LGPS Central Limited

2024-2027

Intro to Stewardship & LGPS Central's Stewardship Strategy

Agenda

Intro to Stewardship	Engagement Examples	2024-2027 Stewardship Themes	Detail on Each Theme
Stewardship Partners' Themes	Key Partnerships	Glossary	

202

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What Stewardship means

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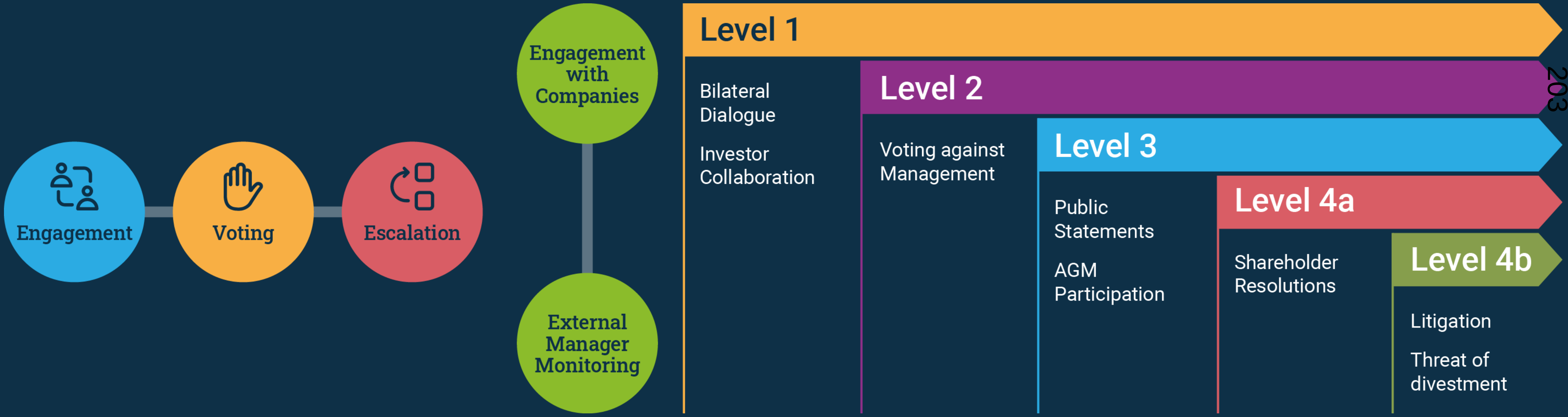
Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society (FRC).



203

Key Concepts

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Outcome

Tangible record that stewardship activities have led to positive impacts in respect to beneficiaries' assets.

