Southwark Pension Fund – UK Stewardship Code

Reporting date: 31 March 2025 - for financial year 1 April 2024 to 31 March 2025 ('2024-2025')

Introduction to Southwark Pension Fund

As at 31 March 2025, the market value of the London Borough of Southwark Pension Fund ('SPF' or 'the Fund') was £2.27 billion. The latest funding level as at 31 Dec 2024 was estimated to be 120%.

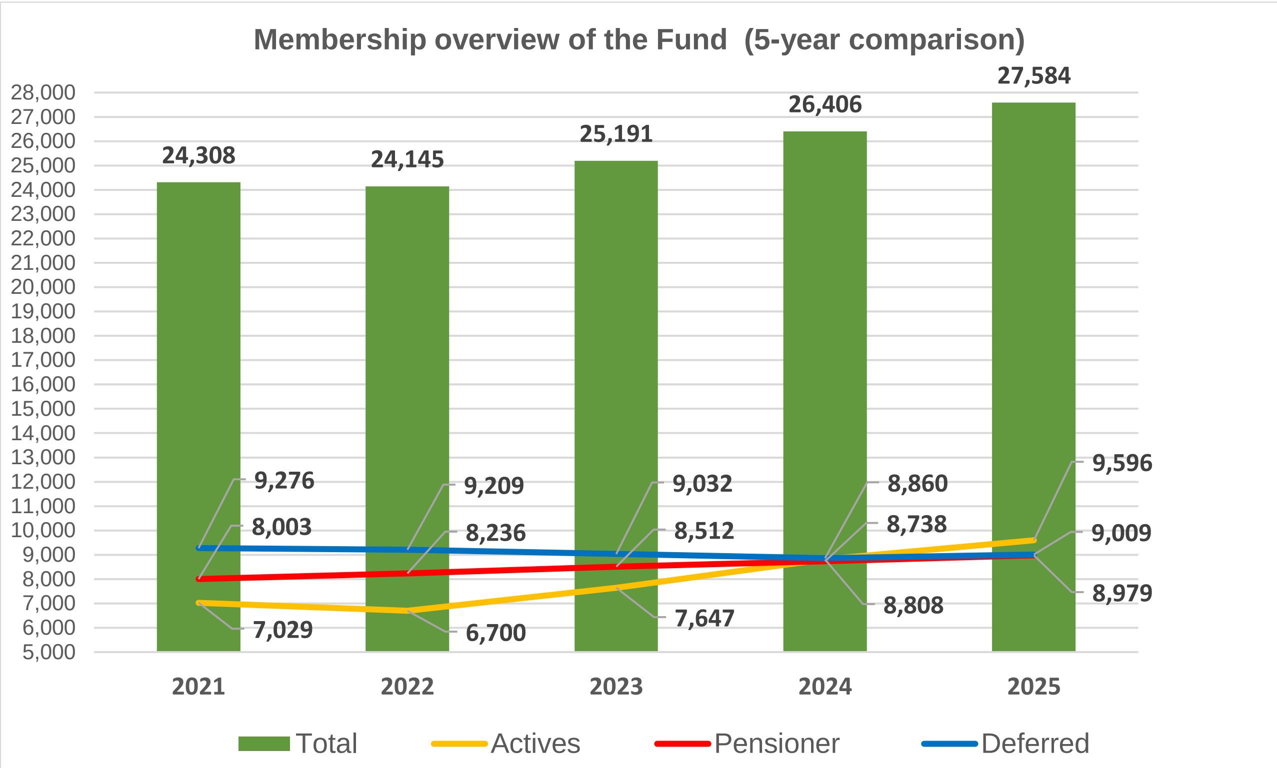
The Fund invests in a diverse range of assets including equities, bonds, property, infrastructure, fixed income, and credit instruments.

Summarised below are the key facts of the Fund as at 31 March 2025.

1. Membership profile

The chart below captures the membership profile of the Fund and its comparison over a five-year period between March 2021 and March 2025.

Figure 1: Membership profile of the Fund



The table below shows the active employer profile of the Fund membership over a five-year period between March 2021 and March 2025.

Figure 2: Active employer profile of the Fund

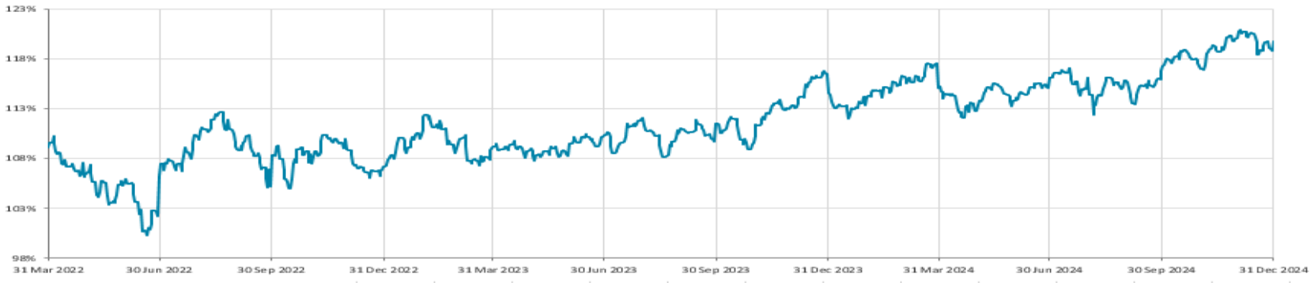
	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Administering Authority	1	1	1	1	1
Scheduled body	32	31	32	36	37
Admitted body	22	18	20	18	18
Total	**55**	**50**	**53**	**55**	**56**

2. Funding position

The Fund's surplus and the funding level has increased since the last triennial actuarial valuation, undertaken in 2022.

The chart below outlines the change to the funding level of the Fund since 31 March 2022.

Figure 3: Funding level of the Fund since 31 March 2022



Source: Aon quarterly funding update as at 31 March 2025

The chart below outlines the change to the surplus of the Fund since 31 March 2022.

Figure 4: Surplus/(deficit) of the Fund since 31 March 2022

Source: Aon quarterly funding update as at 31 March 2025

3. Asset management breakdown:

The below charts capture the breakdown of the Fund assets as at 31 March 2025 by:

1) asset class
2) investment approach

Figure 5: Fund allocation by asset class as at 31 March 2025 (%)

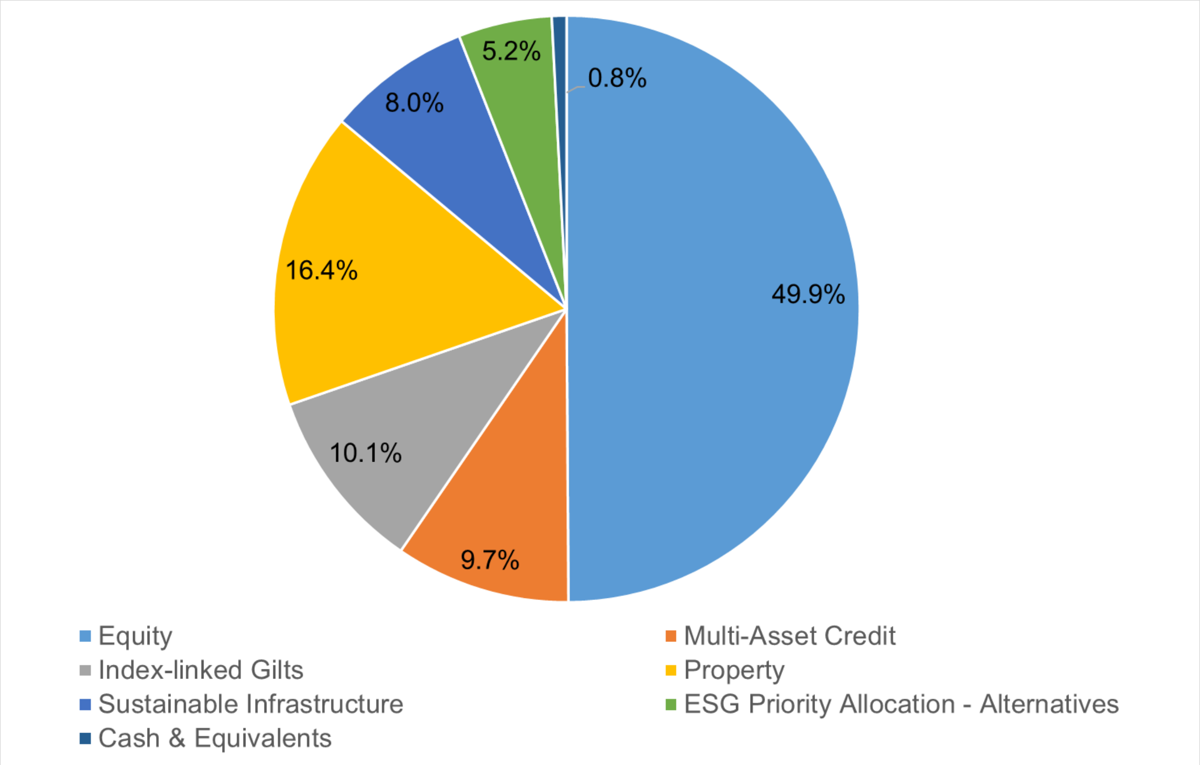
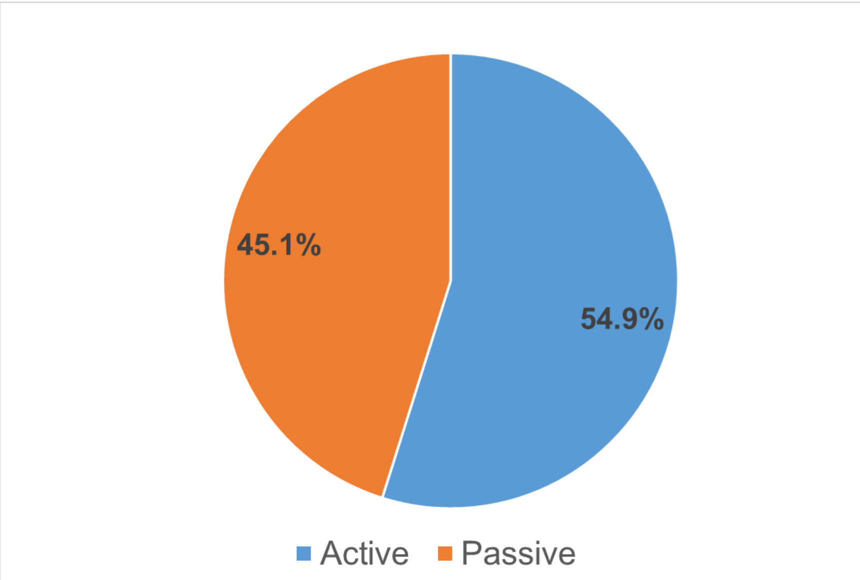


Figure 6: Fund allocation by investment type (active vs passive) as at 31 March 2025 (%)



About the Southwark Pension Fund

The London Borough of Southwark Pension Fund ('SPF' or 'the Fund') is part of the Local Government Pension Scheme ('LGPS'), a statutory scheme established by an Act of Parliament and governed by the Public Services Pensions Act 2013 ('PSPA 2013').

The Fund is administered by Southwark Council and is a defined benefit pension scheme, which provides for the payment of pensions and other related benefits to employees and former employees of the Council and 55 other participating employers.

The LGPS operates on a 'funded' basis, which means that contributions from employees and employers are paid into a fund which is invested, and from which pensions are paid.

Contribution rates for employees and employers are set by the Fund's actuary at the actuarial valuation, which is carried out every three years. The most recent valuation was carried out as at 31 March 2022 where it was found that the overall funding level of the Fund was 109%. The Fund actuary is currently working on the triennial valuation for the year ending 31 March 2025.

Since the LGPS is well funded and open to new members, with most of its employers having strong covenants, the Fund can take a long-term view of investments and set its investment strategy accordingly. While a formal review of the investment strategy takes place following the actuarial valuation, it is reviewed regularly by the Fund officers and others involved in the governance of the Fund.

Further information on the Fund's administration and investments can be found in the latest Annual Report and Accounts.

1. Fund Governance

Southwark Council ('the Council') is the administering authority for the Fund. Within its constitution, the Council has delegated responsibility for the Fund to the Strategic Director of Resources.

A formal governance structure is in place for the Fund which comprises of the Strategic Director of Resources ('S151 officer') and the Pensions Advisory Panel ('PAP'). The S151 officer and PAP are supported by the internal Pensions & Treasury Investments team ('Investments Team') and the Pensions Operations Team ('Operations Team').

This internal structure is complemented by governance and oversight provided by the Local Pension Board ('LPB') and ongoing engagement with third party investment managers, the London Collective Investment Vehicle LGPS pool, external advisors and other stakeholders.

S151 officer

The S151 officer is appointed by the Council in accordance with section 151 of the Local Government Act 1972, section 114 of the Local Government Finance Act 1988, the Accounts and Audit (England) Regulations 2015, and section 25 of the Local Government Act 2003.

The S151 officer is responsible for all decisions in relation to the Fund. The S151 officer must ensure that the Fund's affairs are administered in a proper manner, in compliance with all relevant professional codes of practice, including the CIPFA Financial Management Code, and all statutory obligations.

The S151 officer is responsible for the following key functions and decisions in relation to the Fund:

- Establishing and reviewing the strategic investments objectives of the Fund.
- Reviewing the definition of the investment return target most likely to satisfy the investment objective.
- Considering what constraints, if any, should apply to the invested assets and monitor compliance.
- Establishing and reviewing the strategic asset allocation (benchmark) that is likely to meet the investment return target.
- Considering and reviewing the appropriateness of the Fund structure.
- Monitoring the performance of the Fund's investment managers.
- Considering policy matters in relation to the Fund operations.
- Considering applications for membership of the Fund.

