London Borough of Havering Pension Fund

Review of Voting & Engagement Activity

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Executive Summary

Introduction

- This paper is addressed to the Pensions Committee (“the Committee”) of the London Borough of Havering Pension Fund (“the Fund”).
- The purpose of this paper is to summarise the Fund’s investment managers’ voting and engagement activities over the 12-month period to 30 June 2023.
- This paper should not be released or otherwise disclosed to any third party except as required by law or regulatory obligation without our prior written consent. We accept no liability where this note is used by, or released or otherwise disclosed to, a third party unless we have expressly accepted such liability in writing. Where this is permitted, the note may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

Summary of observations

In this paper, we make the following observations:

- All managers who were previously signatories to the UK Stewardship Code have retained their signatory status, including JP Morgan and Russell who were initially unsuccessful in their applications to the new code. CBRE are new signatories to the UK Stewardship Code. Stafford, Churchill and Permira decided not to apply to become signatories.
- During the year, the Fund had investments through two managers, across seven mandates with equity exposure. The two managers are LGIM and LCIV, although LCIV’s policy is currently to delegate voting implementation to EOS at Federated Hermes (“EOS”) for global equity funds and to the underlying managers (Baillie Gifford, Ruffer) for multi-asset funds.
- We note that over the year, the vast majority of resolutions were voted upon. Exercise rates for managers including LGIM, across their mandate, and LCIV Absolute Return Fund were at least 99.0%. LCIV Global Alpha Growth Paris Aligned Fund and LCIV Diversified Growth Fund (had a lower rate across their two mandates but at least 95.0% of votes were exercised. Lastly, LCIV PEPPA Passive Equity Fund had an exercise rate of 97.0% across their mandate.
- EOS and managers demonstrated a preparedness on occasion to vote against company management. LGIM voted against management most frequently with around 19% of votes against management. This was in line with the previous reporting period. This is consistent with the index-tracking nature of these mandates.
- Similar to last year, there was commonality in the reasons why EOS/managers voted against management, with board diversity and remuneration being key themes. It should be noted that managers vote against the re-election of directors for a number of reasons some of which may be unrelated to the particular directors standing for re-election.

We look forward to discussing this paper with the Committee.

2020 UK Stewardship Code

- The 2020 UK Stewardship Code (the "Code") reflects the fact that the investment market has changed considerably since the initial publication of the Code in 2012. Specifically, there has been increased investment, and a subsequent greater need to implement ESG criteria, in assets other than listed equity, including fixed income, real estate and infrastructure.
- The new code attempts to reflect the diversity amongst asset groups in terms of investment periods, rights and responsibilities, and signatories to the 2020 Code will need to consider how to exercise stewardship effectively and report accordingly across asset classes. Assessing a manager's willingness, continued or initial, to incorporate the Code and their understanding of its central principles should be of interest to the Committee.
- The 2020 Code comprises twelve principles for asset owners and asset managers, listed right.
- Becoming a signatory is voluntary and to be listed as a signatory, asset managers and asset owners must report annually against each of the 12 principles, setting out the actions they have taken to meet the principle and the outcomes that have been achieved.
- Reports are published and the FRC evaluates reports to determine whether or not the standards of the Code have been met.
- The position of the Fund's managers is shown overleaf.

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;
2. Signatories' governance, resources and incentives support stewardship;
3. Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first;
4. Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system;
5. Signatories review their policies, assure their processes and assess the effectiveness of their activities; and
6. Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
7. Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.
8. Signatories monitor and hold to account managers and/or service providers.
9. Signatories engage with issuers to maintain or enhance the value of assets.
10. Signatories, where necessary, participate in collaborative engagement to influence issuers.
11. Signatories, where necessary, escalate stewardship activities to influence issuers.
12. Signatories actively exercise their rights and responsibilities.

