assessments of companies against a Paris Accord trajectory.
<p>Cross-Pool RI Group</p> 	<p>Member of a collaboration group across LGPS pools and pension funds.</p> <ul style="list-style-type: none"> • Attendance at the quarterly meeting providing input to relevant discussion topics for those facing the same challenges. 	<ul style="list-style-type: none"> • Engaging with regulatory bodies to provide feedback and receiving updates of the latest challenges facing regulatory operators. • Forum to discuss with like-minded a range of topics including reporting and net zero strategies.

Industry initiatives	Contribution	Effectiveness
Institutional Investor Group on Climate Change (IIGCC) 	<p>Member of an influential asset owner and asset manager membership body focusing specifically on defining investment practices, policies, and corporate behaviours to tackle climate change.</p> <ul style="list-style-type: none"> • Involvement in a range of webinars and forums including net zero surgeries. 	<ul style="list-style-type: none"> • In 2021 we set our formal commitments to achieve net zero by 2050 with support and guidance from the IIGCC Net Zero Investor Framework. • In 2023 we submitted our 'Survey on Progress', which assesses our net zero commitments against our 2022 Annual Target Disclosure.
Local Authority Pension Fund Forum (LAPFF) 	<p>Founding member of an engagement provider for 87 local authority pension funds and seven investments pools, assisting with sustainable and ethical investment challenges.</p> <ul style="list-style-type: none"> • Our Executive Director of Pensions is a member of LAPFF's Executive Committee. • Setting the direction and engagement approach by feeding into the annual workplan ensuring our engagement themes are being addressed. 	<ul style="list-style-type: none"> • Engaged with 256 companies (additionally 470 companies through 'Say on Climate' and Nature Action 100+ engagements) through emails, meetings, and AGMs on a range of material ESG issues targeting 17 Sustainable Development Goals. • Issued voting alerts to escalate engagements, reflective of our engagement themes, with companies where engagement has been ineffective to date, or where companies have failed to engage at all. • LAPFF engagement activities complements engagement efforts, for instance human rights risks from companies operating in conflicts zones.
Principles for Responsible Investment (PRI) 	<p>Signatory, since 2010, to the largest, global responsible investment-related organisation supporting with research, policy influence and collaborative engagement.</p> <ul style="list-style-type: none"> • Undertook annual RI assessment to retain our signatory status. • Partook in the 'PRI Changing the World' consultation evaluating the services provided by PRI and setting strategic direction of the organisation. 	<ul style="list-style-type: none"> • In 2023, we maintained our signatory status, achieving A+/A across all categories.
Rathbones "Votes against Slavery" Engagement	<p>A member of the engagement initiative, harnessing the collective power of 133 investor with £8.3 trillion in assets, ensuring that companies comply with Section 54, Part 6 of the Modern Slavery Act 2015.</p> <p>In 2023, the initiative focused on identified companies in the FTSE350 and FTSE AIM that were not compliant with the Act, which requires companies to publish an annual statement, approved by a board and signed by a director, outlining the steps taken to ensure that modern slavery is not taking place in their business or supply chains.</p>	<ul style="list-style-type: none"> • Identified 29 companies in the FTSE350 and 59 companies in the FTSE AIM that were not compliant. • Through the engagement initiative in 2023, 25/29 companies are compliant in the FTSE350, and 45/59 companies are compliant in the FTSEAIM. • Remaining companies are undertaking their statements, not required to produce a statement, or not compliant.

Industry initiatives	Contribution	Effectiveness
Taskforce for Climate-related Financial Disclosures (TCFD) 	Reporting against a voluntary framework for companies and investors to provide climate-related information in their annual reports around governance, strategy, risk management and metrics.	<ul style="list-style-type: none"> Measuring and disclosing carbon metrics in our TCFD report demonstrating progress to net zero.
Transition Pathway Initiative (TPI)	Member of a global, asset-owner led initiative which assesses companies' preparedness for the transition to a low carbon economy with a global investor community of \$60trn AUM.	<ul style="list-style-type: none"> Tool adopted by LGPS Central to directly inform and prioritise engagement and voting on behalf of our Fund. In 2022, LGPS Central raised its expectation on climate management and strategy for companies using the TPI management score strengthening our views and strategy on our net zero ambition.