In the decision-making process, the S151 officer acts on the advice of the PAP and other external advisors as required.

Pensions Advisory Panel

The Pensions Advisory Panel ('PAP') provides recommendations and guidance to the S151 officer enabling them to make informed decisions in relation to the Fund operations.

The PAP is constituted as follows:

- three elected members (two members from the Council's majority group and one member of the majority opposition) who have received the appropriate training; one of those members will chair the PAP (voting)
- S151 officer (non-voting)

- two other officers (an officer with specialist knowledge of pensions investments and accounting, and an officer with specialist knowledge of pensions administration) (voting)
- two independent advisors (non-voting)
- two representatives appointed by the constituent trade unions representing beneficiaries and one retired representative from the trade unions (non-voting)

Decisions of the PAP should be reached by a consensus. Where agreement cannot be reached, then a majority vote applies. Voting rights are restricted to members and officers, with the chair having the casting vote if required. Decisions of the PAP are treated as advice/recommendations to the S151 officer.

Local Pension Board

The responsibility of the Local Pension Board ('LPB'), as defined by sections 5(1) and (2) of the Public Services Pensions Act 2013, is to assist the administering authority i.e., the Council, in ensuring the effective and efficient governance and administration of the Fund, including:

(i) securing compliance with the LGPS regulations and other legislation relating to the governance and administration of the Fund and any statutory pension scheme that is connected with it

(ii) securing compliance with requirements imposed in relation to the Fund and any connected scheme by the Pensions Regulator

(iii) such other matters as the LGPS regulations may specify.

The Council retains ultimate responsibility for the administration and governance of the Fund. The role of the LPB is to assist the Council to fulfil that responsibility.

External advisors

The S151 officer and the PAP rely on external consultants for external market updates, understanding regulatory requirements and for undertaking research to enable informed decision-making in relation to the Fund operations.

The Fund's external advisors are:

Advisor	Role	Overview/Experience
Aon	Investment advisor and Fund actuary	Aon is a leading global professional services firm engaged in providing investment, actuarial, governance and scheme employer services to the LGPS and other private sector pensions schemes.

Advisor	Role	Overview/Experience
David Cullinan	Independent advisor	David worked for over 30 years for State Street (formerly the WM Company), managing relationships with a large variety of clients - pension funds, asset management companies, insurance companies, charities and foundations. With a background in investment accounting, fund valuation and unit pricing, David has experience in engagement, measurement and performance of funds in the public sector and in particular, the collation of long-term statistics and trends on behalf of the collective LGPS – formerly the sector renowned WM Universe and latterly, PIRC's LAPPA service. David has been an investment advisor for the Fund since 2012 and is also an independent investment advisor for the largest Welsh public sector pension fund.
PIRC	Performance review & other technical support as required	PIRC is a specialist consulting firm with over 30 years of experience in providing stewardship and responsible investment services to LGPS.

<u>Fund membership</u>

The Fund is a member of the following associations/forums through which it undertakes collective engagement in relation to its investments and for driving industry best practice:

Advisor	Role
LAPFF	Support and guidance in relation to stewardship, engagement & voting activity
Pensions and Lifetime Savings Association (PLSA)	Support and guidance in relation to policy development, advocacy, membership engagement, events and communications

2. Key officers of the Fund

Key officers of the Fund and their roles and responsibilities:

Officer	Title	Responsibility	Experience
Clive Palfreyman	Director of Resources	Responsible for overall decision making and risk management of the Fund	Clive has worked as a lead at various LGPS for 20 years. This has included leading on areas such as investment strategy, fund manager selection, responsible investment and contract management and has involved very large transitions. Alongside the statutory role as a finance lead at the Fund, Clive's responsibilities include: - Treasury - Procurement - Customer Services - Revenues and Exchequer - Planning - Economic Growth - Digital & Information & Communication Technology - Pensions Administration Clive has also served as a Board Member on the London Collective Investment Vehicle. Clive is Chartered Institute of Management Accountants (CIMA) qualified.
Caroline Watson	Chief Investment Officer	Leads the Pensions Investments Team and is responsible for overseeing investments, accounting and governance of the Fund	Caroline has over 20 years' experience in pension fund accounting, investment and governance obtained in various roles at Southwark Council. These include pension fund accountant, pension fund investment manager, divisional accountant – treasury and pensions, senior finance manager – treasury and pensions, and her current role

Officer	Title	Responsibility	Experience
			as chief investment officer in which she leads on areas such as investment strategy, fund manager selection, responsible investment, contract management, funding, risk management, procurement, and pension fund governance (including leading on supporting the PAP and LPB). Caroline is also responsible for Southwark Council's treasury and banking functions. She is a member of the Association of Chartered Certified Accountants (ACCA) and has a BA Honours Degree in Accountancy.
Barry Berkengoff	Head of Pensions Operations	Leads the Pensions Operations Team and is responsible for the Fund's administration, payroll, and operational functions	Barry has 30+ years' experience covering pensions communication, senior leadership, client relationship delivery, dispute resolution, technical, administration, risk management, trustee support, project management and IT/systems and data management. Barry has experience in both Private and Public Sectors including Local Government. He has worked in both Private 'In-House' and 'Third Party Administrator' environments. Barry was the UK and overseas Pensions Manager at the Royal Bank of Scotland for nearly a decade and was also a Pensions Consultant at PwC. He has also worked for the Pensions Ombudsman and Civil Service in senior management roles before joining the Fund in September 2018.

3. LGPS Pooling

The Fund has investments with London Collective Investment Vehicle ('LCIV'), which is the LGPS pool for the 32 London Borough pension funds. The pooled assets are under two categories – where the investment mandate is under direct LCIV management or where the investments are held under LCIV supervision.

Global credit instruments are managed directly through an LCIV alternative credit mandate. The Fund's pooled listed equity and gilt mandates, together with one of the residential property fund, are managed under an LCIV supervision arrangement.

As at 31 March 2025, the Fund had approximately £1.1 billion (c. 50% of the Fund) in investment mandates which are either directly managed by LCIV or under LCIV supervision.

Subject to the outcome of the Government "Fit for the Future" consultation on the future of the LGPS, it is expected that by 31 March 2026 the Fund's listed assets will be under the direct management of the LCIV with the balance of assets being held under LCIV supervision. It is expected that the Fund officers will retain responsibility for the Fund's wider Responsible Investment policies and engagement/stewardship activity.

4. Key policies/documents relevant for the Fund operations

Following are the key policies and documents of the Fund in relating to the investment and stewardship activities:

Policy/Document	Purpose
Investment Strategy Statement	Sets out the investment strategy of the Fund, including key parameters relevant for investment decision-making
Net zero Strategy	Details the Fund's strategy to achieving a net zero target by 2030
Responsible Investment Policy	Lists out the Fund's beliefs and approach to ESG considerations and engagement and stewardship activity
Cash Management Policy	Sets out the principles for maintaining and managing cash balances in the bank account(s) to mitigate liquidity risk for the Fund
Funding Strategy Statement	Establishes a clear and transparent strategy to identify how employer's pension liabilities are best met going forward. It also sets out the key risks to not achieving full funding and lays out the measures to address these risks.

5. Key highlights for 2024-2025

Summarised below are the key highlights and achievements of the Fund during the period from 1 April 2024 to 31 March 2025:

- A **reduction of c. 82% of carbon footprint** in Scope 1 and Scope 2 emissions compared to baseline year (September 2017) (discussed in Principle 1)
- In line with an internal classification, the **Fund now has approximately 90% of its investments in a combination of reduced/low/zero carbon assets** (discussed in Principle 4)
- **Established a standalone EDI policy**, which applies to the Fund Governance structure. Within scope are the S151 officer, PAP and LPB, the internal investments and operations teams and the Fund's external stakeholders including investment managers, LCIV, consultants, custodians, and actuary (discussed in Principle 5)
- **Engagement and voting activities of the investment managers** are now included as a standing item in quarterly PAP meetings (discussed in Principle 6)
- Implementation of **'pass-through' voting for the pooled equity mandates** with BlackRock and LGIM (discussed in Principle 9)
- As part of the **segregated mandate with Newton**, **ongoing engagement** with underlying companies **in relation to climate-related strategies, targets and disclosures** which are then embedded into the overall investment decision-making process on a proactive basis.

In case of any questions on this Stewardship Code report, please contact Caroline Watson (caroline.watson@southwark.gov.uk) or Spandan Shah (spandan.shah@southwark.gov.uk).

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.

The Fund has a fiduciary duty to its members and recognises the importance of being a responsible asset owner.

Our Purpose

The purpose of the Fund is to deliver retirement benefits to 27,500+ active, deferred and pensioner members of the Fund and other Participating Bodies when they fall due.

At its core, the Fund seeks to balance the following twin objectives:

- first, to achieve sufficient long-term returns for the Fund to be affordable and
- second, to keep the employers' contribution rate as stable as possible.

The Fund is accountable to its members, employers, and other internal and external stakeholders. The Fund ensures effective governance and oversight of its activities through various policies and a robust decision-making structure in place.

Strategy and Investment Beliefs

The Fund's strategy and investment principles are aligned with the Council's values; in particular, the value of "spending money as if it were from our own pocket."

In setting the investment strategy, the Fund seeks to balance the twin objectives of achieving sufficient long-term returns for the Fund to be affordable and second, to keep the employers' contribution rate as stable as possible.

The Fund operates a long-term, sustainable investment strategy. The Fund's investment beliefs are based on a well-structured asset and fund manager investment allocation to target long-term, responsible, investment performance.

The Fund has four key investment related documents:

1. The Investment Strategy Statement (ISS)
2. Funding Strategy Statement (FSS)
3. Net zero Strategy
4. Responsible Investment Policy (RI Policy)

The Fund's Investment Strategy Statement ('ISS') sets out the investment strategy of the Fund, provides transparency in relation to how the Fund's investments are managed, and outlines the Fund's approach to managing risks, including climate-related and wider Environmental, Social and Governance (ESG) risks.

The ISS and FSS are closely linked. The Fund must be able to pay benefits when they are due, and those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short, higher contributions will be required from employers.

The ISS is complemented by the Fund’s ambitious standalone strategy to achieving a net zero target by 2030 (Net zero Strategy’), which includes transitioning the Fund’s legacy investments in a structured and affordable manner to reduced/low/zero carbon products and investing in asset classes such as sustainable infrastructure. The Net zero Strategy also outlines various initiatives the Fund plans to undertake over the short-term (2022-2026), medium-term (2027-2029) and long-term (2029-2030) to get to net zero by 2030.

As a responsible investor, the Fund recognises that ESG factors are an important part of the investment decision making process. Integrating ESG factors into the investment philosophy will protect and improve the risk profile of the Fund’s investments over the long-term. The Fund’s RI Policy, developed in 2023-2024, outlines how the Fund implements responsible investment strategies across the investment lifecycle. The RI Policy outlines the strategy, governance and risk management framework in place to integrate climate change and wider ESG parameters into the investment decision making process and covers operational aspects such as research, stewardship, advocacy and ongoing monitoring and reporting of ESG issues.

The principles laid out in these investment related documents are central to the Fund’s investment decision-making process and provide a clear structure and approach, specifically in relation to potential new investments, assessing investment performance of existing investments, and questions of disinvestment.

Through its investments the Fund is looking to generate positive social and environmental impact within a framework of prudence and fiduciary duty. Ultimately, the Fund exists to pay the benefits due to its members. However, managing ESG risks is an important contributor to the long-term financial health of the Fund.

Values and Culture

The culture and values of the Fund are therefore aligned to those of the Council.

The Council’s values are underpinned by a framework which focuses on the following:

- treating residents as if they were a valued member of our own family
- being open, honest and accountable
- spending money as if it were from our own pocket
- working for everyone to realise their own potential
- making Southwark a place to be proud of
- always working to make Southwark more equal and just
- standing against all forms of discrimination and racism

These are the values that are expected to be upheld by all employees of the Fund and are reinforced by the Council’s Code of Conduct.

Activity

Our policies and objectives are a strong part of the day-to-day running of the Fund. The robust embodiment of these objectives in the Fund's culture and investment activities enable strong stewardship through investment activities.

The S151 Officer, PAP, LPB and external advisors take a collaborative and engaging approach towards investment activities, allowing for dynamic challenge, support and monitoring.

As part of good governance and to ensure all policies are fit for purpose with the evolving macroeconomic landscape, these investment-related documents are reviewed periodically. They are available in the public domain on the Fund's website.