Summary of UK Stewardship Code adherence

Manager	Signatory as at: 30 June 2023	Applied for Code but Unsuccessful	Comments
London CIV	Yes	-	• Approved again as an asset owner signatory with data as at end 2022
LGIM	Yes	-	• Approved again as an asset manager signatory with data as at end 2022
Baillie Gifford	Yes	-	• Approved again as an asset manager signatory with data as at end 2022
Ruffer	Yes	-	• Approved again as an asset manager signatory with data as at end 202
UBS	Yes	-	• Approved again as an asset manager signatory with data as at end 2022
CBRE	Yes	-	• Subsequently approved as an asset manager signatory with data as at end 2022
JP Morgan	Yes	-	• While unsuccessful in their original submission to the new code, JP Morgan made a subsequent submission and became an asset manager signatory of the UK Stewardship Code in September 2022
Stafford	No	No	• Considering a future application.
Royal London	Yes	-	• Approved again as an asset owner signatory with data as at end 2022
Churchill	No	No	• Churchill (and parent company Nuveen) are supportive of the principles of the Code but have no immediate intention of applying to become a signatory.
Permira	No	No	• Considering a future application but has not yet made a decision on this.
Russell	Yes	-	• Approved again as an asset owner signatory with data as at end 2022

Principles for Responsible Investment

- The six Principles for Responsible Investment are a voluntary set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice.
- The principles were established in 2006 and are now supported by over 5000 signatories from over 80 countries.
- Signatories are subject to annual reporting and assessment to demonstrate their compliance with the principles. There was a recent change in the grading system from alphabetical (A+ to E) to numerical (1 to 5 stars). This is applicable from the 2021 assessment onwards.
- The following pages set out each of the Fund's investment managers' signatory status and most recent assessment rating alongside information on their voting and engagement.

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

Growth Assets: Voting and Engagement

Delegation of Voting

- The Fund has voting rights through its equity investments with LGIM and with LCIV (both directly via LGIM and indirectly via LCIV).
- The Fund has delegated its voting responsibility to its underlying investment managers.
- The LCIV currently delegate voting to EOS, a stewardship services provider, to conduct proxy voting activities for all LCIV's global equity funds. The LCIV also currently delegate voting to the respective investment managers appointed for all LCIV's multi-asset funds.
  - For all LGIM funds, LGIM's voting policy is employed
  - For the Global Alpha Growth Paris Aligned and the PEPPA Funds, the LCIV policy is applied by EOS
  - In the Diversified Growth and Absolute Return Funds, Baillie Gifford and Ruffer policies are respectively employed
- The Fund has also delegated engagement with underlying companies, within the Fund's mandates, to its underlying investment managers.
- Therefore, the Fund's engagement in this respect is carried out in line with the house engagement policy of LGIM, Baillie Gifford, State Street ("SSGA") and Ruffer for the respective investments.

Key Topics

- We note that **climate change** and **diversity and inclusion** have been identified as areas of interest for Committee in the past. We have therefore focused on these areas in our review when highlighting key votes and further engagement themes.
- Climate change was a consistent engagement topic across all of the Fund's investment managers.
- Remuneration and Company Disclosure & Transparency were in the top five engagement themes for LGIM.

Growth Assets: Exercise of Votes (12-Month Period to 30 June 2023)

	LGIM			LCIV (SSGA)	LCIV (Baillie Gifford)		LCIV (Ruffer)
	Global	Emerging Markets	Future World	PEPPA	GAGPA	DGF	Absolute Return
# eligible resolution votes	62,920	32,588	22,400	10,941	1,309	764	1,106
% votes exercised	99.9	99.9	99.9	97.0	95.0	100.0	100.0
% against management	19.6	18.1	19.8	11.0	11.0	2.0	1.0
% abstained / withheld	0.6	1.2	0.2	1.0	2.0	0.65	1.0
% meetings with at least one vote against management	62.1	52.5	70.2	72.0	73.0	22.0	13.0

- The Fund has direct exposure to equities via LGIM and LCIV (Baillie Gifford and SSGA) mandates, with additional exposure obtained through multi-asset mandates managed by Baillie Gifford and Ruffer.
- The table provides a summary of voting over the 12-month period. We can observe the following from this data:
    - The exercise of voting rights was high across LGIM, Ballie Gifford (DGF) and Ruffer eligible mandates. Baillie Gifford (GAGPA) exercised less votes on average than the other managers.
    - Similar to last year, the percentage of abstentions/withheld votes was relatively low.
    - LGIM were the most active manager in terms of voting against management by a considerable margin and compared with last year. This is to be expected given the index-tracking nature of the LGIM mandates as LGIM do not have an option of disinvestment to reflect their principles. Conversely, Baillie Gifford and Ruffer actively select stocks and, should on average, have a greater alignment of interests with their investments.
    - The index-tracking LGIM funds have a significantly larger stock listing than Baillie Gifford and Ruffer. Hence the LGIM funds are eligible for a larger number of votes.