COLLABORATIVE ENGAGEMENT

We believe and have evidenced that we will improve our effectiveness by acting collectively with other like-minded investors because it increases the likelihood that we will be heard by the company or other relevant stakeholders compared with acting alone. We will continue to monitor the success of both our individual but also collective engagement with investee companies, policy makers and other relevant stakeholders.

Climate Change

- **CA100+ Engagement**

One of our external managers, as part of CA100+, collaborated in a shareholder engagement focused on Grupo Mexico's decarbonisation efforts. Hosting two calls with company executives, our manager advised enhancing disclosure practices for comprehensive progress details. Grupo Mexico plans to disclose new emission reduction targets, explore interim targets, and link climate performance to executive compensation. The company's climate strategy includes electrifying mining vehicles, renewable energy projects, fuel substitution in trains, and improved energy efficiency. However, some renewable projects face delays. Our manager aims to closely monitor Grupo Mexico's progress and emission reduction target publication.

- **Property Opportunity**

Our indirect property manager worked with Rise Homes, Leeds City Council and West Yorkshire Combined Authority (WYCA), focusing on securing an alternative a sustainable heat source for housing developments in 2022. The objective was to continue providing information to WYCA for the £1.85 million grant funding to connect a property development to the district heating system. District heat networks efficiently supply heat to multiple buildings within a given area, contributing significantly to reducing carbon emissions and supporting the government's net zero policy by centralising heat distribution and promoting cleaner energy sources. In 2023, Rise Homes and the Investment Manager sustained engagement with WYCA through email and virtual meetings, ensuring updates on the development and meeting information covenants for drawing down the grant funding. The grant funding is in the process of being drawn down, forming a part of the development funding. The next steps involve ongoing provision of necessary information to WYCA until all grant funding is received, facilitating the connection of the property to the Leeds district heating system. The UK government sees district heating as a key solution for achieving net zero emissions.

Sustainable Food Systems

- **Investor Coalition on Microfibre Pollution**

One of our external managers have signed up to the Investor Coalition on Microfiber Pollution, involving various Asset Owners and Managers globally, aims to collectively address the escalating threat of plastic pollution, particularly microfiber pollution impacting biodiversity in oceans and on land. The coalition focuses on engaging companies to deploy filter technologies in washing machines, addressing the issue of microfiber shedding from laundered textiles. Engagements include collaborating with the UK's Marine Conservation Society for legislative advocacy and specific engagements like

MUFG AM in Japan raising the issue with Panasonic. The coalition plans to leverage its collective influence to continue engaging with companies and advocating for robust microplastics reduction strategies in the future.

- **ShareAction Long Term Investors in People's Health initiative**

In 2023, we, through LAPFF, engaged with Unilever through ShareAction's Long Term Investors in People's Health initiative, aiming to enhance disclosures on how Unilever promotes health in its portfolio. After withdrawing a shareholder resolution in 2022, investors requested more granularity and the use of government-endorsed nutrient profiling models. Unilever made significant progress by publishing targets and new disclosure practices, assessing product health globally.

However, LAPFF continued discussions on our behalf for greater ambition in the proposed targets in 2023, emphasising the use of an independent nutrient profiling model and evaluating healthiness against sales proportion rather than 'servings.' Despite Unilever's view of challenging targets with a positive impact, investors advocated for more robust measures.