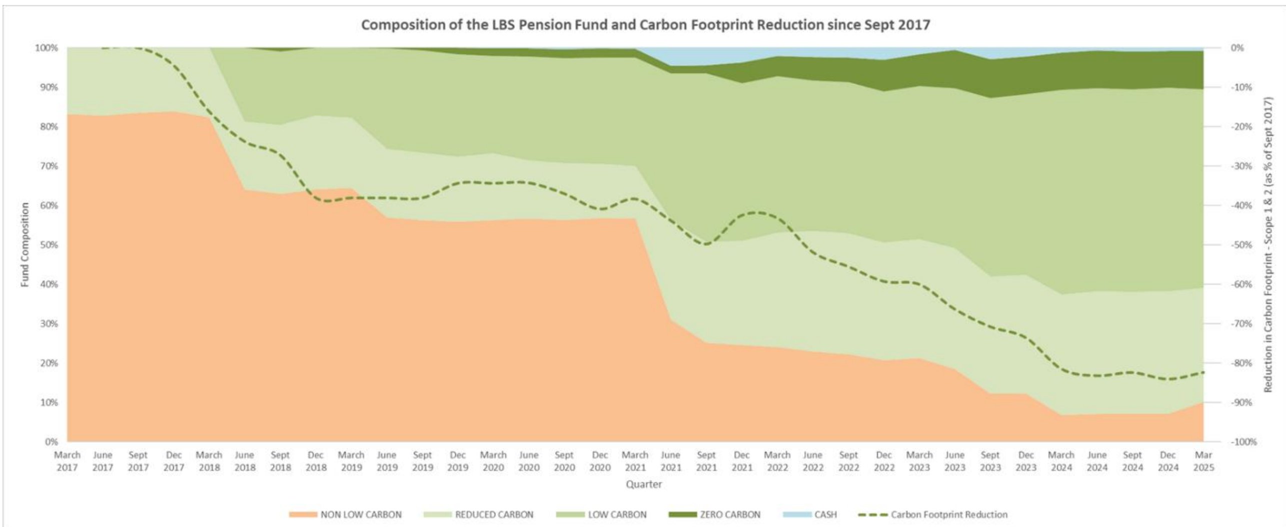
Outcome

The Fund considers managing ESG risks as an important aspect of the investment process. As a result, ESG factors are having an increasing impact on investment decisions. As part of this, one of the key metrics the Fund has tracked since September 2017 is the carbon footprint of its portfolio and the reduction it has achieved over time.

The Fund primarily tracks Scope 1 and Scope 2 emissions of the portfolio. Standalone carbon emissions, carbon intensity and weighted average carbon intensity ('WACI') data are the key metrics the Fund has tracked since September 2017 (baseline). For this, the Fund relies both on information shared by the investment managers and the data available from a third-party database that the Fund has access to.

The chart below captures the carbon footprint of the Fund's portfolio from 30 September 2017 to 31 March 2025. It is estimated that the Fund has reduced its Scope 1 and Scope 2 Co2 emissions by **c. 82%** over this period. See Figure 7 below.

Figure 7: The Fund's carbon footprint and the increase in investments in low/zero/reduced carbon assets over the period from September 2017 to March 2025



Over this period, the Fund has also transitioned investments from traditional non-low carbon assets to low/zero/reduced carbon categories. This is an internal classification that the Fund has adopted to measure progress over time. Since September 2017, the Fund’s investment in low/zero/reduced carbon assets has **increased from 17% to 90%**.

The Fund continues to monitor its investments in line with the ISS, considering the initiatives laid out in the Net zero Strategy and the principles set out in the RI policy.

Various investments which the Fund has made over time are with the dual perspective of balancing financial returns (primary goal) while achieving a reduction in the carbon footprint of its portfolio. Where possible, the Fund incorporates climate-related KPIs and targets as part of the assessment of the performance of investment managers.

The Fund is looking at collecting more accurate data on the carbon footprint of the underlying investments. The Fund will continue to be transparent about the progress achieved over time on its climate goals and wider relevant ESG parameters.

Principle 2: Our governance resources and incentives support stewardship

Southwark Council is the administering authority for the Fund. Within its constitution, the Council has delegated responsibility for the Fund to the S151 officer.

Activity

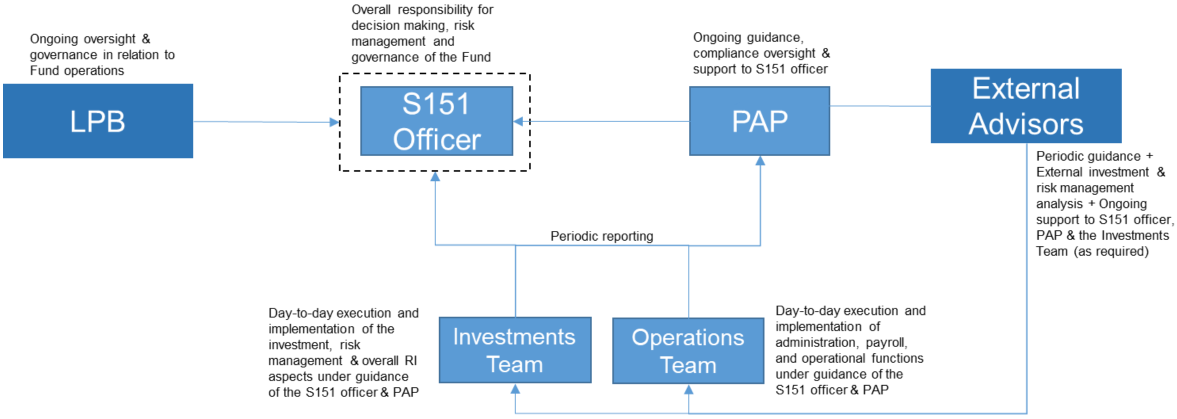
<u>Overview of decision-making process</u>

The S151 officer is responsible for the overall investment-related decision-making, risk management and governance aspects of the Fund, including on climate and wider ESG risks and opportunities and stewardship activities of the Fund.

In this role, the S151 officer is supported by the PAP, who make ongoing recommendations and provide guidance to the S151 officer based on work being undertaken by the Investments Team and various other internal and external advisors and stakeholders.

A summary of the Fund’s Governance structure and responsibilities of various internal and external stakeholders is captured below:

Figure 8: Southwark Pension Fund – Governance structure



<u>Pensions Advisory Panel</u>

The PAP is responsible for the overall governance of the Fund. The PAP oversees the appointment and ongoing scrutiny of external investment managers, to whom the day-to-day responsibility for implementing stewardship is delegated. The PAP is made up of three elected members of the Council and two officers of the Fund, all of whom have voting rights.

The current PAP membership (as at 31 March 2025) comprises individuals from diverse background and experience. Women members represent two-thirds % of the current voting members of PAP.

Various staff representatives are also part of the PAP. While such staff representatives do not have voting rights, they play a key role in effective governance of the Fund.

<u>Local Pensions Board</u>

The LPB provides additional oversight and scrutiny of the Fund operations. The LPB does not have a decision-making role in relation to the governance and management of the Fund but makes recommendations to the PAP. The LPB is set up as an independent and separate body from the PAP to facilitate good governance for the Fund and to enable greater scrutiny and effective stewardship for the Fund's members.

The current LPB membership (as at 31 March 2025) comprises of individuals from diverse background and experiences, including representatives from retired members, current members and school and employer body representatives.

<u>Pensions Investments Team ('Investments Team')</u>

The Investments Team provides support to the PAP and the S151 officer to ensure effective implementation of the investment strategy and related policies in place and the day-to day management of the Fund. The Chief Investment Officer leads the Investments Team, which includes of investment and accounting specialists. The team has members with diverse gender, ethnic, educational and professional backgrounds.

The Investments Team reports quarterly on Fund performance to ensure that the PAP and S151 officer are well placed to act quickly within the prevailing economic and investment environment at that time.

The interim ESG manager is responsible for developing and implementing ESG initiatives within the Fund, calculating carbon footprint of the Fund portfolio, preparing quarterly reports for the PAP and S151 officer, managing ESG-focused discussions with the Fund's external investment managers and leading the Fund's reporting in line with industry initiatives such as TCFD and the UK Stewardship Code.

By having such appropriate staffing in the Investments Team and an experienced decision-making and governance structure in place, led by an experienced S151 officer, PAP and LPB members, the Fund ensures efficient management of its assets.

Pensions Operations Team ('Operations Team')

The Operations Team provides support to the PAP and the S151 officer to ensure effective implementation of the administration, payroll and all other operational aspects of the Fund. The Operations Team ensures all relevant information of the Fund, including stewardship and wider ESG aspects, is shared with the Fund membership as part of the ongoing communication.

The Head of Pensions Operations leads the Operations Team which includes team members with responsibility for payroll, administration, pension management and data systems functions. The team has members with diverse gender, ethnic, educational and professional backgrounds.

Stewardship activities

The Fund views stewardship and engagement as an essential activity in ensuring long-term value and encourages all its investment managers to consider assessing a wide range of assets on stewardship parameters.

The Investments Team engages with all investment managers on an ongoing basis to monitor investment performance, including ESG considerations and voting/stewardship activities. The Investments Team also ensures that MiFiD II opt-up status is kept up to date with all investment managers as applicable – this ensures that investment managers can engage with the Fund as a professional investor.

The investment managers are assessed against various parameters including:

- having their own internal approach to responsible investment
- integration of ESG parameters in the investment process
- being part of various industry initiatives and frameworks
- evidence of engagement with underlying portfolio companies for advancing ESG impact and eventually through disclosure and reporting of outcomes from ESG-focused investment decisions.

The Investments Team has the primary responsibility for assessing performance of the investment managers. The Investments Team consolidates all findings which are then communicated to the PAP and S151 officer during quarterly meetings for discussing progress and/or for adapting strategy in relation to the Fund's approach to stewardship.

Outcome

Policies in place for effective governance

The following policies/documents are in place for effective governance of the Fund:

- Investment Strategy Statement
- Funding Strategy Statement
- Responsible Investment Policy
- Net zero Strategy
- Risk Register
- Conflicts of Interest Policy
- Administration Policy
- Communications Strategy
- Training Policy
- Equality, Diversity and Inclusion Policy
- Cash Management Policy

The above investment and governance-focused policies and documents provide an overview to the members and other external stakeholders of how decision-making takes place within the Fund.

The Fund believes that the current governance structure and resource allocation allows the S151 officer, alongside support received internally from the PAP and LPB, the Investments Team and externally from the advisors and investment managers, to make consistent decisions for the long-term sustainability of the Fund.

Training

The Fund believes that effective management, governance and decision-making can only be achieved where those involved have the requisite skills and knowledge to discharge their respective responsibilities.

The Investments Team arranges periodic training to ensure that the members of the PAP and LPB have the required knowledge and skills to fulfil their role and to make careful and well-informed decisions for the continued success of the Fund.

In 2023-2024 a Training Policy was implemented that covered PAP, LPB and Fund officers. At the time, this was not a requirement, but officers proactively put the policy in place and were able to confirm this to Government in the Fund response to the “Fit for the Future” consultation, which included questions on knowledge and skills requirements for those responsible for the governance of the LGPS. The Fund continues to maintain the Training Policy, which is aligned with the “Code of Practice on LGPS Knowledge and Skills”, and Chartered Institute of Public Finance and Accountancy’s (CIPFA) “Knowledge and Skills Framework”.

The Training Policy was developed considering training needs for key requirements/skills, current/hot topics and training on general awareness and areas relevant to Fund operations. For this, feedback is also sought from the PAP and LPB members to identify areas/topics on which they would like to have more training.

During 2024-2025, in line with a formal training plan and the Training Policy, the PAP and LPB have been provided training on various topics including LGPS pooling, investment rebalancing, nature-based solutions, the role of the LGPS Scheme Advisory Board and upcoming regulatory updates relevant to the LGPS. Fund officers also attended various external training events, including those run by the Local Government Chronicle, and continue to participate and contribute to peer networks such as the London Pensions Officer Group and Local Authority Pension Fund Forum.

Performance Management

Due to Fund staff being employed directly by Southwark Council, the Investments and Operations team member pay is aligned to the Council pay policy (through which fairness of pay across roles is ensured). There is therefore little opportunity for financial incentives to be paid that are linked to officers driving the financial performance of the Fund.

All team members of the Fund have access to the Council’s learning platform and forums for their development and training needs.

The Fund also recognises the importance of developing and supporting team members. The Investments Team receive regular 1 to 1’s to discuss areas of development, including training and feedback on performance. Where relevant, team members develop an individual workplan which is reviewed with their line manager. This process makes each team member accountable for their part in the running and stewardship of the Fund.

ESG and Stewardship

At each PAP meeting the agenda includes review of the investment managers’ investment activities and performance.

Additionally, discussions on the Fund’s carbon footprint, voting and engagement and wider stewardship activity over the prior quarter are now standing items at the quarterly PAP meetings.

The Fund will build on this strong base and continue to evaluate and make improvements in the governance structure and the internal resource allocation and their training requirements, where relevant, for effective stewardship activity going forward. This will take place in parallel with the ongoing development of LGPS pooling, which may impact on the governance arrangements of the Fund.

Furthermore, the Fund will look to develop a more robust series of carbon and wider ESG metrics that are regularly monitored to ensure the level of ESG-related risks and exposures are within expectations.

Principle 3: **Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first**

A conflict of interest occurs when an individual's personal or financial interests could compromise their judgement to make a decision or recommendation within their official capacity.

Potential conflicts of interest exist for those with LGPS administering authority responsibilities as well as for advisors to LGPS funds. This is due to many individuals managing or advising LGPS funds also have a variety of other roles and responsibilities, for example as a member of the scheme, as an elected member of an employer participating in the LGPS or as an advisor to more than one LGPS administering authority.

To mitigate the conflict of interest, there is segregation between the administering authority, i.e. the Council, and the Fund in relation to budgets, its governance structure and the external parties it uses as advisors.

Additionally, the Fund has the following policies in place for addressing conflicts of interest

1) The Council's Code of Conduct
2) The Fund's internal Conflicts of Interest Policies for members of the PAP and LPB

<u>The Council's Code of Conduct</u>

The Council's Code of Conduct is set out in accordance with the provisions of the Localism Act (2011), committing Members to adhere to several statutory principles as well as the Seven Principles of Public Life.