Growth Assets: Significant Votes

Manager	Main reasons to vote against management	Significant votes
LGIM PRI rating for equity: 4 out of 5 stars	1. Climate change 2. Board diversity 3. Independence of directors 4. Remuneration 5. Shareholder interest	**Steel Dynamics Inc: Board Gender Diversity** • LGIM withheld their vote on Steel Dynamics' resolution to elect Bradley S. Seaman as Director. The vote was withheld as LGIM expects Steel Dynamics to have 30% female representation on its board and for that board to be regularly refreshed to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background. **JP Morgan Chase and Co.: Climate Change** • LGIM voted for a resolution for the company to report on its Climate Transition Plan – describing efforts to align financing activities with greenhouse gas ("GHG") targets. LGIM supports resolutions seeking additional disclosures on how companies aim to manage their financing activities in line with published targets. LGIM believes detailed information on how JP Morgan Chase and Co intends to achieve its set targets (including interim activities and timelines) can further focus the board's attention on the steps required and timeframes involved – providing further assurance to stakeholders. Additionally, the onus for progress remains on the board to fulfil their set ambitions and targets; rather than investors imposing restrictions on JP Morgan Chase and Co. **Industrial & Commercial Bank of China Limited: Climate Change** • LGIM voted against a resolution to elect Cao Liqun as Director. This was as a result of the Industrial & Commercial Bank of China not meeting minimum standards regarding climate risk management. Despite its improvements in disclosures, ESG governance structures and positive engagements – LGIM still believes Cao Liqun, as a member of the Corporate Social Responsibility and Consumer Protection Committee to be ultimately accountable for the lack of climate expectations and risk management at the Industrial & Commercial Bank of China. Additionally, LGIM also expects the Industrial & Commercial Bank of China's Committee to be comprised of independent directors.
LCIV GAGPA PRI rating for equity: 5 out of 5 stars	1. Inappropriate committee membership 2. Remuneration 3. Board gender diversity 4. Insufficient/poor disclosures 5. Shareholder rights concerns	**Prosus N.V.: Remuneration** • EOS recommended voting against a resolution to approve the remuneration report for Prosus N.V.. EOS have been engaging on the issue of remuneration with Prosus N.V. for a number of years. Over time, EOS have reported improvements in Prosus N.V.'s disclosures and also minimum shareholding requirements. However, EOS believed Prosus N.V.'s short-term vesting of awards (e.g. the year's ad-hoc cash bonus) against its long-term incentive plan were not aligned and also misaligned with EOS' expectations for executive remuneration.
LCIV Absolute Return Fund PRI rating for equity: 5 out of 5 stars	1. Board gender diversity 2. Auditor tenure 3. Concerns to protect shareholder value 4. Lack of independence on board 5. Aggregate share issuance limit breached 6. Remuneration	**Linde Plc: Board Gender Diversity** • Ruffer voted against a resolution to re-elect the Chair of Linde's Nomination Committee based on concerns regarding the lack of gender diversity on the current Nomination Committee and Board..

Growth Assets: Significant Votes Cont.

Manager	Main reasons to vote against management	Significant votes
LCIV PEPPA PRI rating for equity: 4 out of 5 stars	1. Remuneration 2. Shareholder value concerns 3. Auditor tenure 4. Board gender diversity 5. Lack of independence on board	**Macquarie: Remuneration** • EOS informed Macquarie of its intention to recommend a vote against a resolution to approve Macquarie's remuneration report. This was due to EOS' concerns with Macquarie's short-term incentive plan, which was based on an uncapped profit-share model, with there being limited disclosures on Macquarie's approach to determine individual awards. Macquarie subsequently informed EOS that the reasoning behind this plan was the attraction and retention of high-performing talent. • Furthermore, Macquarie advised the Board that its remuneration committee had previously undergone a rigorous evaluation of CEO and executive performance – comparing remuneration across various sectors globally, including against unlisted peers such as hedge funds and private equity firms. Despite this, EOS continued to recommend a vote against a resolution to approve Macquarie's remuneration report.
LCIV Diversified Growth Fund PRI rating for equity: 5 out of 5 stars	1. Remuneration 2. Auditor tenure 3. Equity issuance 4. Lack of disclosures	**Duke Realty Corporation: Remuneration** • Baillie Gifford opposed a proposal to approve payment of an executive compensation in connection with the Duke Realty Corporation's merger, due to concerns regarding single trigger provisions (i.e. clauses within equity agreements enabling access to unvested equity/equity options faster in the event of a single specific event) and excise tax gross-ups connected to severance payments.