Human Rights

- **Platform Living Wage Financials and the Interfaith Centre on Corporate Responsibility (ICCR's)**

Another external manager collaborated with Platform Living Wage Financials and the ICCR's investor engagement group to engage Anta Sports, aiming to enhance ESG disclosure on human rights due diligence and living wage efforts in the supply chain. As lead engagers, discussions focused on improving Anta Sports' performance on the Corporate Human Rights Benchmark. Notable progress includes the publication of a Supply Chain Handbook with expectations for worker rights and a focus on eradicating child and forced labour. Anta Sports is educating Chinese

suppliers on living wages and using ESG data tools for progress. Follow-up assessments highlighted improvement, emphasising the need for further disclosure on defining living wages, detailing engagement with unions, and tracking supplier performance in implementing living wage programs.

- **Investor Alliance for Human Rights initiative**

Our external manager engaged a semiconductor manufacturer, collaborating with other shareholders in the Investor Alliance for Human Rights initiative, focusing on human rights-related risk management in the United States. This engagement aimed to address the company's low score in the World Benchmarking Alliance's corporate human rights benchmark. Through a positive and constructive dialogue, the company demonstrated commitment by implementing a revised human rights governance structure, updating policies, and forming a working group for regular inputs to the board. Suggested best practices were shared, and the company agreed to review them. Future plans are to assess the company's next sustainability report and human rights-related disclosures in the follow-up.



Voting

(Principle 12)

Voting is used to reinforce and escalate engagements that are carried out by our external managers, our stewardship providers, or through collaborative initiatives.

By regularly raising key issues through different mediums and channels, we increase the chances of being heard by the company and wider sector and initiating changes that reduce portfolio risks and contribute to sustainable futures.

Our Voting Principles outline our approach and voting expectations in asset classes where we hold voting rights, which are reviewed on an annual basis. In 2023, we strengthened our ambitions across various systemic issues, including gender and ethnicity diversity at senior management and board levels, setting expectations for a wider lens on climate change and biodiversity and for each of our engagement themes. Our principles set out expectations for companies to include 1.5°C pathways as part of their financial statements and encourage companies to protect and restore biodiversity as part of

their climate transition efforts. Votes against the Chair will be considered if the company scores below 10 on the Forest 500 ranking. Further changes can be seen in our Voting Principles²¹. We regularly review our voting approach and host meetings together with relevant external managers to ensure alignment in voting practices and issues.

We vote on a range of key issues concerning environmental sustainability, including climate change, and broader social issues such as human rights. We recognise that for a company to address these issues, good governance is required to ensure sufficient expertise and oversight. Following unsuccessful engagement, votes may be cast against those responsible for poor governance.

2023 VOTING ACTIVITY

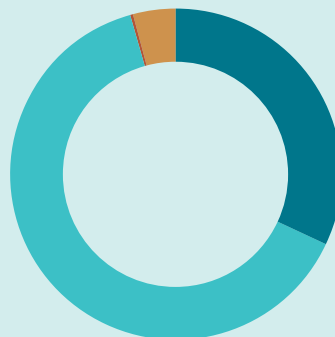
Voted at

2,882

meetings

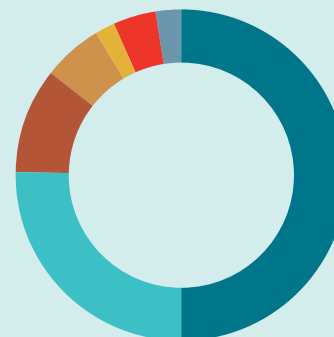
37,180

resolutions



Votes executed in 2023 (%)

- Total meeting in favour **32.2**
- Meeting against **63.7**
- Meetings abstained **0.1**
- Meeting with management by exception **4.0**



Votes issues against management 2023 (%)

- Board structure **50.2**
- Remuneration **25.3**
- Amend articles **1.9**
- Audit & accounts **4.1**
- Other **2.4**
- Shareholder resolution **10.3**
- Capital structure and dividends **5.8**

²¹ The Voting Principles 2024 is due for revision and approval for March 2024

VOTING PROCEDURES

Our voting rights are executed by LGPS Central across assets invested through our segregated mandates, segregated mandates and LGPS Central pooled investments, both of which align to our voting principles.