All officers and employees of the Fund, including those on a contract/interim basis, and elected members of the PAP and LPB are subject to the Council's Code of Conduct and to the terms and conditions of their contracts of employment.

PAP and LPB members are required to declare any relationships, interests, or memberships of other bodies that may give rise to a conflict with their responsibilities to the Fund and must make an annual declaration to abide by the Code of Conduct.

Conflicts of Interest Policies

In line with the requirements of the Public Service Pensions Act (2013) and the Pension Regulator's Code of Practice, in addition to the Council's Code of Conduct, to further strengthen its approach to managing any conflicts of interest, the Fund has also adopted individual Conflicts of Interest Policy ('COI Policy') for members of LPB and PAP respectively.

In both instances, the policies clarify the definition of a conflict of interest, provides examples of potential conflicts to the PAP and LPB members and outlines measures to be taken to address any instances of conflicts.

The COI Policies for LPB and PAP members:

- specify that all potential conflicts of interest must be declared initially on appointment and subsequently at each meeting as matters arise in the normal course of business
- explain how conflicts will be dealt with and resolved.

The COI policies are formally reviewed periodically (every three years in case of LPB and annually in case of PAP) or sooner if the conflict management arrangements or other matters require reconsideration. The COI Policies are also revised to account for any changes to the LGPS or other applicable regulations or guidance. An overarching whole Fund Conflicts of Interest Policy is to be developed during 2025-2026.

Activity

Managing conflicts of interest is vital to the Fund.

All members undertake initial training on conflicts of interest when they join the PAP or the LPB. This training covers the Code of Conduct, the COI Policies, potential areas of conflicts of interest and explains the role of the PAP and LPB to serve the Fund members. Ongoing training is also provided to keep the PAP and LPB apprised of latest developments around conflicts of interest.

The Fund maintains a register which captures potential and actual conflicts. In case any conflict is identified, the process for dealing and managing include:

- the individual concerned abstaining from discussion, decision-making or providing advice relating to the relevant issue;
- the individual being excluded from the meeting(s) and any related correspondence or material in connection with the relevant issue (for example, a report for a PAP or LPB); or

Additionally, a review of the processes and procedures in place to identify and manage any potential conflicts of interest is also picked up as part of the external audit of the Fund.

The Fund undertakes stewardship activity via the investment managers who undertake voting and engagement activity on behalf of the Fund. The Fund expects the investment managers to have a clear and well-managed approach to conflicts of interest, including a formal and effective policy, which should cover any conflicts specifically relevant to stewardship matters. The Fund expects such policies to be made publicly available, along with disclosures about how effectively the investment manager has dealt with any specific stewardship-related conflicts in relation to the Fund operations.

Outcome

The Fund's approach to managing conflicts has operated satisfactorily during the year. The Fund will proactively continue to monitor its processes for effectively managing conflicts of interest, including reviewing the standalone COI Policy for the PAP and LPB for any updates/revisions as required.

The Fund will also ensure its internal processes to manage conflicts of interest are updated periodically in line any changes to the Council's Code of Conduct as well as to align with industry best practice.

Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system

The Fund faces a wide range of market-wide and systemic risks, including market price risk, interest rates and inflation risk, liquidity risk and currency risk amongst others, all of which are captured as part of the Fund's Risk Register.

The Fund has a robust approach to risk management in place where risks are monitored and proactively managed on an ongoing basis. The S151 officer has the overall responsibility for decision-making in relation to managing the risks. The S151 officer is supported by the PAP which provides appropriate recommendations, as required, for effective management of the risks faced by the Fund. The Investments Team is responsible for day-to-day risk management activities and supporting the PAP and S151 officer.

The risks faced by the Fund are constantly monitored by the Investments Team through various sources including news feeds, discussions and communications with investment managers and external advisors, market updates, government news and interaction with peer groups and industry networks. These risks and related updates feed into regular review and discussions, including as part of the quarterly PAP meetings. On an annual basis, the Fund auditors review the risk metrics that are included in the Fund's Statement of Accounts and the impact of assumptions (e.g. investment returns) not meeting expectations.

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities, i.e., the ability to pay pensions and other benefits when they fall due. The Fund manages this risk and aims to minimise it through asset diversification to reduce exposure to market risk, considering associated risks like liquidity risk, price risk, currency risk, interest rate risk and credit risk.

Activity

The Investments Team is responsible for the ongoing management of investment risk and sets investment strategy, funding and investment objectives that are incorporated into the Fund's asset allocation, which is outlined in the ISS. The ISS is reviewed periodically, and an investment strategy review is undertaken after each triennial actuarial valuation of the Fund, leading to a formal update to the ISS.

In addition, the Fund actively manages its liquidity risk to ensure sufficient funds are available to meet forecast cash flows and that capital calls for private market investments can be met without any forced selling of assets. The Fund manages these investment risks as part of its overall risk management processes. The Investments Team continues to perform an ongoing risk assessment looking at the Fund's holistic performance across all asset classes considering funding level, immediate liabilities, etc. The Fund also takes guidance from the external advisor and other specialist support, as required, in effectively managing these risks on an ongoing basis.

Day-to-day responsibility for managing the Fund's investments is delegated to appointed investment managers. However, the Investments Team continuously engages with all investment managers, including for the pooled mandates, in relation to performance, decarbonisation, and wider stewardship activities.

The Fund expects the investment managers (both pooled and segregated) to monitor companies, intervene where necessary, and report back regularly on activity undertaken. This includes monitoring of global macro-economic trends, geopolitical risks, and key themes in equity, private debt, and infrastructure and other applicable asset classes.

The Investments Team has regular meetings with the investment managers to discuss and assess their approach and effectiveness in their monitoring of any potential risks and mitigating measures. The Fund also receives monthly/quarterly reports from the investment managers detailing their performance and wider voting and engagement activity undertaken with portfolio companies. These regular updates provide a basis for the Investments Team to challenge investment managers on what risks they are focusing on through engagement activity and ensure it is in line with the Fund's priorities.

Training sessions on risk management are also organised by the Investments Team for the PAP and LPB members to ensure they are well-equipped for effective decision making in relation to risk management. During 2024-2025, the PAP and LPB have been provided training on various topics from a risk management perspective including an investment rebalancing case study, 2024 spring budget and LGPS pooling.

The Investments Team discuss all risks internally, along with inputs from the investment managers and external advisors and present the findings to the PAP and LPB on a quarterly basis.

As mentioned above, the Fund maintains a Risk Register detailing all relevant risks to the Fund operations, including a rating/grading with consideration of likelihood and expected impact, as well as actions taken to mitigate or manage each risk, and progress made over time. The Fund's asset allocation strategy and investment performance of individual mandates are some of the key risks which are discussed on an ongoing basis at the PAP and LPB meetings. Any changes to the Risk Register are also discussed every 6 months at LPB meetings to ensure ongoing risk assessment and that proactive mitigation measures are in place as required.

At each quarterly meeting, the PAP is presented with a report on the allocation of investments, where any identified risks are highlighted. Any corrective actions are discussed by the PAP, with a recommendation for the S151 officer to consider and action.

In addition to the financial risks as discussed above, the Fund's RI Policy and ISS also describe ESG risks as being financially material. The Fund's RI Policy and Net zero Strategy details how the Fund views climate change and wider ESG parameters and how they are being implemented across end-to-end operations of the Fund.

The Fund has proactively committed to report its approach to climate-related risks in line with recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD'). While final guidance and regulations for LGPS are still awaited, the Fund is working on proactively publishing its first TCFD report for 2024-2025.

<u>How the Fund works with other stakeholders to promote the functioning of financial markets</u>

The Fund engages in ongoing dialogues with a various industry stakeholders as a means of promoting continued management and mitigation of systemic risks, improvement of the functioning of financial markets and maximising the influence that it can have on individual companies in relation to climate/decarbonisation and other ESG issues. These include:

- Participating and responding to Ministry of Housing, Communities & Local Government (MHCLG) consultations as required.
- Working with relevant trade unions to ensure the scheme is understood by all interested parties. Efforts are made to ensure all pension-related issues are communicated effectively with the trade unions and the perspectives of the members that the unions represent are heard by the Fund.
- Working with relevant employer representative bodies to ensure that the Fund's views are represented to employer groups, and employer perspectives are heard by the Fund.
- The Fund is a member of Pensions and Lifetime Savings Association (PLSA), which provides an opportunity to discuss issues of common interest and share best practices.
- As part of LAPFF, the Fund works with other LGPS members for stronger engagement on ESG matters, including on industry and wider policy issues.

- The Investments Team regularly attend London Pension Officers Group meetings to share information, engage in discussions on key LGPS issues and ensure standardised interpretation of LGPS regulations and best practice.

Outcome

During 2024-2025, the Investments Team identified the Fund being consistently underweight (relative to the target allocation) to Index-linked Gilts and overweight on equities. The Investments Team had discussions with the Fund's investment advisor on possible actions to rebalance the portfolio, including managing potential risks for overexposure to equities at a time when there had been strong returns in the asset class. A short business case was also presented and discussed with the S151 officer. A decision was made to trade a portion of the equity holdings in the Fund's segregated global equity mandate and invest the proceeds in Index-linked Gilts at a time that was favourable for the respective sale and purchase (i.e. ensuring that the transaction was made without financial detriment to the Fund). This is an example of the proactive approach of the S151 officer and the Investments Team in monitoring risks on an ongoing basis and taking corrective action as required.

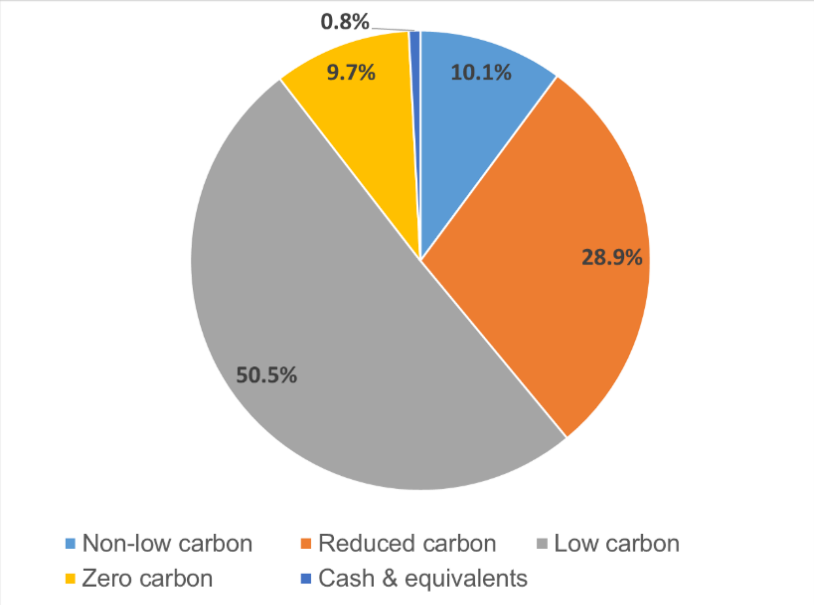
Additionally, as part of its strategy to mitigate impact on the portfolio from climate change, the Fund has made fundamental changes to its investment strategy.

Over the previous few years, in line with its Net zero Strategy, the Fund has transitioned various investments to low/zero/reduced carbon assets. While there is no standard definition or industry agreement on these investment categories, this is an internal view/classification the Fund has adopted based on the discussions with the investment managers about the characteristics of the underlying assets. This helps the Fund in monitoring progress internally over time.

ESG and climate-aligned parameters are now key criteria the Fund applies in the manager selection and assessment process.

The Fund has also increased its exposure to sustainable infrastructure and other ESG-focused assets. Over the period from September 2017 to March 2025, the Fund's assets in low/zero/reduced carbon products have **increased from 17% to 90%** (as detailed in response to Principle 1 above). The breakdown of the Fund's allocation as at 31 March 2025 to low/zero/reduced carbon assets is included in the chart below:

Figure 9: Breakdown of the Fund's allocation to low/zero/reduced carbon assets as at 31 March 2025



The Fund will continue to proactively manage both its market-wide and systemic risks, including climate change and wider ESG risks, ensuring longevity of the investment portfolio and ensuring that the ultimate objective of paying pensions as they fall due is met.

Principle 5: Signatories' review their policies, assure their processes and assess the effectiveness of their activities.

Activity

The Fund regularly conducts a review of its policies to ensure they remain fit for purpose, reflect the current market environment and continue to meet the evolving regulatory landscape.

At a minimum, all policies are reviewed every three years. Where there is a change in regulations or a major event, policies are reviewed earlier.

By ensuring a robust suite of policy and strategy documents that are regularly reviewed and refreshed, the Fund aims to promote greater transparency and accountability of its actions with clear expectations of its internal operations and other stakeholders that the Fund engages with. This also ensures consistency in application of decision making and services to the members.

The minimum frequency at which each of the Fund policies are reviewed is as follows:

Policy	Frequency of review
Funding Strategy Statement	Three years or earlier in case of any review of employer contribution rates

Policy	Frequency of review
Investment Strategy Statement	Three years or earlier in case of any change in investment mandates
Responsible Investment Policy	Annually
Net zero Strategy	On an ongoing basis
Conflicts of Interest Policy (LPB)	Three years or earlier if required
Conflicts of Interest Policy (PAP)	Annually
Administrative Policy	Three years or earlier if required
Communications Strategy	Three years or earlier if required
Risk Register	Every 6 months or earlier if required
Training Policy	Annually
Cash Management Policy	Annually or earlier if required
Equality, Diversity & Inclusion Policy	Annually or earlier if required

The Investments or Operations Team initially develop all policies internally with support and advice from the external advisors. Each policy is formally reviewed by the PAP and eventually approved by the S151 officer. The PAP is also responsible for ensuring oversight, accountability and effective application of all the above policies, except the Conflicts of Interest Policy for the LPB, where the responsibility is with LPB). Where required, PAP and LPB take input and advice from the Fund's external advisor on best practice approaches.