Growth Assets: Significant Engagements

Manager	Main engagement themes	Significant engagement
LGIM	1. Climate impact pledge 2. Deforestation 3. Remuneration 4. Climate change 5. Company disclosures and transparency	Japan Post - Following five years of engagement, LGIM reinstated Japan Post as an investment after the company's disclosure of its Scope 3 investment emissions alongside its 'net zero by 2050' commitment; these supplement their 2021 thermal coal policy. Ford – LGIM engaged with Ford and continues to push for greater transparency and engagement on its upstream suppliers and climate lobbying activities. Norsk Hydro – LGIM continues to engage with Norsk Hydro on their development of low-emission products that integrate renewable power, innovative technology and increased recycling rates. LGIM has a policy of conducting targeted and direct engagement with companies they see as 'dial movers,' chosen for their size and potential to galvanise action on climate.
LCIV GAGPA	1. Climate change 2. Executive Renumeration 3. Human and labour Rights 4. Board composition 5. Risk Management	**Prosus: Climate Change** Baillie Gifford met with Prosus' Head of Global Sustainability to discuss the Prosus' approach to climate change. Following this, Baillie Gifford informed LCIV that Prosus had significantly improved its understanding of climate risks and opportunities across the business and had taken steps to address these. For example, Prosus had improved its emissions data disclosures and absolute emissions reduction targets (i.e. 100% of corporate operations and 35% of eligible investments by 2028). Baillie Gifford flagged the latter targets as material as Scope 3 emissions represented the bulk of Prosus' climate impact. Furthermore, following the meeting, Baillie Gifford reported that Prosus had received external Science Based Targets initiative ("SBTi") validation – including the acknowledgement of their alignment with a 1.5°C Paris-aligned pathway for its emissions targets ;further-underpinning the enhancements to Prosus' climate strategy.
LCIV PEPPA	1. Human capital 2. Climate change 3. Executive remuneration 4. Human and labour rights 5. Board effectiveness 6. Purpose, strategy and policies	**Conagra Brands: Human Capital** SSGA met with Conagra Brands ahead of its AGM and following this, State Street informed LCIV that it had reviewed Conagra Brands' materials (such as its 2023 proxy statement, its Citizenship Report and website) to assess whether Conagra Brands had appropriately disclosed its EEO-1 report to the Equal Employment Opportunity Commission ("EEOC") in the US. In a situation where a company has not appropriately disclosed the EEO-1 report to the EEOC, SSGA might have opted to vote against the Chair of the Board Committee. However, SSGA advised LCIV that Conagra Brands' 2023 proxy statement confirmed the EEO-1 report. As such, SSGA then confirmed that it had voted in support of the Chair of the Board Committee at Conagra Brands' 2023 AGM.

Growth Assets: Significant Engagements Cont.