Active Ownership

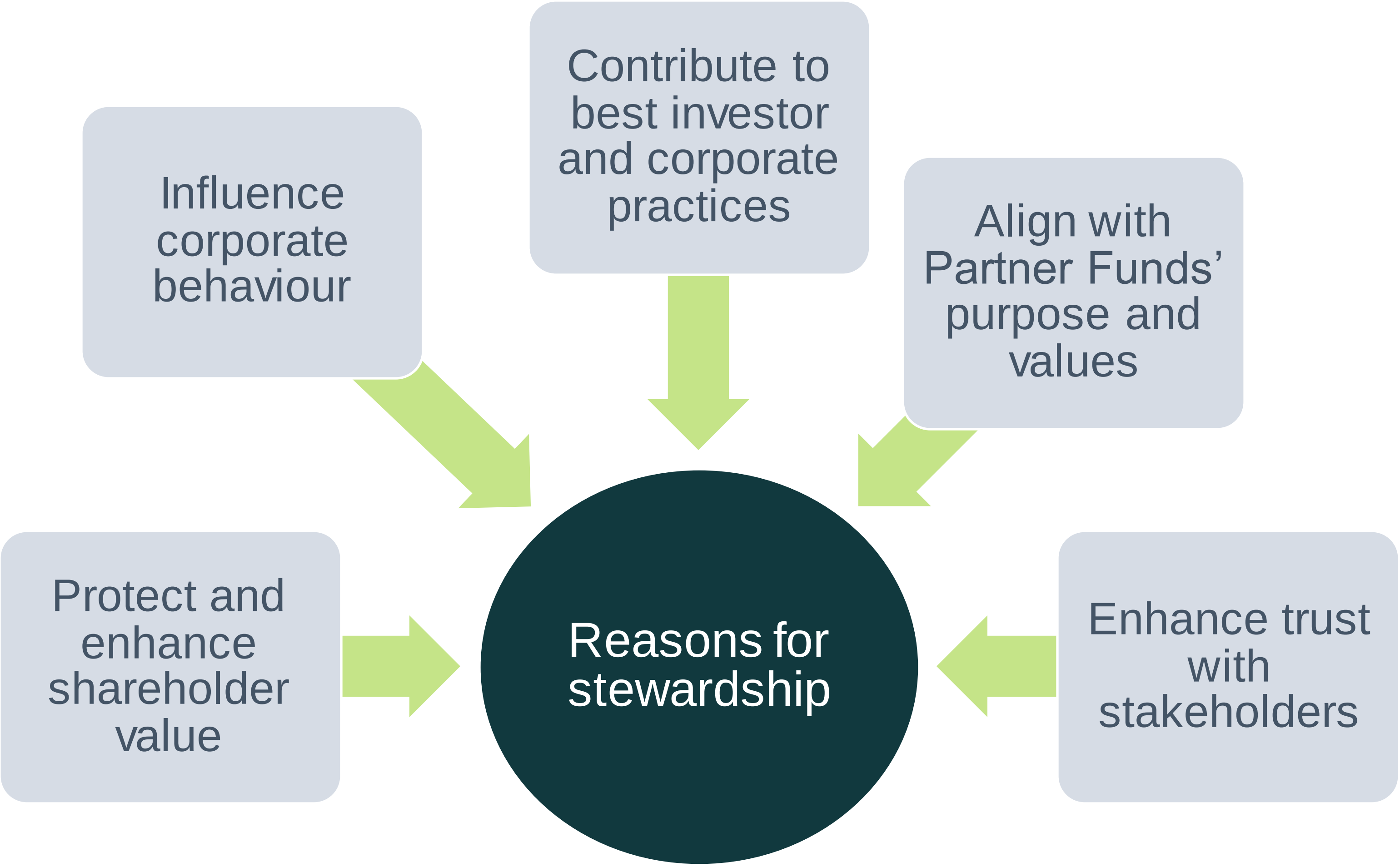
Active ownership is the **use of rights** and position of ownership to influence the activities or behaviour of investee companies.

204

Escalation

Approach taken following an **unsuccessful** engagement e.g. public statement, overweight/underweight holdings, filing resolutions, voting against re-election of responsible directors, divestment, litigation etc.

Why we steward our assets



205

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Engagement Examples

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Net Zero – Shell	Net Zero - BP
2023 • Direct engagement with the company - Shell is considering a plan to implement an absolute target (in terms of upstream oil production) as part of the 2025 energy transition update to realise the ambition of reducing Scope 3 emissions. Additionally, Shell plans to invest $10 to $15 billion into low carbon solutions but have not yet published a detailed CAPEX strategy into 2030. Shell will release a new climate plan ahead of the 2024 AGM. LGPSC has asked for the opportunity to provide feedback on Shell's draft Energy Transition Strategy. **2022** • LGPSC voiced concerns to Shell's Chair regarding their Energy Transition Strategy's inconsistency with the Paris Agreement and the absence of facilitating targets for its achievement. Shell acknowledged its role in addressing climate risk and its progress in reducing oil production, although Shell noted that setting absolute short- and medium-term Scope 3 targets for its upstream emissions are a challenge.	**2023** • Collaborative engagement. LGPSC alongside other investors engaged with BP, discussing the company's CAPEX alignment with net zero and transition growth engines. On CAPEX, BP provided a summary of recent and planned future capital spending across strategic themes with approximately $8.5bn p.a. allocated to resilient hydrocarbons (including oil and gas CAPEX), as well as refining and bioenergy. In 2022, group CAPEX was $16.3bn, of which $4.9bn was within their transition growth engines. The group has sent an email in request for further clarification on how those elements are aligned with BP's 2030 target and longer term aim to reach net zero. • Additionally, the engagement focused on potential future engagement with BP's nomination committee regarding the appointment of the new CEO and ensuring that shareholders are consulted ahead of drastic changes to the climate strategy policy.