This includes companies that are held within the LGPS Central listed equity funds, three emerging market equity mandates and three sustainable equity mandates. LGPS Central's proxy research provider, EOS, provides LGPS Central with voting recommendations based on our Voting Principles, which are input onto the Institutional Shareholder Services platform prior to the vote deadline. The voting recommendations are then cast as voting instructions unless further intervention is required - in the case of share-blocking votes for example. LAPFF issues voting alerts for the companies directly to us and LGPS Central. In minority cases where a company that LGPS Central or LAPFF are currently engaging has issued a voting alert which falls outside EOS' main engagement, LGPS Central will often consult ISS research directly.

In situations where companies are faced with a market-wide crisis that causes unprecedented disruption, uncertainty and challenges to their business models, operations, workforce and finances LGPS Central, on our behalf, will consider applying a more flexible voting approach. In such instances LGPS Central would issue us with a document explaining how they may deviate from our Voting Principles, on what issues and relative to which sectors (if different sectors are affected differently).

Voting Watch List

We take a pragmatic view to voting due to the size of our equity portfolio. The structure established by EOS and LGPS Central allows for our voting rights to be executed across all available holdings in line with our Voting Principles.

In addition, LGPS Central has established a "Voting Watch List" that covers approximately 50 companies that have significant holdings and/or core engagements in and outside of our Engagement Themes and/or have ongoing controversies. Votes at these companies will be given particular scrutiny ahead of the AGM. While it is not feasible to attend all these companies' AGMs, LGPS Central aims to attend AGMs virtually (if permissible) for core Climate Action 100+ engagements and for any company with which they have filed a shareholder resolution.

The watch list companies will undergo further analysis by LGPS Central and this provides an opportunity to access how accurately our Voting Principles are being implemented.

Interaction with EOS:

- LGPS Central shares its Voting Watch List with EOS ahead of each voting season. EOS will then provide more detailed analysis to substantiate LGPS Central's voting recommendations for companies on the list ahead of the AGMs.
- LGPS Central seek ad-hoc interactions/meetings with EOS in regard to core holdings or key engagements, where either they or we would like further input ahead of a vote.

Interaction with External Managers:

- We alongside LGPS Central liaise with external fund managers to understand their views and recommendations relative to key holdings and/or contentious voting issues.
- External Managers will be kept up to date on any changes to LGPS Central's/our Voting Principles, and LGPS Central/we will be informed of changes to the managers' voting approach and/or policy.

- LGPS Central will share with each external manager its Voting Watch List with an explicit incentive to communicate their views on companies on this list that are held in their respective portfolios.
- We/LGPS Central RI&E team may reach out on an ad-hoc basis in cases where they would like to elicit views on contentious issues in core holdings or key engagements that can supplement views from EOS.

Securities Lending Programme

Following discussion with partner funds, in 2023 LGPS Central reviewed and updated its active securities lending programme, which places full restrictions on certain securities trading during the voting season. Holding securities during the AGM period ensures that our voting impact is maximised, and shareholder concerns are emphasised during engagement.

Companies from the Voting Watch List were selected as critical engagements with lending restrictions to ensure that we had the ability to vote for these certain companies. These companies are viewed as high-risk companies in relation to climate identified in our Climate Risk Reporting and/or fall within the scope of the Climate Action 100+ engagements. A more targeted approach was adopted to balance the cost implications of excluding all companies in the Voting Watch List, which is lifted at the end of the AGM season.

Reporting for Outcomes

For transparency and accountability, we publicly disclose our voting outcomes in three main formats:

- A report summarising our voting activities is provided on a quarterly basis to our Pensions Committee.
- Both our Annual Stewardship Report and our Annual Report and Accounts includes disclosures on voting, as well as other aspects of RI, consistent with the statutory guidance.

- We disclose the latest quarterly voting statistics on our website.



VOTING OUTCOMES

Examples of significant votes in 2023 aligned to our Stewardship Themes are highlighted below.