Fair, Balanced and Understandable reporting

The Fund has a strong corporate governance process with regards to the writing and publication of reports for both external and internal stakeholders. The Fund ensures that all reports are written fairly, are balanced and are understandable for stakeholders. Some of the principles it adopts include:

- Undertaking secondary review of the reports (as required)
- Specifying whether reports are exempt from public view (managed through Open and Closed agenda items at PAP and LPB meetings)
- Clarifying the purpose of the report and any decision required upfront
- Addressing cross-functional implications (if any) of all reports

Assurance

The Fund's Financial Statements and Annual Report are audited by external auditors who assess whether the statements provide a "true and fair view" of the position of the Fund.

The Fund's internal audit department conduct an independent internal assessment of the Fund in line with CIPFA guidelines. The Fund reports on the internal audit process as part of its Annual Report. This internal audit process provides ongoing assurance that the Fund is run effectively and efficiently for its members and provides an additional layer of governance to address any risks to the Fund.

Although no external verification is undertaken in relation to stewardship, the Fund continues to engage with investment managers to ensure their voting and engagement efforts are in line with Fund beliefs and principles laid out in the ISS and Net zero Strategy.

Outcome

All of the Fund policies stated above have been implemented satisfactorily during 2024-2025. Reviews of existing policies and additional policies, as required, have been implemented.

During 2024-2025, the Fund also reviewed and updated its Risk Register to reflect applicable changes to the risks facing the Fund operations and associated mitigations. The focus of the Risk Register is on documenting risks which are materially significant to the Fund operations and how they are being actively managed. The update to the Risk Register (across all material risks) includes:

- review and re-weighting of impact and likelihood scores of the material risks
- review and amendments for mitigation measures
- revised risk score after mitigations

At each quarterly meeting of the PAP and LPB, members have reviewed the minutes from the previous meeting to provide governance and oversight of decisions taken, thereby creating assurance that the PAP and LPB are working in the best interest of the Fund and its members.

The Fund's most recent internal and external audit have provided assurance that the Fund is working efficiently and effectively and in line with relevant regulations.

During 2024-2025, as a sign of growing focus on the diversity and inclusion aspects of the operations, the Fund implemented a standalone Equality, Diversity and Inclusion Policy ('EDI Policy') which applies to the Fund Governance structure, both internal (e.g. PAP and the Investments team) and external stakeholders including the investment managers, consultants, custodians, actuary, and LGPS pooled funds, e.g. LCIV.

As part of quarterly PAP meetings, the Fund discloses the carbon footprint of its portfolio and an overview of the voting and engagement activities undertaken by the investment managers for both segregated and pooled equity mandates. Each of these reports is publicly available.

The Fund will continue to build on these policies and disclosure practices to enable greater transparency and accountability in respect of effective implementation of these internal policies.

The Fund will also continue working towards ensuring a balanced report that fairly represents the Fund's stewardship and ESG-focused initiatives and activities for the reporting year. This includes considering Scope 3 emissions of the portfolio, collecting and disclosing additional data as available in relation to the voting and engagement activity and wider stewardship activities in line with the evolving industry best practice.

Principle 6 – Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

Scheme Membership

As part of the LGPS, the Fund remains open to new members and thus has a long-term investment horizon.

The Fund currently has 9,596 active members, 9,009 deferred members, and 8,979 pensioners/beneficiaries (at 31 March 2025). The table below captures additional information about the Fund membership as at 31 March 2025.

Figure 10: Additional information about Fund membership (at 31 March 2025)

	Active	Deferred	Pensioner
Average Age	46	51	72
Gender split % (Male: Female)	34.50: 65:50	33.70: 66.30	39.10: 60.90

The Fund aims to use the most appropriate communication method considering technology preferences, accessibility requirements, etc. of the varying member profile outlined above.

Investment Time Horizon

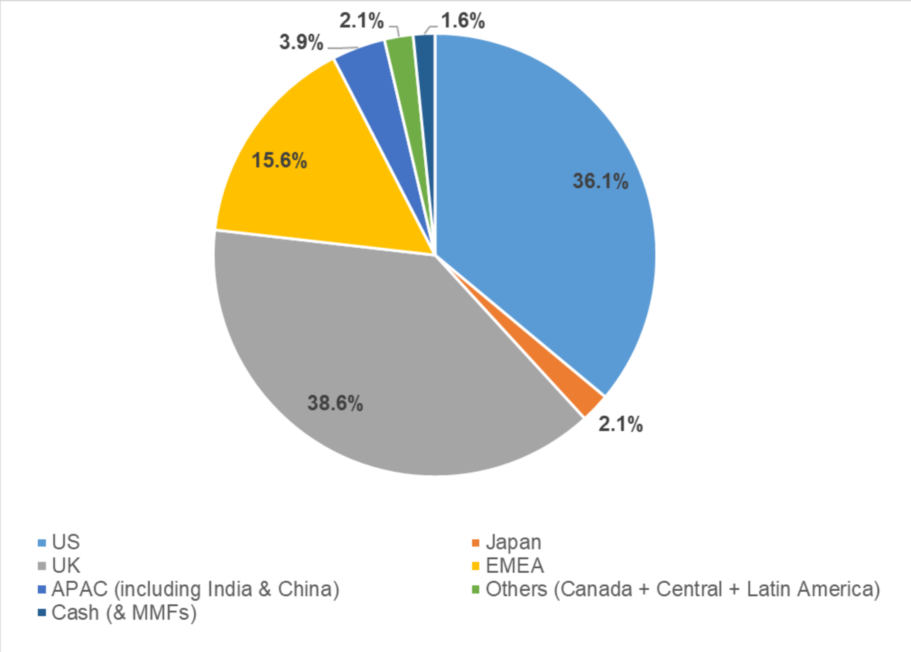
The Fund's primary investment objective is to ensure that over the long-term the Fund will have sufficient assets to meet all pension liabilities, i.e., pensions and other member benefits as they fall due, on an ongoing basis.

The estimated duration of the ongoing liabilities (factoring average age of the member categories) is considered as part of the investment strategy decisions as detailed in the FSS and ISS and in setting the objectives of the Fund. The Fund takes a long-term view with regards to its investment and funding strategies, given the long-term nature of the payments.

To meet this overriding objective, the Fund acts in the best financial interests of its employers and members. This includes considering investments across different asset-classes and geographies to ensure appropriate diversification. The Fund also factors in carbon footprint and wider ESG considerations as part of the investment decisions.

The geographic split of the assets in the Fund's portfolio is outlined in the chart below.

Figure 11: The geographical split of the Fund's assets as at 31 March 2025



Activity

Transparency is key for the Fund. Using various means of communication, the Fund ensures that members have access to all the Fund's policies, strategies, performance and stewardship activities.

<u>Communication Strategy</u>

The Fund's Communication Strategy is the guiding document, which sets out the policy of communicating with Fund members, representatives of members, prospective members, employers and other stakeholders.

The Communication Strategy also details the Fund's policy on the provision of information and publicity to Fund members and their representatives on the format, frequency and method of distributing that information, and on the promotion of the Fund to prospective members and their employers ensuring all parties have access to the Fund's policies, strategies and performance.

The Fund has multiple channels of communication to keep members updated on its activities and aims to use the most appropriate communication methods for its recipient audiences, always ensuring that accessibility considerations are considered.

The Fund uses a number of regular communication initiatives each year, which include:

- LGPS booklet
- Member presentations – in person or online via Teams
- Group presentations – usually in conjunction with HR colleagues in particular for schools staff
- Newsletters
- Intranet site
- My_Learning_Source – a dedicated online platform where staff can access around 40 different pension workshops and wider Fund training material
- Employer guides
- Pensions Savings Statements and information on taxation/Annual Allowance
- Annual Benefit and Pension Increase Statements
- Employer training sessions
- Annual Report
- Roadshows and drop-in sessions, particularly for staff in depots

Website and Member Portal

The Fund also has a dedicated website designed to communicate and promote the benefits of the LGPS and associated information. It also includes a Member Self-Service Portal ('Portal') where members can run different modellers and 'what if' scenarios as part of future retirement planning and initial considerations.

The website is regularly updated to ensure members are updated on the latest news affecting the LGPS.

The Portal and Fund's website remains under constant review to ensure changes and improvements can be implemented, such as improved user functionality (automated web form enquiries) and the release of new modellers such as ill-health early retirement.

Other means of Communication

Members can communicate with the Fund through multiple enquiry channels, including email, telephone, post and in person. All enquiries are considered under a 'triage' priority system and responded to in a timely manner by the Fund's Operations Team. Information relating to the Fund's activities are published in the Fund's Annual Report and in communications to its members as part of the Annual Benefit Statement ('ABS') and Pension Increase exercises.

The Fund regularly assesses member, employer, union feedback and views and incorporates them, wherever possible, as part of its commitment to continuous improvement around communication and engagement with members. In recent years, newsletters have also included information about the Fund's carbon footprint and wider impact the Fund has achieved through its ESG investments.

Additionally, both scheme members and employer representatives form part of the PAP and LPB. This allows scheme members to indirectly have their views and recommendations expressed on key issues such as the Fund's investments, RI policy, etc. These recommendations are considered and discussed at the next PAP and LPB meetings.

The actions mentioned above are taken to ensure beneficiaries of the Fund can be well informed of the activities of the Fund and can monitor the ongoing performance. These steps are taken to ensure that members can hold the Fund officers, PAP and LPB to account in relation to reference actions and performance record.

The Fund is continuously looking at increasing the level of engagement and communication it has with members utilising electronic and digital forms of communication wherever possible. The Fund also reviews the content of the website regularly to ensure it is up to date and meets member requirements, including any changing accessibility needs. A refresh of the Fund's website is currently underway to include additional information about the Fund's investments and other operational functions.

Outcome

An overview of the various communications undertaken by the Fund during 2024-2025 is included below:

- Over 25,000 Annual Benefit and Pension Increase Statements issued
- Over 25,000 newsletters issued to all member categories
- Weekly pensions training provided to Council staff, other London Boroughs and local authorities.
- Multiple presentations and drop-in sessions to members, in particular depot staff who do not always have access to Southwark IT.
- Multiple training sessions conducted via 'My_Learning_Source,' the Council's employee learning hub.
- Pensions Savings Statements issued outlining any Annual Allowance tax implications along with clear guidelines on next steps and timeframes.

During 2024-2025, the Fund has continued to respond to a number of Freedom of Information requests from members and other interest groups on responsible investment related matters. The Fund aims to provide as detailed information as possible and respond to these requests in line with the statutory deadline for response. For regular queries, the Fund aims to publish the information on its website ahead of receiving queries.

From an internal communication perspective, responsible investment topics and manager stewardship activity are presented to the PAP on a quarterly basis. The PAP reports are available in the public domain so scheme members can access them and get regular updates about the stewardship and reporting activity undertaken by the Fund's investment managers on its behalf.

The Fund also publicly reports on the carbon footprint of its investments and has achieved a significant reduction in Scope 1 and Scope 2 emissions of its portfolio since September 2017 (baseline). In addition to this, the Fund's investments into low/zero/reduced carbon products have also increased over the same period.

During 2024-25, all investment managers have also performed stewardship activities in line with their internal policies which are also aligned with the Fund's focus areas outlined out in the RI Policy. The Fund is also looking at proactively reporting against the TCFD framework for 2024-2025.

The Fund will continue to build upon these well-established channels to further increase communication on its stewardship and responsible investment activities to members and wider stakeholders.

Principle 7 – Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

The Fund believes that the systematic integration of stewardship and investment is key to fulfilling its fiduciary responsibilities towards its members. The Fund adopts this integrated approach to protect and enhance the value of the Fund over the long-term and act in the best financial interests of its members.

Activity

As mentioned earlier, the Fund has a standalone RI Policy, alongside the responsible investment beliefs set out in the ISS and the Net zero Strategy that reflect the importance of stewardship and ESG parameters in the investment process. The S151 officer and PAP are responsible for effective implementation and oversight of the Fund's investment strategies and relevant policies. Support is provided by the Investments Team and external advisors.

The RI Policy sets out what the Fund expects from all investment managers and covers all elements and risks which are to be considered in investment decision-making and risk management, including ESG factors. The Fund expects the highest standards across all managers and apply the principles consistently across geographies and asset classes. The investment managers are required to collate data across multiple ESG factors and stewardship and engagement activities, which are shared with the Fund on a regular basis.

Responsible investment considerations, including climate risks and opportunities, are also addressed in investment manager and other service provider appointments and included in the Investment Management Agreements (where relevant) in place between the Fund and its respective investment managers. For example, both our investments with Robeco and LCIV – in multi-asset credit mandates – have Paris-aligned strategies and decarbonisation-linked KPIs and targets. The Fund's investment in direct property also has a similar climate-aligned mandate of ensuring that all buildings in our portfolio are operationally net zero carbon by 2030.

The PAP and LPB members have received, and will continue to receive, training and education on ESG matters and other topical areas (e.g. natural capital, LGPS pooling) and risks, to keep up to date on the latest sustainable investment regulations and opportunities. The training curriculum is also regularly reviewed to ensure it is fit for purpose.