206

Engagement Examples

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Barclays – Climate Change (Banks)

LGPS Central along with ShareAction and other investors filed a resolution in December 2023 in relation to Barclays' climate strategy. Following extensive engagement with Barclays' senior leadership, we withdrew the resolution as result of the positive outcome regarding Barclays' climate strategy and commitment to continuing engagement, including an annual meeting for the co-filing group with Barclays Group's CEO.

Outcome: Barclays announced on February 9th that they will stop direct financing of new oil and gas fields and restrict lending more broadly to energy companies expanding fossil fuel production. In addition, LGPS Central remains committed to ensure that Barclays follows through with its newly established commitments.

207

2024-2027 Stewardship Themes

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Climate

- Net Zero Alignment (Direct, CA100+, CDP)
- Audit Accounts (IIGCC)
- Just Transition (LAPFF)
- Banks (ShareAction)

Natural Capital

- Advocacy (PRI, IPDD)
- Nature Action 100
- Plastic pollution (AsYouSow)

Human Rights

- Corporate Index Benchmark (ICCR)
- Advance (PRI)
- Modern Slavery (Find it, Fix it, Prevent it), OPT (Direct, LAPFF)

Sensitive / Topical Activities

- Laggards in ACS (Direct, Investor Forum, EOS)
- Egregious controversies in ACS (Direct, Investor Forum, EOS)
- Fair Tax (PRI)

208

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Climate Change

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Climate Change

- Oil & gas, coal mining, utilities
- Automotive, steel, cement, petrochemicals, airlines
- Financial services
- Forestry
- Agricultural supply chains
- Consumer goods

The Challenge

- The largest impact of climate change is the negative effect it could have on the GDP of the worldwide economy by 2050 if global temperatures rise dramatically [(1)]. Forecasts based on temperature increases staying on the current trajectory, the Paris Agreement and net-zero emissions targets not being met.
- IPCC states that "it is unequivocal that human influence has warmed the atmosphere, oceans and land" [(2)].
- Climate change has the potential to disrupt the success of companies across all sectors and geographies.
- Climate change risks are endemic and span from physical, transitional to market-pricing risks. Its impact is likely to be transgenerational.

209

(1) This is how climate change could impact the global economy | World Economic Forum
(2) Climate Change 2021: The Physical Science Basis

Climate Change

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Climate Change

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Investment Risk and Opportunity

- Managing climate-change risks and capturing new opportunities can be crucial to protecting investments. A Paris Orderly Transition pathway is preferable for the economy, as it is the least disruptive. Research also shows it would provide the most favourable funding level projection in the medium-to-long term [3].
- As pension schemes' liabilities stretch over an extended period, the long-term impacts of climate change can affect the liability side of the balance sheet in addition to any transitional impacts on asset values.
- Companies with credible net zero strategies are more likely to set business plans which are more resilient against climate risks and steer away from stranded assets.
- Climate financing is a pre-requisite for meeting the Paris Agreement. Climate solutions can contribute to the emission reductions needed to limit global warming to 1.5° or 2°C.

(3) https://www.theactuary.com/2021/05/28/climate-risk-scenarios-pension-schemes

Natural Capital

Natural Capital

- Biotechnology and pharmaceuticals
- Chemicals
- Consumer Good Retail
- Food
- Forestry & Paper Products
- Household and personal goods
- Food and beverage retail and restaurants
- Metals and mining

The Challenge

- Over half of global GDP is moderately or highly dependent on nature.
- A positive feedback loop exists between the effects of Climate Change and Biodiversity loss.
- Climate change will become the dominant cause of biodiversity loss in the coming decades.
- 5 key drivers of Biodiversity loss: Land-use change, Climate Change, Pollution, Natural Resource use and exploitation, invasive species.
- The mismanagement of nature-related risks poses potentially serious systemic and macroeconomic risks.

211

Natural Capital

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Investment Risk and Opportunity

- Degradation of nature could reduce companies' ability to generate long-term value for shareholders through:
  1. scarce resources
  2. regulatory tightening
  3. reputational damage
- Companies reliant on a linear take-make-waste model face substantial commercial risks.
- New opportunities around Nature-based climate solutions.