CLIMATE CHANGE

Volkswagen AG



Objective	<ul style="list-style-type: none"> Asking Volkswagen to align with industry standards on climate change-related corporate lobbying set by the IIGCC and the Global Standard on Responsible Climate Lobbying, due to perceived slow progress at the company.
Vote decision and rationale	<ul style="list-style-type: none"> EOS recommended a vote against the discharge of the management due to concerns about Volkswagen's slow progress in aligning with climate change-related corporate lobbying expectations. Engagement with Volkswagen since 2019 has focused on climate lobbying, and despite a shareholder resolution in 2022 urging the company to explain its lobbying activities related to climate risks, the proposal was rejected twice. EOS expressed concerns about the lack of detailed drafts or a public commitment to publish a report before the 2023 AGM. Additionally, misalignment between short- and medium-term emissions reduction targets and a 1.5°C trajectory contributed to the vote recommendation.
Outcome	<ul style="list-style-type: none"> After the voting deadline but just days before the annual May meeting, Volkswagen released its inaugural Association Climate Review for 2023, which assesses the alignment of its key trade associations to its climate change policy. We welcomed this development as a positive move forward, marking progress after four years of engagement on this matter.

SUSTAINABLE FOOD SYSTEMS

Yum! Brands, Inc.



Objective	<ul style="list-style-type: none"> To encourage Yum! Brands, Inc. to issue a report outlining its efforts to reduce plastic use, specifically by shifting away from single-use packaging.
Vote decision and rationale	<ul style="list-style-type: none"> The collaborative initiative, As You Sow, proposed that Yum! Brands provides a detailed report on plans to reduce plastic use, emphasizing concerns about inadequate disclosure on strategies addressing plastic pollution, posing financial and reputational risks. While acknowledging Yum! Brands' packaging policy, the proposal argued it insufficiently addressed potential risks related to using virgin plastics, new incoming regulations, and lacked discussion on a transition plan away from single-use plastic. Despite existing goals, the proposal suggested a more comprehensive report to enhance shareholders' understanding of risk management.
Outcome	<ul style="list-style-type: none"> The shareholder resolution did not pass. However, it gained significant support, receiving 37.6% of shareholder votes. The concerns raised in the proposal about the company's plastic reduction goals and risk management strategies, though not leading to immediate policy changes, reflect a meaningful level of shareholder interest in sustainability and reduction in plastic use.



HUMAN RIGHTS

Amazon

Objective	<ul style="list-style-type: none"> To address insufficient management of human rights risks.
Vote decision and rationale	<ul style="list-style-type: none"> LGPS Central recommend voting against the chair of the governance committee on human rights grounds due to the persistent and serious controversies related to worker safety issues and interference with workers right to freedom of association. Amazon's safety data excludes contractors and external Delivery Service Providers. LGPS Central were also concerned by the Amazon's low score in the Ranking Digital Rights (RDR) index. Amazon is a laggard on the RDR compared to US-based peers and does not specify controls over user data. Amazon discloses very little about user information and nothing about its data retention policies.
Outcome	<ul style="list-style-type: none"> Of the 18 shareholder proposals in 2023, two requested the company to commission a third-party assessment of the company's commitment to Freedom of Association and Collective Bargaining and undertake a third-party audit on working conditions. Though these proposals failed to pass, there was wide investor support with votes in favour of 35.4% and 35.9% respectively.

RESPONSIBLE FINANCIAL MANAGEMENT

Microsoft Corporation



Objective	<ul style="list-style-type: none"> To urge Microsoft to publish a Tax Transparency Report, aligning with the GRI Tax Standard.
Vote decision and rationale	<ul style="list-style-type: none"> Led by AkademikerPension and co-filers, shareholders proposed a precatory resolution advocating for Microsoft to disclose its tax payments according to the GRI Tax Standard. Microsoft's board responded by highlighting the company's practice of providing annual country-by-country reports confidentially to tax authorities, as per OECD agreements. They also mentioned that, although not currently mandatory, Microsoft plans to comply with EU requirements for country-by-country reporting starting fiscal year 2025. LGPS Central supported the resolution, emphasising the importance of such disclosure for shareholders to understand the company's tax management approach and its consideration in corporate activities.
Outcome	<ul style="list-style-type: none"> The shareholder resolution did not pass, but it gained notable support with 21.3% of shareholders voting in favour. Microsoft's commitment to comply with EU requirements for country-by-country reporting in fiscal year 2025 was emphasised, even though it was not sufficient to sway the majority of shareholders in this instance.