Material ESG issues are also considered and included in the Fund's Risk Register. E.g., one of the key ESG risks for the Fund is potential negative performance impact and/or reputational damage resulting from untimely or incorrect implementation of the Fund's commitment to achieve net zero carbon by 2030. This risk is being monitored and discussed on a regular basis at PAP and LPB meetings.

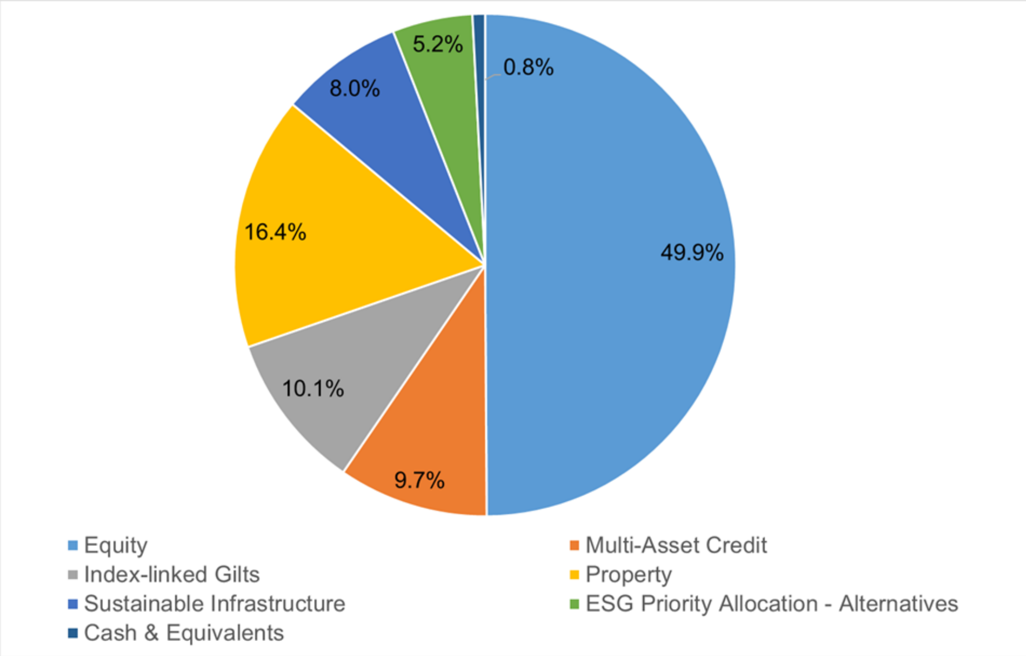
Outcome

During the year, work on responsible investment, stewardship and wider ESG aspects of the Fund operations has been carried out by:

- The Investments Team who is responsible for updating carbon footprint calculations, voting and engagement data and other ESG information for the quarterly PAP and LPB meetings
- The Investments Team, who regularly meet with the investment managers to discuss performance and progress on financial performance as well as stewardship and responsible investment and wider ESG initiatives
- External investment managers, who exercise the Fund's voting rights to incorporate stewardship and ESG in their strategy
- LCIV in line with their internal policies for the direct investments under its management as well as for the investments held under its supervision
- The Investments Team through collaborative efforts with LAPFF
- External advisors who ensure our ESG strategy and goals are prioritised in our investment activities

The breakdown of the Fund's overall portfolio and allocation across different asset classes is captured in the chart below:

Figure 12: Fund allocation by asset class as at 31 March 2025



<u>Carbon footprint</u>

A carbon footprint calculation of the Fund is carried out in line with industry best practice on a quarterly basis. This is then presented to the PAP and S151 officer who takes corrective action, where required, to ensure that the Fund can meet its Net zero target through effective asset allocation.

The Fund primarily tracks Scope 1 and Scope 2 emissions of the portfolio. Compared to the September 2017 (baseline), as at 31 March 2025, it is estimated that the Fund has **reduced its Scope 1 and Scope 2 Co2 emissions by c. 82%.**

The Fund will continue to assess investment opportunities that have a wider positive impact on society. These include but are not limited to, investments in sustainable infrastructure, low-carbon real estate, renewable energy assets and other low-carbon assets. The outcome of the 2025 Investment Strategy review will determine how far allocations to these asset classes may change.

Alongside this, the Fund continues to engage with all investment managers to improve the carbon footprint of its existing investments.

<u>Stewardship</u>

Depending on the asset class, the Fund's approach to stewardship differs.

- For equity mandates, the Fund engages in stewardship through both voting as well as engagement activities. The Fund also has more control over voting and engagement for its segregated mandates.
- For investments in multi-asset credit instruments, the Fund engages in stewardship primarily through engagement.

- For direct investments in real estate, through its investment manager Nuveen, the Fund engages in active monitoring of landlord-obtained energy and water consumption. The investment manager monitors and encourages the stakeholders (property managers and operating partners) to implement environmental and social initiatives that support tenant retention, cost reductions and regulatory compliance.

In all instances, stewardship is carried out by the investment managers on behalf of the Fund. While engaging in the stewardship activity, the investment managers' internal policies also consider varying ESG priorities based on the geography and industry sector of the underlying portfolio companies, as is evidenced below by two select engagement case studies conducted by Robeco, who manage one of our multi-asset credit mandates.

The Investments Team review these activities on an ongoing basis to ensure that the stewardship themes are in line with the Fund's RI policy and wider strategic priorities

For example, during 2024-25, the Fund implemented 'Pass-through voting' for its pooled equity mandates with LGIM and BlackRock. The voting policies adopted are closely aligned to the investment beliefs of the Fund, particularly the focus on net zero This is discussed further in Principle 9.

The Fund will also continue to evolve its approach to incorporate wider ESG and stewardship factors into investment decisions and proactively monitor and discuss progress with the Fund's investment managers for robust income and value creation for the Fund.

Overview of engagement activity undertaken by Robeco

While conducting engagement activity, Robeco adopts its internally proprietary SDG Framework that systematically evaluates the portfolio companies based on the contributions they can make to the 17 UN Sustainable Development Goals.

A company's overall performance across relevant SDGs aggregates into an overall company SDG score. The scores are used to construct portfolios that aim to make a positive contribution to the goals.

Case Study 1 – Engagement with a technology company on approach to Responsible AI and human rights

- Robeco had set an ambition for the technology company ('Tech Co') to develop a robust and systematic human rights due diligence approach and to publish its AI principles.
- In 2024, Tech Co introduced an AI-based offering and reported on their focus on Responsible AI Development which includes principles for designing with care and protecting privacy.
- The Tech Co's Human Rights Policy outlines their commitment to human rights, especially across its supply chain, with mandatory training and robust due diligence to identify salient human rights risks.

- Based on both these commitments, Robeco has seen positive progress on the two areas of engagement with the Tech Co in line with their SDG Framework.
- Robeco will continue to engage with the Tech Co to understand the implementation of these guidelines in practice.

Case Study 2 – Engagement with a consumer goods company on various Sustainable Development Goals

- In Q4 2024, Robeco successfully concluded its SDG program with the consumer goods company (‘the Company’), a multinational with a presence in over 33 countries globally.
- The Company achieved five milestones and progressed on seven sustainability topics. The Company’s new strategy, aims to transform the organisation into a fully regenerative business by 2030, focusing on healthy products, communities, employees, and nature.
- The healthy product approach promotes simple, nutritious products with transparent information, addressing SDG 2 (Zero Hunger).
- The Company also assessed its suppliers’ No Deforestation, No Peat, and No Exploitation commitments and engaged in dialogues to address gaps. Their decarbonisation targets were verified by SBTi contributing to SDG 13 (Climate Action).
- Robeco’s analysis confirmed that the Company’s targets align with SDGs and are integrated into the company’s strategy.
- As per Robeco’s internal analysis, most milestones were achieved or showed positive progress. Robeco therefore marked 'Impact Plan,' 'SDG Mapping,' 'Target Setting,' and 'Stakeholder Management' as closed.

Principle 8 – Signatories monitor and hold to account managers and or service providers

The Fund monitors its investment managers and service providers on an ongoing basis through reporting and engagement. The PAP and S151 officer have the overall responsibility of assessing their performance.

Activity

<u>Internal monitoring by the Fund</u>

The Investments Team engages with the Fund’s investment managers to monitor both their financial performance and progress on carbon, wider ESG and stewardship initiatives. The Fund requires its investment managers to report on a quarterly basis. The Investments team also meets with the investment managers regularly to discuss and assess progress.

The Fund also encourages all its investment managers to be signatories to and/or members of various industry initiatives such as the UN PRI, Climate Action 100+, Asset Owner Diversity Charter, etc. and are also transparent about their climate and wider ESG progress by proactively considering reporting in line with TCFD, Stewardship Code, etc.

The Fund monitors its investment managers and service providers in the following ways:

- Investment managers provide monthly/quarterly performance reports which are received and reviewed by the Investments Team. The review also includes assessing compliance with investment management agreements and mandates.
- Quarterly investment performance is reported to the PAP, highlighting any concerns.
- Quarterly stewardship activity is reported to the PAP for review and challenge. The report covers all aspects of stewardship activity for our largest managers, including:
    - High-level overview of voting and engagement data; and
    - Carbon footprint data

This allows the PAP to understand the performance of investments from a wider ESG and stewardship perspective in addition to the traditional returns monitoring.

Alongside PAP, the LPB plays an oversight and a scrutiny role. Both PAP and LPB typically meet four times a year, which allows for a second review of performance of service providers.

<u>External monitoring</u>

The Investments Team is supported by Aon, as the external investment advisor, and David Cullinan, an independent advisor, to assess managers' performance. This enables an additional independent monitoring of all aspects of performance including ensuring the investment managers are meeting both their financial targets and adhering to the Fund's responsible investment principles and wider climate and ESG objectives that they have committed to deliver.

The external advisors produce quarterly reports covering a wide range of investment topics such as investment manager performance, economic and regulatory landscape, and any areas of concern.

Alongside monitoring performance of the investment managers, the Fund also proactively assesses the value-add and quality of support it receives from the external advisor and other service providers. The Investments Team is primarily responsible for this.

The Investments Team presents these reports and recommendations to the PAP on a quarterly basis for discussion and will action any corrective actions as required.

Monitoring by LCIV

As mentioned earlier, the Fund now has c. 50% of its investments in mandates which are either directly managed by LCIV or under LCIV supervision.

LCIV also conducts annual due diligence updates on its funds, assessing managers against eight criteria on a Red, Amber, Green (RAG) basis. As a result of these reviews, funds may be moved onto enhanced monitoring when performance and risk is not aligned with expectations, where concerns arise due to resourcing and wider business risks, or where commitment to responsible review identifies persistent variances in performance or highlights significant shortcomings, funds may be placed on watch status and face more rigorous and regular evaluation.

Such review and monitoring by LCIV also provides another additional level of assessment of performance by the Fund managers.

Action taken where expectations of managers and/or service providers have not been met

The Investments Team engages in more frequent discussions and additional information gathering where a manager's performance raises concern. Additionally, the Investments Team will also invite the manager/service provider to a meeting to gain further information and challenge/set targets where appropriate. The investments team shares the outcome with the PAP and S151 officer, including any recommendations for corrective actions.

During 2024-2025, the Investments Team have engaged in discussions with an investment manager managing our emerging markets equity mandate whose performance has been consistently below the benchmark. Additionally, the Investments Team, in conjunction with the Fund's investment advisors, conducted a detailed 'deep dive' on performance of the investment manager, which was presented to a PAP meeting with recommendation on next steps. Following these discussions, both with the investment manager as well as at the PAP meeting, the investment manager remains on watch pending the outcome of the 2025 investment strategy review and the outcome of the "Fit for the Future" consultation.

During 2024-2025, the Fund also engaged in various service-related discussions with its external adviser, Aon. Led by the LPB Chair, the Fund conducted a mid-contract review which involved meetings with various stakeholders (Fund officers and PAP members) which informed an assessment of how far Aon was meeting expectations. This review led to various recommendations, including revisiting the contract fee structure and the introduction of regular meetings with the S151 officer to discuss overall client engagement and service delivery.

Outcome

During 2024-2025, the PAP met four times where investment manager performance has been discussed.

The Fund believes integrating ESG opportunities and ESG risk mitigation can have a positive impact to the investment performance and aligns with the Fund's investment strategy and beliefs. The Fund continues to review its investment managers to ensure alignment with its own ISS, Net zero Strategy and RI Policy.

The Fund will continue to engage with all investment managers and service providers, including industry initiatives such as LAPFF. The level and quality of reporting provided by the investment managers is improving constantly.

Alongside carbon footprint data, the Fund is also increasingly engaging with its investment managers in relation to wider ESG data/metrics and engagement/voting data, including adopting pass-through voting in respect of the pooled mandates with BlackRock and LGIM (discussed in more detail in Principle 9).

Such ongoing engagement with all its investment managers provides the Fund with a better understanding of the ESG risks inherent in the underlying portfolios and to effectively manage any identified risks.

Principle 9 – Signatories engage with issuers to maintain or enhance the value of assets

The Fund typically invests through a range of pooled or segregated funds via investment managers, rather than through direct investments in underlying companies. As a result, the Fund's engagement with underlying companies is delegated to the investment managers or is conducted though collaborative engagement groups such as LAPFF.

The Fund carries out its engagement responsibilities by challenging the investment managers over their engagement activities on assets within the portfolio or investment rationale for specific holdings (or exclusions) that may not comply with the Fund's investment beliefs.

Activity

The Investments Team engages with all asset managers on a regular basis to discuss and monitor ongoing performance and adherence to agreed policies and targets.