Manager	Main engagement themes	Significant engagement
LCIV Absolute Return Fund	1. Human and labour rights 2. Climate change 3. Board effectiveness 4. Purpose, strategy and policies 5. Risk management	**Carbon Disclosure Project ("CDP")/Perseus Mining: Climate Disclosure** In a joint engagement with the CDP, Ruffer wrote to the CEO of Perseus Mining's to encourage the disclosure of Perseus Mining's climate impact. Ruffer informed LCIV the letter encouraged Perseus Mining to complete the CDP climate questionnaire and emphasised the importance of having robust environmental data in impact related disclosures. Ruffer also advised that following further discussions, Perseus Mining confirmed the submission deadline of July 2023 to receive a CDP score was unattainable for Perseus Mining to meet at the time, due to year-end reporting deadlines. However, Perseus Mining followed up and committed to responding by the end of September 2023 for its unscored CDP data to be made available to its investors. Perseus Mining also then planned to fully engage during the 2024 reporting cycle.
LCIV Diversified Growth Fund	1. Climate change 2. Executive renumeration 3. Corporate reporting 4. Human capital 5. Board effectiveness	**Longyuan Power – Climate Change** Baillie Gifford met with Longyuan Power in order to discuss its climate strategy; specifically exploring environmental disclosures and emissions reductions. Baillie Gifford commended Longyuan Power for its first disclosures of Scope 1 and 2 emissions, within its 2022 ESG report. Baillie Gifford also then requested details of Longyuan Power's Scope 3 disclosures timelines. In addition, Baillie Gifford encouraged the Longyuan Power to set a formal emissions reduction target – to further drive climate progress. However, Baillie Gifford informed LCIV, they expected more progressive strategic ambitions from Longyuan Power, given it being a wind power leader and considering China's Net Zero goals. Overall, the engagement highlighted the Longyuan Power's improvements in climate management, with these results being incorporated into the ongoing review of the investment case for holding Longyuan Power.

Income Assets: Stewardship and Engagement

Manager	Main stewardship and engagement themes
JP Morgan PRI rating for infrastructure: 5 out of 5 stars	• JPM believes strong governance is the initial step in implementing effective ESG practices, mitigating risks and identifying opportunities of significant impact on underlying companies. • The JPM Fund and its underlying portfolio companies annually participate in the GRESB assessment, to assess ESG performance. JPM use the GRESB assessment to benchmark its performance against peers but also as a tool to: formally engage with each underlying portfolio company, review areas of success and share best practices, discuss areas of improvement and guide improvement in ESG drivers (via monitoring and preparing for future ESG trends). For the 2023 GRESB assessment, the majority of the JPM Fund’s underlying portfolio companies increased their raw scores – indicating an overall improvement compared to the peer group. • With respect to engagement, the JPM Fund targets majority and control positions for underlying portfolio companies, to implement business plans and strategic initiatives. Through its control positions, the JPM Fund actively engages with the underlying portfolio companies. Examples of activity over the course of the year included a focus on cyber risk across multiple assets to protect customer data (with over 80% of portfolio companies completing cyber insurance review). Across the portfolio,there was also a focus on safety, with the sharing of best practices across companies. • JPM has provided comprehensive reporting on a broad range of ESG factors across its portfolio.
UBS PRI rating for real estate/ infrastructure: 4 out of 5 stars	• UBS’ Real Estate & Private Markets (“REPM”) has defined responsibilities and incentives to integrate sustainability across real estate, infrastructure etc and from 2022, each member of the REPM Team at UBS also had at least one ESG related goal within their annual objectives. • In 2019, Triton commissioned an external specialist to calculate a social value (in GBP terms) for each property in the UBS Fund. Following this, the UBS Fund worked with tenants, onsite property and facilities management teams to understand and measure categories that create a social positive impact e.g. local employment levels, traineeships, jobs for young offenders, community events held at the property and volunteering. • In 2021, the UBS Fund’s student accommodation assets and five retail parks were analysed, and as at Q4 2021, it was measured the total social value created by these assessed assets was c.£10m. Subsequently, this data has enabled UBS to introduce measurable standards around social value into the UBS Fund’s asset and property management. • In 2022/23, Triton saw continued progress on energy efficiency, with 76% of the portfolio’s assets are now rated EPC C or above – on target to meet the expected 2030 minimum EPC B rating requirement.