212

Human Rights

Human Rights

- The responsibility to respect human rights applies to all companies across sectors.
- Certain human rights will likely be more at risk of being impacted than others, depending on sector, geographical area and other circumstances

The Challenge

- There is a growing visibility and urgency around many human rights issues globally.
- Media, governments and citizens are questioning whether the global financial system serves its intended purpose, and the wider interests of society, if it fails to manage capital in a way that supports sustainable and inclusive economies.
- Higher scrutiny is placed on social (S) factors since if mismanaged, they can have the potential to destroy companies' value and they are increasingly perceived as a barometer for company's culture (4).

(4) Time to Rethink the S in ESG (harvard.edu)

Human Rights

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Human Rights

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Investment Risk and Opportunity

- The long-term legitimacy of sectors and markets depends, among other things, on operations and products that are ethically acceptable – “social license to operate”.
- Companies’ operations impact employees, as well as contract workers, workers in supply chains, customers, communities and the environment around operations.
- Businesses and institutional investors have a responsibility to respect human rights as indicated in the UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD Guidelines for Multinational enterprises. Litigations and claims can be brought against investors.

214

Sensitive / Topical Activities

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Sensitive / Topical Activities

- The responsibility to respect international norms and adopt business practices applies to all companies across sectors.

The Challenge

- An MSCI study found that companies with high ESG scores experienced lower costs of capital, lower equity costs, and lower debt costs compared to companies with poor ESG scores. McKinsey[5] echoes this argument maintaining that over 2,000 academic studies concluded that better ESG scores translate to about a 10% lower cost of capital. This correlates to lower regulatory, environmental, and litigation risks associated with high ESG-scoring companies.
- In two thirds of "high ESG controversy" cases, companies' stock experienced "sustained underperformance," trailing the global index by an average of 12% over the course of the following 2 years after the controversy [2].
- Supply chain disruption may severely affect the long-term success of companies (i.e., supply chain resilience and business risk).

215

(5) Why ESG scores are here to stay | McKinsey
(6) ussif.org/files/GSIR_Review2018F.pdf

Sensitive / Topical Activities

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Sensitive / Topical Activities

- The responsibility to respect international norms and adopt business practices applies to all companies across sectors.

Investment Risk and Opportunity

- The share values of companies that are involved in systemic ESG scandals are likely to be severely impaired. Companies in severe breach of international norms can be exposed to: imminent removal of their license to operate, government intervention, and severe litigations. Investors can face dire reputational risks as well as complaints at OCP level.
- Laggard ESG practices can act as a proxy indicator for companies' vulnerability to potential scandals and corporate mismanagement.
- Engaging with companies' executive teams with alleged controversies and/or ESG laggard approaches is part of the LGPSC's fiduciary duties and universal owners' commitment to responsible investment.

216

(3) ICGN - Fiduciary duties exist to safeguard the current and future interests of fund beneficiaries, both to enhance value and to protect them from potential misuse of their assets, owing to negligence, conflicts of interest (or agency issues) and/or incompetence of their investor fiduciaries.

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Key partnerships

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Green Finance Initiative

Transition Pathway Initiative

Local Authority Pension Fund Forum

PRI Principles for Responsible Investment

THE INVESTOR FORUM

IIGCC The Institutional Investors Group on Climate Change

30% Club GROWTH THROUGH DIVERSITY

Climate Action 100+

BVCA British Private Equity & Venture Capital Association

FRC Financial Reporting Council

CDP

THE INVESTMENT ASSOCIATION

ICGN International Corporate Governance Network

Nature Action 100

217

Appendix – Additional examples

Recent Examples

- In February 2024, LGPS Central along with Nature Action investors initiated the engagement programme on Rio Tinto and its approach to nature stewardship. The programme will be finalised after the **Rio Tinto**’s annual report and accounts are released (March). Engagement KPIs will be set up after this stage.
- In March 2024, LGPS Central will engage with **BHP** along with CA100+ investors regarding their approach on Just Transition. The Company’s sustainable capabilities is considered a laggard in this respect due to its limited disclosure on stakeholder engagements and commitment to the ILO Just Transition guidelines. Engagement KPIs are currently being set up.
- From December 2023, **LGPS Central and a property manager** are discussing how integrate additional Modern Slavery requirements in their due diligence. These include ensuring that companies are providing whistleblowing mechanisms and due diligence is carried out beyond Tier 1 suppliers.