Appendix 1

Mapping to the FRC Stewardship Code Principle

Principle	Page	Additional comments
<p>Principle 1: Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.</p>	<p>5, 7, 9, 19, 23 - 24</p>	<p>Our purpose is to provide sustainable futures as elaborated from our mission and our vision. Our culture, values and strategy are further demonstrated in our People Strategy, which outlines our PRIDE values that govern the way we operate, and our Corporate Plan, which outlines how we adapt and mould our business strategy in line with changing operating environment and intentions.</p> <p>One of our investment beliefs, as detailed in this document, and is that Responsible Investment and ESG integration in investment strategy and implementation enhances the stewardship of our assets. Our approach is set out in our RI Framework which is reviewed annually to ensure that these practices and processes are enabling effective stewardship. We have also attached our PRI assessment scores in Appendix 3, which demonstrates how well Responsible Investment is integrated into our investment approach, ultimately translating to value-add for our customers and beneficiaries.</p>
<p>Principle 2: Signatories' governance, resources, and incentives support stewardship.</p>	<p>11 - 13</p>	<p>As a Local Government Pension Fund (LGPS), our governance structure is influenced by the rules and regulations governing the LGPS, public sector pensions schemes and the Administering Authority as Scheme Manager. This extends to the structure of our Pensions Committee and Local Pension Board. The Investment Advisory Panel enables independent and expert input and challenge.</p> <p>Our employees form the heart of the organisation. We have developed a range of initiatives and programs to support the development, growth, and well-being of all employees. This includes:</p> <ul style="list-style-type: none"> • funded professional development and qualifications in all service areas including investment (CFA, IMC, IOC), pension administration (PMI) and finance (ACCA); • “STAR award programme” recognises the work of our employees and stand out contributions, and monthly employee “Special Recognitions” are highlighted in our internal Fund newsletter; • wellbeing support and training, through the onboarding of mental health first aiders, external training (including sessions focused on Mind ‘Set’ for success and building resilience) from professionals and breakout spaces; and • championing Equity, Diversity and Inclusion (EDI) through the development of the EDI framework and receiving accreditations for certain diversity characteristics. <p>While we don't have specific reward programmes to incentivise employees to integrate stewardship into investment decision making, individuals' objectives are linked to our wider objectives with performance assessed by progress against those objectives.</p>

Principle	Page	Additional comments
Principle 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	14 – 15, 63 – 64	We have disclosed our conflicts of interest policy including the process of identifying potential and actual instances of conflicts internally, with our stakeholders and pooling company. Whilst we have no identified examples that pertain to stewardship internally, there are a range of instances where conflicts of interests may arise. Examples of potential conflicts of interest are provided in Appendix 2a. Examples of second order conflicts of interests are provided in Appendix 2B.
Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	33 – 36, 48 – 50	<p>We have outlined the different methods used to identify market-wide and systemic risks. We also identify and track market-wide risks as part of manager monitoring that is undertaken on a quarterly basis across asset classes. We work with others to best position us to understand these risks and implement a program of engagement to address them. Some identified include climate change risks, which we assess through Climate Risk Monitoring on an annual basis.</p> <p>We have provided examples of how we work with industry participants to shape the landscape in which we operate in, including but not limited to, engaging with industry consultations, developing guidance and sharing best practice with the LGPS and wider asset owner community.</p> <p>We have also provided a list of initiatives that we currently active in, including our contribution and effectiveness.</p>
Principle 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities.	30	<p>We have stated how policies pertaining to stewardship is firstly reviewed by the Responsible Investment team, who ensures that policies are updated to reflect the organisation's practices. This is reviewed the Internal Investment Committee to ensure that reporting is clear and understandable. This is put forward to the Pension Committee so that policies are aligned with the best interest of our underlying beneficiaries.</p> <p>We have also attached our PRI assessment scores in Appendix 3, which demonstrates how our policies (including the Responsible Investment Framework and Voting Principles) enable effective stewardship.</p> <p>We have listed both internal and external assurance applicable to us.</p>
Principle 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	10, 16 – 17, 21 – 23	<p>We are a defined benefit pension scheme with a diverse investment portfolio, membership base and long-term investment time horizon.</p> <p>We have outlined our communications with our members in 2023, including our pilot Responsible Investment Survey Responsible Investment leaflet and Engagement Forum. We intend to issue a follow-up survey in the future, to assess the effectiveness of our customer engagements, which we continue to evolve and develop.</p>