Income Assets: Stewardship and Engagement

Manager	Main stewardship and engagement themes
CBRE PRI rating for direct real estate/indirect real estate/direct infrastructure: 4 out of 5 stars	• CBRE believes that it holds responsibility to drive positive change in the environments and communities in which it invests and therefore seeks to positively influence the way in which buildings/infrastructure is constructed, managed and used globally. • CBRE have outlined a 'Sustainability Vision' to mitigate risk, create value and preserve the planet – implementing this via stewardship, engagement with partners and underlying managers and investee companies. • Following engagement with underlying stakeholders and assessing materiality, CBRE also has 3 main sustainability topics: climate (seeking to mitigate climate risks and enhance investment return opportunities – through focus on Net Zero and physical asset resilience), people (seeking to advocate for diversity, equity, inclusion and wellbeing of people and stakeholders) and influence (seeking to engage with and positively influence key stakeholders). **Over 2022:** • GRESB assessment, CBRE achieved a score of 80/100 due to CBRE's engagement with underlying managers on issues such as data coverage, energy and building certification ratings to support the progress towards Net Zero. • CBRE also conducted a climate risk mapping of the Fund and engaged with managers on assets with exposure to high/critical risk climate hazards. Following this, 41% of managers (by NAV) went on to complete audits on potentially vulnerable buildings and 34% incorporated climate risk mitigation strategies into their asset lifecycle plans. **Objectives for 2023:** • Improving GRESB participation and scores (via targeting areas with room for improvement e.g. data coverage and building certifications), continuing work with managers to improve transparency and disclosures, continuing engagement to improve sustainability performance and climate risk to identify vulnerable assets (and subsequently implement mitigation strategies).
Stafford PRI rating for infrastructure: 4 out of 5 stars	• Stafford integrates ESG considerations into its investment process and works closely with underlying asset managers to identify material sustainability risks and, where necessary, mitigate sustainability risks and any that may exist/develop post-investment via further liaison with underlying asset managers/management teams. **Over 2022:** • As an example of engagement, in June 2022 Stafford organised a digital roundtable discussion amongst infrastructure asset managers focussed on decarbonisation efforts in their portfolios. The event brought together experts on sustainability from the underlying infrastructure fund managers, the PRI and Stafford. ESG related topics (e.g. the alignment of infrastructure managers with the TCFD, climate resources and initiatives available for infrastructure managers and decarbonisation insights) were discussed and shared – with the aim of Stafford accelerating positive change towards more sustainable futures. • Over time, Stafford have continued to increase focus on sustainability outcomes. An example of this is a comparison between the SISF II Fund and the later vintage SISF IV Fund. As at the end of 2022, the SISF II Fund had an allocation of 27% to traditional power and a 61% allocation to energy transition renewables. The later vintage SISF IV instead had no allocation to traditional power and an 88% allocation to energy transition renewables.

Income Assets: Stewardship and Engagement Cont.

Manager	Main stewardship and engagement themes
RLAM PRI rating for fixed income – corporate financial: 4 out of 5 stars	• RLAM focus their risk identification and engagement on sectors where they believe there to be the greatest ESG risk and limited data availability and research. As part of RLAM's ESG integration, RLAM engage with underlying issuers to improve subsequent investment decisions. • Over 2022 (the available reporting period), RLAM engaged with 393 companies. Key themes for engagement interactions, in order of frequency, were climate transition risk, mental health (following RLAM's campaign/collaboration with companies on this), health, a 'Just' transition and corporate governance. • In the MAC Fund, RLAM wrote to Thermo Fisher Scientific Inc (a supplier of analytical instruments) expressing concern about allegations around human rights violations in China, from the sale and use of Thermo Fisher Scientific's human identification ("HID") products. Thermo Fisher Scientific responded and confirmed its products could not be used for ethnic profiling or surveillance (RLAM had expressed concerns regarding these human rights violations) and Thermo Fisher Scientific confirmed that it no longer sold said HID products in certain regions of China. Additionally, Thermo Fisher Scientific also reaffirmed its commitment to advances in science and to conducting its business in an ethical and responsible manner. Thermo Fisher Scientific also emphasised its provision of regular training and education (to both its staff and partners) on bioethics and human rights issues.
Churchill PRI rating for fixed income – private debt: 4 out of 5 stars	• Churchill believe effective engagement allows them to drive change with underlying portfolio companies and this therefore helps to mitigate risks. Churchill's Investment Team frequently review underlying portfolio companies' management processes and private equity sponsors – during which, Churchill will identify/raise ESG concerns, risks or opportunities. • Churchill also collaborate with industry peers, interdisciplinary experts and stakeholders to create best practices and drive more effective outcomes. E.g. Churchill partnered with the UN Principles for Responsible Investment ("PRI") and other PRI signatories to develop the 'Private Credit – Private Equity ESG Factor Map' to streamline the ESG information shared during the investment process – designed to facilitate collaboration between sponsors, co-investors and lenders and integrate existing ESG standards and frameworks. • Churchill also joined the executive committee for the ESG Integrated Disclosure Project ("IDP"); an initiative bringing together leading lenders in private credit to improve ESG data transparency. Following this, Churchill has undertaken formal engagement with its private equity sponsors to encourage use of the ESG IDP, to set a precedent for standardised data collection for all of its underlying portfolio companies, resulting in more informed investment decisions. • Whilst the Churchill Funds do not have formal stewardship and engagement requirements, Churchill's most recent senior loan fund offering (i.e. Senior Loan Fund V) states explicit engagement requirements - and due to policy, will involve stewardship and engagement activities for all deals allocated since its launch. • As an example of stewardship, to increase the overall health and safety performance of Churchill's senior lending portfolio, Churchill's ESG team had a conversation with one of its leading sponsors, to align health and safety expectations and ensure the establishment of adequate policies and practices for underlying portfolio companies. Through the engagement, the sponsor rolled out a safety program and reporting to encourage employee health and safety and mitigate the risk of employee injury.