218

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Appendix – Additional examples

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Just Transition – Dominion Energy Inc	Board Diversity - Comcast Corp
Engagement objective: Dominion has a net-zero goal and the Virginia Clean Economy Act has a requirement for green jobs. However, Dominion has yet to create a clear narrative or strategy on Just Transition. **Action taken:** In Q4 2020, expectations were raised for the company to come up with a strategy to transition its workforce away from working in fossil-fired generation plants. In Q1 2021, the company disclosed its workforce transition strategy, including reskilling and reallocating the workforce impacted by coal plant closures. **Outcome:** The company's latest climate report highlights the work being undertaken to optimise outcomes for workers, customers, and communities. The Just Transition activities has been tied with the company's environmental justice policy. For example, in pursue of the Virginia Beach offshore wind project, Dominion engaged the community by conducting over 1,000 meetings. The company has addressed the job losses from the closure of coal units across two towns in March 2023. Other transition measures include providing tuition reimbursement, partnering with community colleges to offer employee training, and the setup of an employee career centre.	**Engagement objective:** We expect the company to refresh the board and improve its board diversity, including gender diversity and racial/ethnic diversity. **Action taken:** Concerns were raised about the company's board diversity and urged the need for refreshing the board. During the 2023 proxy discussion, EOS expressed the expectation of a minimum of 30% gender diversity on the board. Following this, the company expressed the intent to increase the number of female directors from 2 to 3. **Outcome:** In response, the company outlined a plan to refresh the board and enhance diversity. In Q3 2023, EOS reiterated its voting recommendations, emphasising the importance of achieving a minimum gender diversity of 30% on the board. However, an exception was made for Director Bacon, chair of the nominations committee, based on the company's commitment to diversity, equity, and inclusion and active efforts to address the concern. The engagement process is ongoing, and progress is being monitored.

219

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Glossary

Term	Definition
AsYouSow	NGO promoting corporate accountability through shareholder action.
Authorised Contractual Schemes (ACS)	Collective investment scheme that pools assets and is managed on behalf of several investors.
CDP	NGO helping companies, cities, states, regions, and public authorities disclose their environmental reporting impact.
Climate Action 100+ (CA100+)	Investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.
EOS at Federated Hermes	Engagement overlay provider that delivers corporate engagement and proxy voting services.
Finance Sector Deforestation Action (FSDA)	Investor initiative focused on eliminating agricultural commodity-driven deforestation from portfolios.
Financial Reporting Council (FRC)	Regulator that is responsible for setting the UK's Corporate Governance and Stewardship Code.
Institutional Investors Group on Climate Change (IIGCC)	A European-based membership body for investor collaboration on climate change.
Intergovernmental Panel on Climate Change (IPCC)	United Nations body for assessing the science related to climate change.
Investor Policy Dialogue on Deforestation (IPDD)	Investor initiative engaging with public agencies and industry associations on the issue of deforestation.

220

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Glossary

Term	Definition
Local Authority Pension Fund Forum (LAPFF)	Promotes the highest standards of corporate governance to protect the long-term value of local authority pension funds.
Natural Capital	The world's stocks of renewable and non-renewable natural resources (plant, animals, air, water, minerals, soil) that combine to provide a flow of benefits (ecosystem services) to people.
Principles for Responsible Investment (PRI)	Independent body working to encourage investors to use Responsible Investment to enhance returns and better manage risk.
ShareAction	NGO promoting Responsible Investment and driving better corporate action on Environmental, Social, and Governance issues.
Taskforce for Nature-related Financial Disclosures (TNFD)	Risk management and disclosure framework for organisations to report on nature-related risks.
The Investor Forum	Practitioner-led membership organisation to position stewardship at the heart of investment decision–making.
Transition Pathway Initiative (TPI)	Global initiative that assesses preparedness by companies in high carbon sectors for transition to a low carbon economy.
UN Guiding Principles on Business and Human Rights (UNGP)	Set of guidelines for states and companies to prevent, address and remedy human rights abuses committed in business operations.

