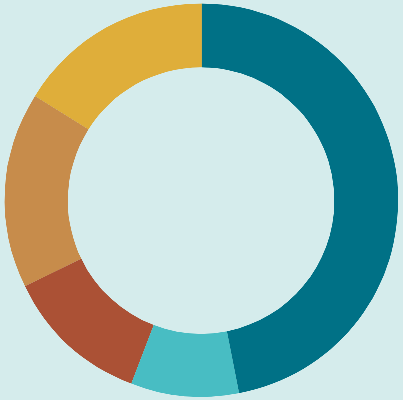
Investment Strategy Developments over 2023

Following the March 2022 triennial actuarial valuation, we began implementing significant changes to our long-term strategic asset allocation target in line with our funding position.



Current SAA (%)

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

Target SAA (%)

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

These changed were carefully considered alongside our scheme actuary, investment consultants, risk advisors and independent investment advisors.

Our target strategic asset allocation, with a target year of 2024/25, will significantly reduce investment risk while providing a sufficient level of expected return, all with the aim of securing members' benefits.

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

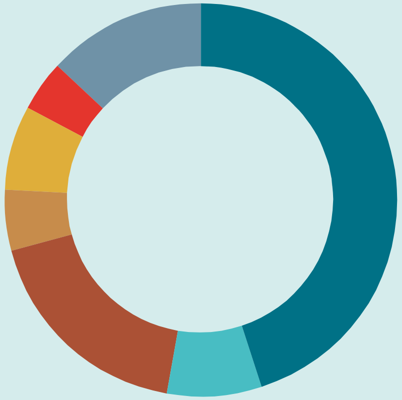
We are also developing a comprehensive reporting framework which incorporates ESG in the investment decision making to optimise both financial return and investment in sustainability- focused mandates, with implementation to be finessed till 2024/25, in parallel with the pathway to meeting our net zero climate targets.

Our Assets Under Management

A breakdown of our assets by type, geography, and pooling holdings as of 31 December 2023 are given here:

£20.2bn

Total AUM



Current AUM (%)

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

Regional allocation (%)

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

Assets held (%)

- Pooled **48**
- Non-pooled **52**

Our Investment Time Horizon

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

We invest in:

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

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

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

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

Our investment strategy is reviewed and approved annually by our Investment Committee and Pensions Committee respectively, and triennially through our actuarial valuation to capture change within our membership profile and funding levels.

Turning Our Investment Beliefs Into Outcomes

Case Study: West Midlands Co-Investment Fund

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

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

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

Our Responsible Investment Approach

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

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

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

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

RESPONSIBLE INVESTING IN ACTION

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

- **Enhanced climate risk analysis through the addition of new climate risk and data quality metrics and increased our data coverage of our asset classes**
- **Alignment towards the Department of Housing and Levelling Up Communities' (DHULC) upcoming mandatory climate risk reporting following consultations in December 2022**
- **Dedicated RI training for our governing bodies (provided by in-house team members and external specialists) focusing on areas such as climate analysis and also specific asset class approaches**
- **Involved in working groups such as the Occupational Pensions Stewardship Council (OPSC) about member engagement, and the Asset Owner Diversity Charter (AODC) to promote Diversity and Inclusion within the asset management industry**
- **Strengthening of our Voting Principles and expectations of companies in relation to diversity, disclosure, and sustainability as part of our targeted engagement strategy.**

Our Action on Climate Change

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

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

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

PROGRESS TO DATE

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

- Reported against our Paris Aligned Asset Owner Target disclosures in 2023 through the survey on progress
- Made a commitment to the IFM Net Zero Fund, an infrastructure investor that specialises in investing in low carbon and core infrastructure assets.
- We achieved 30% reduction in our total equities carbon footprint[17] on 31 March 2023
- 26% of companies within our total equities' portfolio had a carbon risk management quality score[18] of 4/4*

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

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

Stewardship of Assets

Assets held outside the LGPS Central pool

SELECTION

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

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

DUE DILIGENCE

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

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

FUND MANAGER APPOINTMENTS

We assess the RI capability of a fund manager as a factor within each of the people, process, and performance categories. When appointing a fund manager, we take a balanced consideration of all relevant factors including RI. However, we pay particular attention to adherence to relevant soft regulatory codes depending on the market in which it invests. In practice, this means we are willing to hire a fund manager at an early stage of developing our RI approach so long as there is a demonstrable RI commitment and a willingness to improve in their approach over a short and defined time period.
In alignment with the guiding principle on "Engagement and Collaboration", we believe that there is added value in working with managers to develop their approach.

FUND MANAGER MONITORING

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

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

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

Assets held with the LGPS Central pool

INTEGRATION OF RESPONSIBLE INVESTMENT

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

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

How RIIS differs per asset class:

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

MANAGER SELECTION

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

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

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

MANAGER MONITORING

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

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

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

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

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

Our Stewardship Policies

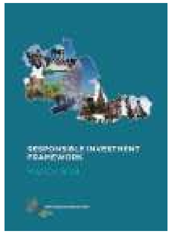
We have a range of internal and external review and assurance processes which support good stewardship across our Fund.

ASSURANCE

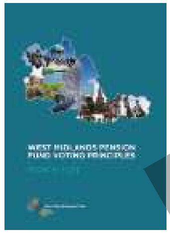
Stewardship Policies
Our Stewardship Policies and Reports:

Annual Stewardship Report

Climate Change Framework and Strategy



Responsible Investment Framework



Voting Principles

Our Stewardship policies are reviewed and updated annually by our investment team and Assistant Director of Investment Management and Stewardship before going through our Internal Investment Committee for challenge. These policies are then approved by our Pensions Committee, and external advisors in certain cases.