Principle	Page	Additional comments
<p>Principle 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.</p>	8, 25 – 29	<p>We have defined four engagement themes that we prioritise during the investment and stewardship process.</p> <p>We recognise the difficulties of integrating Responsible Investment across certain asset classes and geographies, due to data availability, legislative reasonings or political structures. We expect all our managers to be integrating Responsible Investment but may be more forgiving towards managers whereby the barriers are beyond their control but aiming to address this issues in other ways.</p> <p>We have defined our expectations for asset managers and LGPS Central for the integration of responsible investment and stewardship into the investment process, during manager selection, the design and award of mandates and reiterated through regular performance monitoring meetings. This is reiterated through LGPS Central's Responsible Investment and Engagement Framework. LGPS Central is also informed through our involvement in steering LGPS Central's strategic direction in the provision of the climate risk monitoring service, defining the pool's engagement themes and implementation of net zero strategies aligned with our ambitions and commitments.</p> <p>We have provided an example of how stewardship and engagement has led to an exit in a position aligning to our managers' investment philosophy. This can be viewed on page 47.</p>
<p>Principle 8: Signatories monitor and hold to account managers and/or service providers.</p>	31 – 32	<p>We have described the service providers that we utilise to support the work of stewardship, such as external managers, LGPS pool provider, consultants, and advisors, and including the assessment of how their services are reviewed annually, overseen by our governing bodies and the value/effectiveness of the services they provide.</p>
<p>Principle 9: Signatories engage with issuers to maintain or enhance the value of assets.</p>	8, 37 – 45	<p>We have defined four engagement themes based on key issues for the portfolio that inform our engagement approach such as climate change as it aligned with our Investment Beliefs. Not only are these issues material to the investments, but these issues also reflect our purpose for 'Providing Sustainable Futures'. As part of our Responsible Investment Survey, we determined that our members' views were aligned with our approach.</p> <p>Our Stewardship Provider, and other relevant engagement initiatives, sets out milestones and defined objectives with companies and informs us, on a quarterly basis, which milestones have been achieved.</p> <p>Engagement occurs in different forms, such as correspondence, meetings, participation for Annual General Meetings, signing investor letters and voting at company Annual General Meeting (only applied to equities). These engagements can be done directly by our managers, particularly whereby the number of holdings is concentrated and relatively small, or specialist engagement providers or through collaborative investor engagement initiative.</p>

Principle	Page	Additional comments
Principle 10: Signatories, where necessary, participate in collaborative engagement to influence issuers.	48 – 52	We have provided examples of collaborative engagements that we have participated in, either directly or through service providers, including the outcomes or next steps of those engagements.
Principle 11: Signatories, where necessary, escalate stewardship activities to influence issuers.	46 – 47	<p>We expect managers to escalate engagement when there is lack of progress relative to the engagement objectives, which is reiterated during quarterly performance reviews. We understand that escalations may differ depending on how the engagement took place including voting at company’s Annual General Meeting which is bespoke to listed equity.</p> <p>Examples of escalation, undertaken by us or external managers in 2023, have been provided.</p>
Principle 12: Signatories actively exercise their rights and responsibilities.	53 - 58	<p>We have outlined our process and approach to voting. Our voting rights from our segregated mandates (equities only) are transferred to pool provider and their stewardship provider. As stated, this is outlined in our Voting Principles, which is agreed upon by us and our pool provider.</p> <p>Examples of voting outcomes and examples of resolutions in 2023, have been provided.</p>