The Fund's approach to ESG is set out in its RI Policy. Further, the Fund expects the investment managers to vote in the best interest of the Fund, while maintaining its fiduciary duty of ensuring that there are sufficient assets to pay pensions when they fall due.

Day-to-day responsibility for managing investments and stewardship activities (including engagement) is delegated to the Fund's appointed investment managers, and the Fund expects managers to monitor companies, intervene where necessary, and report regularly on activities undertaken. A summary of manager voting and engagement activity is presented to PAP as a standing item on the quarterly meeting agenda. This approach was introduced in 2024-2025.

The Fund has more control of the voting and engagement activity of its segregated equity mandate with Newton. While Newton votes in line with its internal voting policies, it is also aligned with the Fund's strategic and other ESG priorities as laid out in the RI policy.

Historically, for pooled equity mandates (BlackRock, LGIM, and Comgest), the voting and engagement activity was informed primarily by the investment managers' own internal policies and strategies. Through their size and scale, these managers - particularly BlackRock and LGIM - have significant influence in engaging with companies and exercising voting rights to address company-specific and market-wide ESG risks and opportunities.

During 2024-25, the Fund implemented 'Pass-through voting' for its pooled equity mandates with LGIM and BlackRock. The voting policies adopted as part of this are more climate-aligned than the historical voting policies of the investment managers, hence more closely aligned to the investment beliefs of the Fund. This is another sign of the Fund's continued focus on achieving wider impact in decarbonisation of its portfolio through effective stewardship, in-turn also ensuring any risks in the portfolio are addressed proactively while protecting and enhancing value of its assets.

For all listed assets, the investment managers typically follow an active engagement approach through a combination of discussions with management and exercising voting powers to identify and achieve improvements on various ESG themes.

The investment managers (LGIM, BlackRock, Robeco, Newton, Comgest, LCIV) managing our listed assets have in-house investment stewardship or responsible investment teams or dedicated team members. These sit within the wider investment or portfolio management teams responsible for engaging in discussions with the management of portfolio companies and for voting decisions on multiple ESG themes in line with their internal policies and the Fund's strategic mandates.

The Fund has in the past directed investment managers to divest from companies in a particular sector. For example, as part of the segregated mandate with Newton, the Fund has divested from tobacco given health and social concerns; and oil and gas given environmental concerns. The current investment guidelines for the Newton mandate are as follows:

"To outperform the FTSE All World Index (net of fees) over rolling 5-year periods through investing only in companies assessed by the Manager as having credible transition plans to reduce emissions and align with a “below 2°C” or “net zero 2050” emission reduction pathway.”

The above demonstrates the Fund’s commitment to positive action in addressing the climate crisis.

The Fund will consider divestment in other sectors in the future should engagement not result in the desired outcome. However, divestment continues to be a measure of last resort.

The Fund is also a member of LAPFF, which is the UK’s leading collaborative shareholder engagement group encompassing 87 local authority pension funds and 7 investment pools from across the UK with combined assets of c. £410 billion (as at 31 March 2025). On the Fund’s behalf, LAPFF engages directly with company chairs and boards to affect change at investee companies, challenges regulators, and delivers reforms that advance corporate responsibility and responsible investment. LAPFF’s quarterly engagement reports are now presented to the PAP at every meeting.

Outcome

During 2024-2025, some of the key ESG-focused engagement themes for the listed assets in the Fund’s portfolio are shown below:

a. Environment-focused themes:
    i. Climate change
    ii. Water stewardship
    iii. Natural Capital
    iv. Environmental risk

b. Social themes:
    i. Human Rights
    ii. Board diversity

c. Governance-related themes:
    i. Corporate Strategy
    ii. Executive Remuneration
    iii. Board and Leadership Quality

Outlined below is an overview of the engagement activity undertaken by Comgest and LGIM.

Overview of engagement activity undertaken by Comgest

Comgest has conducted 49 engagements and stewardship discussions with various companies across ESG topics.

The below table shows a breakdown of engagement themes (by %) for the Comgest pooled fund over the 12-month period from 1 Jan 2024 to 31 December 2024, which represents c. 4% of the Fund’s portfolio.

Figure 13: Breakdown of engagement themes for Comgest portfolio

Comgest - Engagement Overview	
Environmental	13%
Social	20%
Governance	67%
Total Engagements	49
No of companies engaged with	27

Case Study – Engagement with a semiconductor company on decarbonisation

- As part of ongoing engagement, Comgest analysts met with the semiconductor company's senior Investor Relations team again at their headquarters during Q4 2024.

- Comgest followed up on several environmental topics previously discussed. The company has initiated multiple projects in collaboration with the local government, renewable energy companies, and industry consultants. These initiatives are aimed at increasing the supply of renewable energy in local market, benefiting not only the company but also the entire semiconductor industry and the public. These projects are expected to come online in the next few years and will also help achieve the national target of the company's home jurisdiction of generating electricity from renewable sources by 2030 (approximately 3x growth from 2023).

- These projects will enable the company to reduce its carbon footprint from its overall operations, including wider value chain as more suppliers also shift to renewable energy. This also shows the company's approach to engage with and enhance relationships with local stakeholders, aimed at driving wider impact beyond its own operations.

- Comgest will continue to engage with the company and monitor progress on various decarbonisation-focused projects underway.

Overview of engagement activity undertaken by LGIM[1]

During the 12-month period from 1 April 2024 to 31 March 2025 for the Low Carbon Transition Developed Markets Equity Index Fund, LGIM had 1,178 engagements with 696 companies comprising 67% of the fund value. The top 5 engagement topics were Climate Impact Pledge, Human Rights, Corporate Strategy, Climate Change and Remuneration.

[1] https://am-cms.landg.com/globalassets/lgim/responsible-investing/ret_q4-2024-engagement-report-high-res-final.pdf

Case study 1 – Engagement with BHP Group on decarbonisation

- LGIM have been engaging with BHP Group (BHP) for several years on the topic of climate change and, most recently, on their Climate Action Transition Plan (CTAP).
- Over the period of engagement, BHP made significant improvements in developing a climate transition strategy in a sustainable manner. This was also demonstrated through the substantial alignment of BHP's CTAP with LGIM's internal framework for assessing mining company transition plans.
- BHP's CTAP is now aligned with LGIM's internal framework and meets its minimum expectations for the metals sector. Hence, LGIM voted in favour of the resolution to approve BHP's CTAP at its AGM in September 2024.
- LGIM will monitor progress on BHP's plans for the development of a more targeted methane measurement, management and mitigation strategy, as well as decarbonisation of steelmaking, which are critical areas for the mining sector.
- LGIM will continue to engage with BHP to ensure robustness of its climate strategy and CTAP whilst BHP navigates the dynamic market for its products (e.g. coal).

Case study 2 – Engagement with Colgate-Palmolive on deforestation

- LGIM have been engaging with Colgate-Palmolive since November 2022, just after initial publication of LGIM's internal deforestation policy. In addition to written communications, LGIM have met with company representatives twice (in 2022 and 2024).
- The engagements have been focused on Colgate-Palmolive's deforestation approach as well as challenges and opportunities in meeting their deforestation commitments. LGIM have engaged with the Chief Sustainability Officer and explored how the company is ensuring supplier compliance and increased traceability across commodities as well as robustness of their grievance mechanisms and key escalations for non-compliance.
- LGIM have also encouraged increased board oversight of deforestation and prioritisation of this issue within the company's risk management agenda.
- Colgate-Palmolive have demonstrated progress over the period of engagement. In addition to appreciating responsible sourcing as a critical issue, they have been building relationships and furthering engagement with their suppliers, including ending relationships with those found to be non-compliant. In terms of monitoring, they have introduced satellite imaging and are undertaking the complex process of mapping palm oil derivatives.

- Additionally, Colgate Palmolive has set up a ‘grievance log’ for palm oil for 2023. LGIM have also seen increase in frequency of board-level updates on deforestation.

- Going forward, LGIM plans to focus on traceability progress across key commodities, collaborations and work done with their peers to eliminate deforestation. LGIM will also continue to discuss the Colgate-Palmolive’s work on mapping and addressing deforestation risks across their supply chain.

Principle 10 – Signatories, where necessary, participate in collaborative engagement to influence issuers

The Fund’s approach to engagement recognises the importance of working in partnership to compound the impact and the influence of investors as owners. The Fund is committed to actively engaging and collaborating including other LGPS funds, service providers, industry bodies and regulators on key issues like climate change – particularly considering the Fund’s ambitious net zero targets – and wider ESG parameters.

The Fund maintains a strong relationship with the LCIV and other LGPS Funds to generate ideas and proposals for new mandates from early-stage development through to fund launch.

During 2024-2025, the Fund participated with the LCIV and other LGPS Funds in the initial discussions and consultation responses to the “Fit for the Future” consultation on the future of the LGPS, including the pooling of assets. With relevance to the Stewardship Code, there was collective agreement around the need for the individual London Funds to retain ownership of the Funds’ Responsible Investment Policies. In the case of the LBSPF consultation response we articulated the expectation that the progress that the Fund has made towards the Net Zero 2030 target should not be compromised by LGPS pooling.

The Fund seeks to collaborate with other institutional shareholders, asset owners and industry initiatives like LAPFF to maximise the influence that it can have on individual companies.

The Fund also encourages its investment managers to collaborate with a wide set of other relevant bodies, organisations and initiatives, including in relation to climate change, which is a key priority for the Fund.

Investment managers are also encouraged to be signatories to and/or members of initiatives like the UK Stewardship Code, the UN PRI, Climate 100+, Nature Action 100, etc. that further advance the Fund’s priorities and engagement with the underlying portfolio companies.

In addition, through the Fund’s membership of LAPFF, voting recommendations received directly from the LAPFF research team are passed onto investment managers for consideration resulting in more directed and focussed engagement activity at the underlying holdings level.

The Fund is also committed to LGPS pooling and improving the pooling structure and approach by working closely with LCIV and has been involved in discussions around LCIV's approach to governance and reporting. Considering the upcoming pooling mandate from the Government, the Fund has had multiple discussions with LCIV in relation to the most effective means of transitioning without significantly impact the financial returns or the decarbonisation and wider ESG priorities of the Fund.

The Fund will also work closely with other LGPS funds to enhance the level of engagement both with external managers and the underlying companies in which it invests.

Principle 11 – Signatories where necessary, escalate stewardship activities to influence issuers

Activity

The Fund relies on its investment managers to take primary responsibility for the day-to-day interaction and ongoing engagement and stewardship activities with underlying portfolio companies of the respective investments.

Individual investment managers have their own policies for escalation of stewardship activities including; enhanced engagement with companies, voting against company resolutions, escalation of engagement to Chair or Senior Directors, collaboration with other investors or relevant industry initiatives and, ultimately, divestment.

The investment managers are notified of the ESG priorities of the Fund in line with its ISS, Net zero Strategy and the RI Policy. The investment managers use these as a guiding framework whilst also relying on their internal policies and ESG focus areas while engaging in voting and stewardship activities.

As part of the RI Policy, and in line with the investment strategy as laid out in the ISS, the Fund will continue to seek investments with best financial returns while having a positive impact on the environment and society. The Fund believes that a greater impact can be achieved through active ownership and lobbying for global companies to change and utilise their resources sustainably. Therefore, the Fund expects its investment managers to be actively engaging with companies to promote better ESG and investment outcomes for the Fund.

The Investments Team table a report providing updates to PAP on the stewardship activities undertaken by the investment managers. PAP monitors responsible investment by obtaining advice from the internal Investments Team, and the external advisor on assessing how ESG issues are integrated into investment selection, divestment, and retention decisions from active managers. This ongoing review allows room for the Fund and PAP to escalate any issues with the investment managers if they feel that ESG factors are not being properly implemented into their decision-making process. The LPB also has an oversight role in this.

Where an investment manager's engagement activities with investee companies are deemed ineffective, the Fund expects the investment manager to escalate through voting, shareholder resolutions or sale of that company. The Fund expects the investment managers to have time limits on when engagement is not working or the ability to acknowledge when Boards of companies are not interested in engaging with investors.

For example, LGIM have an internal deforestation policy, where they expect companies within deforestation-critical sectors to have both a deforestation policy and programme in place. The progress is monitored as part of periodic engagement discussions. In instances where there is lack of progress, as a means of escalation, LGIM may against the re-election of the Chair at their next AGM.

The Fund's Net zero Strategy is also an important criteria as part of its investment decisions. Previously, the Fund has divested from oil & gas and tobacco companies due to environmental and health or social concerns. More recently, as opposed to divestment, the Fund has added an additional 'net zero' lens while assessing investment opportunities.

For example, the current investment guidelines for the segregated equity mandate with Newton are as follows:

"To outperform the FTSE All World Index (net of fees) over rolling 5-year periods through investing only in companies assessed by the Manager as having credible transition plans to reduce emissions and align with a "below 2^{o}C" or "net zero 2050" emission reduction pathway."

The above demonstrates the Fund's commitment to positive action in addressing the climate crisis through ongoing engagement and stewardship activity.

Voting alerts from LAPFF also provide guidance and recommendations to investment managers on how to vote for shareholder resolutions, and when to consider escalation initiatives like voting against Chair/Independent Directors or other resolutions or consider divestment in the last resort when companies no longer meet the expected standard for investment. These activities ensure the Fund is not holding assets where there is a material financial risk of future failure, reputational damage or other penalties a company may incur.

The Investments Team monitors investment managers' engagement activities through regular reports and discussions, including on occasions when managers have escalated their approach when required.