Income Assets: Stewardship and Engagement Cont.

Manager	Main stewardship and engagement themes
Permira PRI rating for fixed income – private debt: 4 out of 5 stars	• Permira further embedded ESG into its investment approaches over the course of 2022. Following the evaluation and review of EcoVadis ESG ratings, an ESG margin ratchet was implemented. Permira is now seeking to embed this mechanism, to offer ratchets in documentation for all new primary direct lending deals and refinancings. • An 82% disclosure rate on ESG across underlying portfolio companies within the direct lending funds, collected via an annual ESG data questionnaire and based on key metrics outlined in the ESG Data Convergence (“ESGDC”) Initiative. Aligning with the ESGDC initiative reflects Permira’s transition towards more consistent and objective performance tracking. • In 2023, PCS5, was reclassified from Article 6 to Article 8 under Sustainable Finance Disclosure Regulation (“SFDR”). Permira Credit has further developed PCS5’s ESG approach and as a result of the ESG initiatives progressed, PCS5 is now regarded as promoting environmental and/or social characteristics – therefore falling within the scope of Article 8 of SFDR. PCS5 will aim to continue to promote environmental and social characteristics encouraging improvements in underlying investee companies through ESG-related data monitoring and reporting and margin ratchets, as applicable. PCS5 will seek to encourage improvements in ESG-related issues focussing on carbon footprints, board gender diversity and ESG-focused metrics. • Having piloted an initial request for ESG information from PCS4 portfolio companies in 2020, Permira extended the request across PCS3, PCS4 and PCS5. The ESG request now includes c.25 key performance indicators (“KPIs”) – over double the KPIs requested in the first direct lending survey in 2020. In 2022, Permira further enhanced the survey, adding questions on carbon neutrality, science-based targets being set and commitments to Net Zero.2 • Although Permira does not screen its investments by ESG KPIs, its ability to collect and monitor ESG KPIs enables it to better manage ESG-related risks and opportunities.

Next steps

Ensuring that stewardship is being undertaken in line with the Committee's expectations is a core part of the Climate Action Plan and the Committee should ensure that it able to effectively scrutinise the actions of its managers at quarterly Committee meetings .

As per the Fund's Climate Policy and Action Plan developed earlier this year, the roles and expectations of LCIV and the Fund's other investment managers are as below.

LCIV:

- Embed the consideration of climate change into all product development, particularly the alignment of strategies with decarbonisation pathways.
- Exercise active stewardship, including voting, over underlying assets to ensure that climate ambitions are appropriately communicated and challenged.
- Provide the necessary information to allow the Committee to assess progress against its objectives.

Other Investment Managers:

- Ensure that climate considerations are embedded into product management.
- Exercise active stewardship, including voting, over underlying assets to ensure that climate ambitions are appropriately communicated and challenged.
- Provide the necessary information to allow the Committee to assess progress against its objectives.

We continue to recommend that at future Pensions Committee meetings where LGIM or LCIV present, focus should be given to voting practices and the progress of climate ambitions being met. We propose to identify appropriate case studies for each to facilitate discussion and recommend that the Committee agree a short list of focus companies over which manager activity can be challenged.

We further recommend that the Committee or Officers undertake a more structured engagement on stewardship issues with key managers.

Risk warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Thank you