Appendix 2a

Examples of potential internal conflicts of interest

Investing to improve scheme administration versus saving money.	An employer representative, who may be a Permanent Secretary, finance officer or local councillor, is aware that system X would help to improve standards of record-keeping in the scheme, but it would be costly to implement. The scheme manager, for instance a central government department or local administering authority, would need to meet the costs of the new system at a time when there is internal and external pressure to keep costs down. In order to meet the costs of the new system, the scheme manager would need to find money, perhaps by using a budget that was intended for another purpose. This decision could prove unpopular with taxpayers. A conflict of interest could arise where the employer representative was likely to be prejudiced in the exercise of their functions by virtue of their dual interests.
Outsourcing an activity versus keeping an activity in-house.	In an extension of the previous example, a member representative, who is also an employee of a participating employer, is aware that system X would help to improve standards of record-keeping in the scheme, but it would mean outsourcing an activity that is currently being undertaken in-house by their employer. The member representative could be conflicted if they were likely to be prejudiced in the exercise of their functions by virtue of their employment.
Representing the breadth of employers or membership versus representing narrow interests.	An employer representative who happens to be employed by the administering authority and is appointed to the governing body member to represent employers generally could be conflicted if they only serve to act in the interests of the administering authority, rather than those of all participating employers. Equally, a member representative, who is also a trade union representative, appointed to the governing body member to represent the entire scheme membership could be conflicted if they only act in the interests of their union and union membership, rather than all scheme members.
Assisting the scheme manager versus furthering personal interests.	<ul style="list-style-type: none"> i) A governing body member, who is also a scheme adviser, may recommend the services or products of a related party, for which they might derive some form of benefit, resulting in them not providing, or not being seen to provide, independent advice or services ii) A governing body member who is involved in procuring or tendering for services for a scheme administrator, and who can influence the award of a contract, may be conflicted where they have an interest in a particular supplier, for example, a family member works there.
Sharing information with the governing body member versus a duty of confidentiality to an employer.	An employer representative has access to information by virtue of their employment, which could influence or inform the considerations or decisions of the governing body member. They have to consider whether to share this information with the governing body member in light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the governing body member.
Acceptance of gifts.	An individual accepts the offer of a dinner invitation from a bidder or potential bidder to one of our outsourced contracts.

Appendix 2b

Examples of second order external conflicts of interest from our underlying investment managers in 2023

External Infrastructure Investment Fund Manager

Conflict	Our external manager manages two infrastructure funds, and a conflict arose when one of companies, in the fully committed fund, required short-term funding. It was agreed that capital will be provided from another fund managed by the same external manager, raising concerns around accurate valuations of the assets in both funds to ensure fair value.
Identification	Conflict was identified at the investment committee when the investment decision was made.
Management	Our external manager has a well-established process to manage these types of conflicts. The issue was brought to the Conflicts Committee, whereby the appropriate actions were discussed. Discussions were facilitated by an independent member of the committee and resulted in an independent valuation of the business being undertaken. There was limited participation from the investment team or the investment committee in the process given their interest in both funds. Hence the company's value was allocated to the fund accordingly reflecting its capital structure.

Appendix 3

Our scores for the 2023 PRI Assessment based on modules.

Module score	WMPF score
Policy, Governance and Strategy	93
Listed Equity (Passive)	79
Listed Equity (Active)	81
Fixed Income (Passive)	79
Fixed Income (Active)	81
Confidence Building Measures	80

Summary Scorecard