Given the Fund's net zero commitment, it is actively encouraging its investment managers to have net zero pledges and interim targets, and in-turn engage more proactively with the underlying portfolio companies on decarbonisation and climate-related targets. There is constant engagement and collaboration with investment managers to drive decarbonisation-focused improvements on an ongoing basis.

Outcome

The Fund has seen positive outcomes as a result, particularly in the case of the Fund's carbon footprint which has seen **a reduction of c. 80% in Scope 1 and Scope 2 emissions** over the period from September 2017 to March 2025 (discussed in Principle 1).

The Fund will continue to review and monitor climate and wider ESG performance of the investment managers and engage with them regularly. The Fund will adopt a more structured and consistent approach to ESG assessment/scores of the investment managers' stewardship activity overtime.

Select Escalation Case studies

Case Study 1: Escalation by LGIM in relation to ethnic diversity at board level[2]

LGIM believe that a diverse mix of skills, experience and perspectives is essential for a company and its board to function and perform optimally, as set out in their diversity policy. Driving diversity at companies is a strategy that is financially material, directly linked to value creation, and is a tangible action that investors can encourage.

Initial Engagement: LGIM launched their engagement campaign on ethnic diversity in 2020, initially reaching out to the largest 100 companies in the UK and the largest 500 companies in the US to discuss ethnic diversity at board level. The request was for the companies have ethnically diverse representation at board level by 2021.

In 2022, in instances where there were lapses following the initial engagement, LGIM voted against the re-election of the Chair or the Chair of the nomination committee at companies.

Additional Steps: In 2023, LGIM extended the campaign to require a board member from an ethnic minority background beyond the FTSE 100 and S&P 500 to the FTSE 250 and Russell 1000 companies. LGIM allowed these smaller companies more time to meet the expectations by 2024.

Escalation and Next steps: In Q4 2024, LGIM wrote to 24 FTSE 250 companies that were identified as not meeting the expectations set out above, and therefore as being potentially subject to a vote against the Chair's re-election at their upcoming AGM. Following this, LGIM received responses from certain companies, but gaps continue

[2] https://am-cms.landg.com/globalassets/lgim/responsible-investing/ret_q1-2025_quarterly-engagement-report.pdf

in other instances. As a result of the responses, LGIM will be voting against re-election of the Chair of 13 FTSE 250 companies in 2025.

Case Study 2: Engagement by LGIM with Nippon Steel[3]

LGIM is committed to engaging collectively and individually with companies around the world to highlight and improve their climate lobbying accountability, and to escalate this where required. As part of LGIM's Climate Impact Pledge, LGIM have developed net zero sector guides to support companies in their transition and to clearly outline our sector-specific expectations. These include a 'red line' with potential voting implications for all 20 'climate-critical' sectors, including steel, on their climate lobbying activities.

Engagement Theme: Climate-related lobbying disclosures

Issue: Nippon Steel Corporation is the largest steel maker in Japan and one of the largest globally in terms of production. LGIM define the steel sector as a climate-critical sector because it is one of the largest contributors to global carbon emissions, accounting for approximately 7% of the total in 2022. In Japan, the steel sector is the leading emitter within the industrial sector and accounts for 13-14% of the nation's total domestic emissions.

Traditional steelmaking processes are highly carbon intensive. A shift to green steel will require a policy environment that supports a sufficient supply of low-carbon alternatives.

LGIM have been engaging with Nippon Steel since 2022. The company failed to meet the decarbonisation criteria during first year of engagement, so LGIM decided to focus on additional engagement for 2023 and expanded the engagement activity to work collaboratively with other investors to increase their influence. Despite several meetings with Nippon Steel on an individual and collaborative basis, the disclosures provided did not meet LGIM expectations.

Assessments undertaken by third-party data providers demonstrated that Nippon Steel lagged behind its peers on climate policy engagement disclosures. Nippon Steel was also identified as one of the most influential companies blocking climate policy action globally.

LGIM viewed that the current level of Nippon Steel's disclosures meant shareholders could not accurately assess if the company had a good command of the policy environment. LGIM also believed the current level of disclosures made it impossible to accurately assess whether its lobbying activities were sufficiently coordinated and optimised to increase Nippon Steels' value and meet its strategic goals and decarbonisation objectives in line with the Paris Agreement.

Action: In May 2024, LGIM co-filed a shareholder proposal asking Nippon Steel to: 'Disclose annually, climate-related and decarbonisation-related policy positions and

[3] https://blog.landg.com/categories/esg-and-long-term-themes/were-calling-on-nippon-steel-to-become-a-regional-leader-on-climate-related-lobbying-disclosures/

lobbying activities globally, including its own direct lobbying and industry association memberships, and review these for alignment with the Company's goal of carbon neutrality by 2050 and explain the actions it will take if these activities are determined to be misaligned.'

Outcome: The resolution received substantial support from shareholders, including delivering the largest-ever vote in support of a climate lobbying resolution in Japan. LGIM plans to continue engaging with Nippon Steel to address shareholder concerns and further strengthen its climate strategy.

Principle 12 – Signatories actively exercise their rights and responsibilities

The Fund's RI policy and ISS include the approach for exercising the rights attached to investments.

The Fund has a commitment to actively exercising the ownership rights attached to its investments, reflecting its conviction to be a responsible asset owner.

The Fund has key principles it considers while voting in relation to issues on corporate governance, financial reporting, shareholder rights, human capital and environmental considerations, including climate change and other emerging considerations (e.g. cyber security, Artificial Intelligence, etc.)

Activity

For equity investments

The Fund's voting rights have been delegated to the investment managers, who are required to make considered use of voting in the interests of the Fund and for achieving impact in line with the Fund's RI Policy. The investment managers have the delegated authority to vote at shareholder meetings in accordance with their own guidelines, as well as considering the Fund's strategic ESG objective and priorities.

In respect of its segregated mandate, the Fund expects Newton to vote in line with the priority areas outlined in the Fund's RI Policy. For pooled mandates, the Fund expects its investment managers to use their influence as major institutional investors to promote good practice in the portfolio companies and markets to which the Fund is exposed, and to report to the Fund on their engagement with company management and their voting record.

The Fund's investment managers (both active and passive) are required to report to the Fund on their engagement with portfolio company management and voting, highlighting any instances that they voted against company management or did not follow its policy and the outcomes of the voting process and the engagement activities.

Pass-through voting

As highlighted in Principle 9, during Q4 2024-2025, the Fund adopted 'pass-through' voting in respect of the pooled investments with BlackRock and LGIM. In both instances, the voting policies adopted as part of this are more climate-aligned than the historical options. This gives the Fund a huge opportunity to voice its vote on key issues, including the climate emergency. This additional say through climate-aligned voting decisions for companies held in our pooled funds, will complement ongoing engagement undertaken by the investment managers in relation to decarbonisation of the portfolio and reaching net zero.

<u>For fixed income assets</u>

For fixed income assets, the Fund has delegated the stewardship responsibility to the investment managers and expects prudent measures to be taken in relation to terms and conditions within contracts. Furthermore, the Fund expect investment managers to engage with credit issuers to drive improvements in relation to ESG risks.

<u>For private assets</u>

For private assets, all investment managers of the Fund engage with third-parties developing and operating the assets on an ongoing basis for driving impact through reduction of the carbon footprint and improvements across wider ESG aspects.

For example, Nuveen, the investment manager of our direct real estate portfolio, engages in active collection and monitoring of energy and water consumption data across landlord-managed properties. Nuveen also monitor and encourage the stakeholders (property managers and operating partners) to implement environmental and social initiatives that support tenant retention, cost reductions and regulatory compliance.

One of the key tangible advantage of these initiatives is an ongoing improvement in the overall carbon footprint and energy efficiency of the assets in the portfolio. During 2024-2025, 63% of AUM achieved an average EPC A and B, which represents an increase of 18% compared to 2023-2024. For the Fund assets, there has also been improvement in the GRESB score - 3 stars achieved in 2024 compared to 2 stars in 2023.

Alongside decarbonisation of the assets, Nuveen has also implemented various other initiatives focused on biodiversity, mitigating possible impact of physical risks (e.g. flooding,) and circular economy (reuse of windows and frames and existing façade and fitting recycled raised access flooring) as part of ongoing operation of the assets. Additional focus areas include living wages and community-focused events (e.g. internship programme, workshop with school kids, etc).

Monitoring and Review

The Investments Team regularly review the voting and engagement reports that it receives from the investment managers. The Fund discusses specific issues when they arise and is planning to undertake a more structure and an ongoing review ESG review to assess its investment managers' adherence to its ISS and RI Policy and ESG priorities.

The Fund produces a voting and engagement report to demonstrate implementation of the stewardship and responsible investment principles. These reports are then discussed at quarterly PAP meetings, including flagging any issues and corrective actions as required.

Alongside the internal processes outlined above, the Fund actively contributes to the engagement efforts of industry groups, such as the PLSA and LAPFF. The Fund encourages all its investment managers to vote in accordance with the LAPPF's policies and recommendations.

The Fund through its participation in the LCIV works closely with other LGPS Funds in London to enhance the level of engagement, both with external managers and the underlying companies in which they invest.

Additionally, where required, the Fund is open to joining other investors to magnify its voice and maximise the influence of investors as asset owners, joining wider lobbying activities where appropriate opportunities arise

Outcome

Outlined below is a summary of the voting activity undertaken by select investment managers for 2024-2025 or part thereof.

Pooled mandates:

Figure 14: Voting activity for Comgest portfolio

Comgest – Voting activity (12-month period from 1 January 2024 to 31 December 2024)	
Votes with management	565
Votes against management	71

Figure 15: Voting activity of BlackRock portfolio

BlackRock – Voting activity (12-month period from 1 April 2024 to 31 March 2025)	
Total proposals eligible to vote (shareholder + management proposals)	11,792
Total proposals on which vote was exercised	11,080 (93.96%)
Votes with management	10,699
Votes with management (%)	90.73%

BlackRock – Voting activity (12-month period from 1 April 2024 to 31 March 2025)	
Votes against management	381
Votes against management (%)	3.23%

The Investments Team will continue to table reports to PAP (and, indirectly, LPB) that outline voting and engagement activity during the relevant reporting period, including reporting on positive actions following the activity. These reports are publicly available hence can be accessed by all stakeholders.

The Fund will continue to take advantage of the pass-through voting for the pooled mandates which gives the Fund more opportunities to voice its priorities, particularly in relation to the climate emergency. Implementation of more climate-focused voting policies across the pooled funds will complement ongoing decarbonisation and net zero focused engaging activity undertaken through the investment managers.

Select case studies on Voting activity by BlackRock

Case Study 1 – Voting on resolutions at a technology company's ('Company 1') Annual General Meeting (AGM) in June 2024

- Company 1 is a technology conglomerate providing a wide array of internet-based platforms and services.
- Twelve shareholder proposals were submitted to a shareholder vote at June 2024 AGM which sought amendments to Company 1's by-laws and capitalisation plan; the adoption of targets to evaluate the effectiveness of its safety policies; and additional disclosure on various issues, including climate and human capital management-related matters, corporate political activities, and the company's deployment and oversight of Artificial Intelligence ('AI'), among other items.
- Ahead of its June 2024 AGM, BlackRock Investment Stewardship (BIS) engaged with Company 1's corporate leadership in May 2024, and again in June 2024, to better understand its approach to these topics.
- BIS supported all management-proposed items, including the election of directors, at the June 2024 AGM. BIS also supported two shareholder proposals
    - Item 9, which sought a change to Company 1's capitalisation plan to provide for a "one vote for one share" structure, on the basis that this helps to achieve a proportionate balance of shareholder voting rights to economic ownership.
    - Item 13, which requested that Company 1 conduct an independent human rights impact assessment (HRIA) related to AI-driven targeted ad policies as in their assessment, the independent HRIA would help

investors understand the effectiveness of the human rights due diligence carried out in relation to this material operational risk.

- All management-proposed items received majority shareholder support. No shareholder proposals passed. Items 9 and 13, which BIS supported, received 31.3% and 18.5% support, respectively.

- BIS again engaged with Company 1 in December 2024 to give the company the opportunity to provide additional clarity on its approach to climate and human capital management-related matters for deciding an approach to voting activity going forward.

Case Study 2 – Voting on resolutions at a technology company's ('Company 2') AGM in May 2024

- Company 2 is a large technology company engaged in providing cloud computing, AI, and data storage services.

- Company 2's May 2024 AGM agenda included management-proposed items concerning the election of directors and approval of the compensation plan for the company's executive officers. Also on the ballot were three shareholder proposals. Two shareholder proposals requested enhanced disclosure on the company's corporate political activities and human capital management policies, respectively. The third shareholder proposal requested that Company 2 amend its compensation policies for senior managers so that they were submitted to a shareholder vote.

- Consistent with BIS' conflicts of interest policy, vote recommendations were outsourced to BIS' independent third-party voting service provider, which makes voting recommendations based on BIS' publicly available Global Principles and regional voting guidelines and information disclosed publicly by the relevant companies. The independent third-party voting service provider recommended voting in support of all management recommendations at the May 2024 AGM. All management-proposed items and no shareholder proposals received majority shareholder support.

- BIS engaged with the management team in January 2024. A representative of BIS also visited its offices as part of the annual "BlackRock Tech Tour" in June 2024. Both engagements were helpful to better understand the corporate strategy as well as Company 2's approach to material climate-related risks and opportunities, including how energy demand and water usage in data centres.

- BIS engaged with Company 2 again in November 2024. The team received an update on the company's approach to several matters, including the execution of its updated corporate strategy, board composition, and managing business-relevant climate-related risks, which will inform the voting decisions going forward.