221

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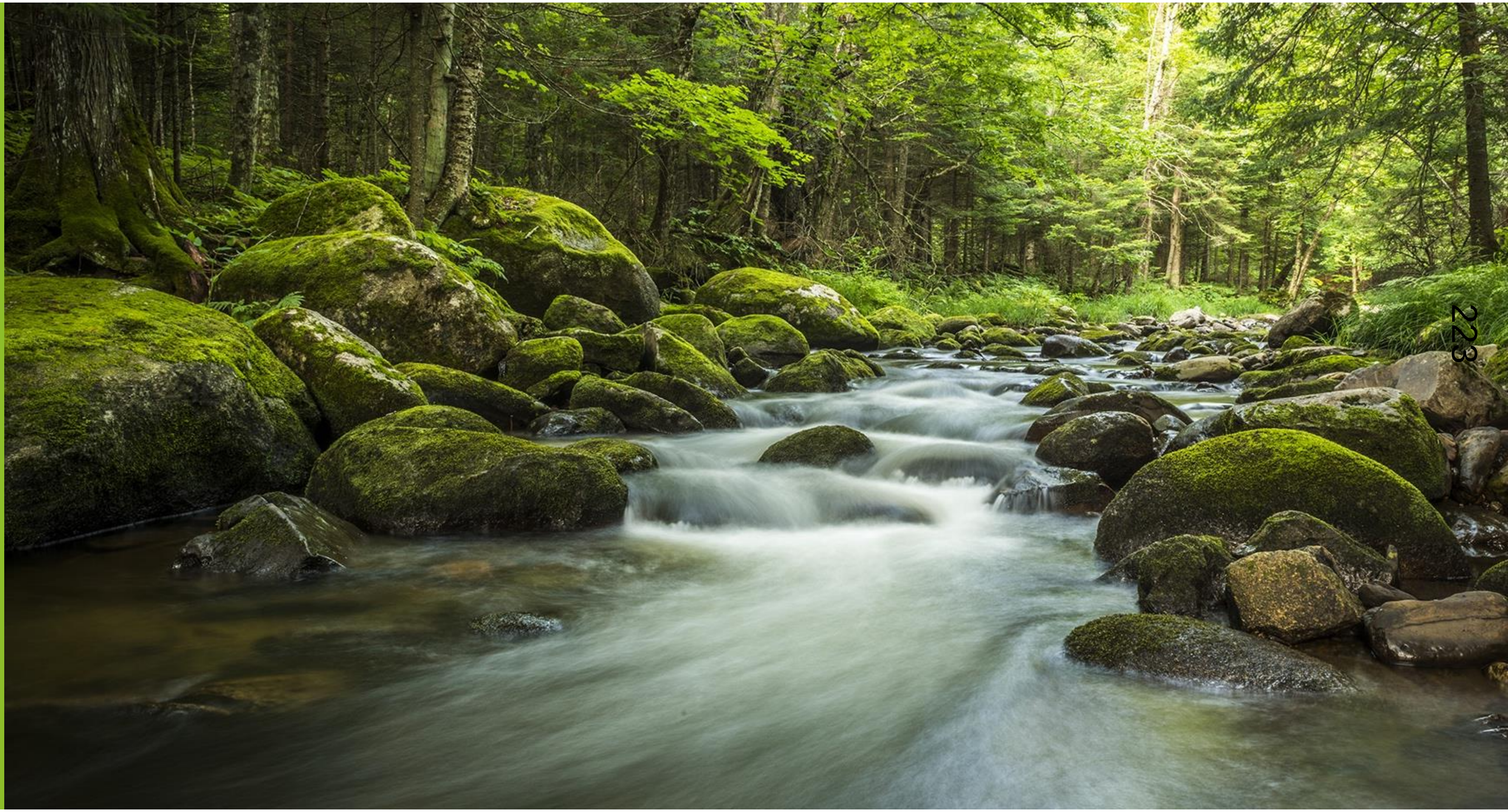
Share Class and Benchmark performance displayed in GBP.

Performance is shown on a Net Asset Value (Nav) basis, with gross income reinvested where applicable.

All information is prepared as of **22 February 2023**.

This document is intended for **PROFESSIONAL CLIENTS** only.

“One Central team, working in partnership to invest with purpose and deliver superior returns”



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