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

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

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

AUDIT

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

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

- The approval process for a pooled investment.
- Operational systems for executing the investment decision.
- Monitoring and reporting practices for this investment.

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

The report was a positive step for the investment compliance team which resulted in a strengthened governance frameworks and inclusive and decision-making processes.

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

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

Promoting Well-Functioning Markets

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

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

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

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

Service provider	Expertise	Provision
Pool Company – LGPS Central	• Bespoke approach to Responsible Investment (RI) integration through the in-house 'RI Integration Status' into all their investment products • Suite of RI policies in place together with an appointed engagement provider to support regular engagement, monitoring, and reporting • An experienced Responsible Investment & Engagement Team consisting of an RI Director, Head of Stewardship, Net Zero Manager, RI Manager, and three analysts from a diverse range of academic backgrounds.	• Providing analysis and advice, including climate risk monitoring, to support implementation of our Investment Strategy Statement and Responsible Investment Framework • Reporting on voting and engagement activity on a quarterly basis including a detailed annual report on engagement and voting outcomes
Engagement and Voting (via LGPS Central)	• Global voting and engagement provider with dedicated in-house specialists in subject matter areas • Engages with regulators, industry bodies and other standard setters to shape capital markets and the environment in which companies and investors can operate more sustainably	• Reports on voting and engagement activity across relevant pooled funds and specific segregated mandates (for voting outcomes only) every quarter, as well as providing a more detailed overview of engagement progress and voting outcomes on an annual basis
Risk Advisor	• Integrated team of actuarial and investment consultants providing holistic risk advice • Advising on the integration of investment and funding strategy including risk modelling	• Support and advice in relation to funding and investment strategy reviews including independent analysis and challenge • Undertaking climate risk scenario analysis via LGPS Central to identify potential portfolio impacts across different climate scenarios

Service provider	Expertise	Provision
Investment Consultant REDINGTON	• Advice on a variety of specialised topics leveraging the breadth of knowledge and expertise internally to support our objectives • Utilising a range of specialist tools and in-depth analysis to provide recommendations on our investment strategy and strategic asset allocation • Supporting with the extensive research of potential investment managers and providing insights to our manager selection process.	• Instrumental in the planning and implementation of our new strategic asset allocation via a comprehensive transition plan which is being administered. • Conducting analysis on current investments and evaluating potential investment prospects. Their guidance and insights have supported our decision-making processes and management of any assets performing outside of expectations. • Undertaking Value-at-Risk assessments and stress tests to identify the risk exposure of the portfolio and setting the appropriate risk budget accordingly • Aided in creating a liquidity waterfall, enhancing our risk management and scenario planning. This safeguards our ability to meet our commitments by outlining strategies for accessing cash in different scenarios • Supporting our progress towards our responsible investment goals through continuous integration of ESG factors into their guidance, promoting sustainable investment practices.
Actuary HYMANS ROBERTSON	• A team of specialists with extensive experience in providing actuarial support for local government defined benefit pension schemes • Experienced in providing ongoing monitoring of our solvency assessing the revision of employer contribution between valuations and on the forefront on changes within the regulatory space	• Undertook our triannual actuarial valuation and liability modelling in 2022, as part of our risk management framework, quantifying our funding levels and confirming the contribution rates for employers • Identifying significant sources of funding risks that impact our ability to pay future funding benefit payments through sensitivity and risk analysis and integrate appropriate measures to our existing funding risk management

USING OUR VOICE

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

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

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

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

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

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

RISK MANAGEMENT

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

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

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

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

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

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

To address the risks that have been identified, we undertaken the following managers and controls:

	Risks identified	Management/Control
Investment risk	Assets do not deliver the return required to meet the cost of benefits payable. Potential drivers: • Inappropriate asset allocation and risk management • Investment market performance/volatility • Manager underperformance • Concentration risk that a significant allocation to any single asset category and/or region/sector and its underperformance relative to expectation would result in difficulties in achieving funding objectives • Responsible investment (RI) risks that are not given due consideration by us or our investment managers	• Investment strategy is considered in context of our liabilities and return requirements set within our Funding Strategy Statement • Asset liability modelling and stress testing to set strategic benchmarks within Investment Strategy Statement, with annual review • Regular monitoring of strategic asset allocation and returns relative to benchmark • Regular monitoring of manager performance • Diversified portfolio with exposure to a wide range of asset classes, portfolio holdings and different management styles • Inflation risk mitigated through holding a diversified portfolio of growth and inflation-linked assets. Inflation risk is considered annually in the review of the Strategic Investment Allocation Benchmark (SIAB) and triennially as part of the actuarial valuation
Asset risk	Of the portfolio verses the SIAB: • Concentration risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives • Illiquidity risk that we cannot meet our immediate liabilities because it has in sufficient liquid assets • Currency risk that the currency of our assets underperforms relative to the SIAB • Manager underperformance when our asset managers fail to achieve the rate of investment return assumed in setting their mandates	Asset risks at the whole fund level are mitigated by the setting and review of the SIAB. At the asset class level asset risks are mitigated by risk controls within individual asset mandates: • Constraining how far Fund investments deviate from the SIAB by setting diversification guidelines and the SIAB strategic ranges • Investing in a range of investment asset mandates, each of which has a defined objective, performance benchmark, eligibility criteria and permitted ranges for individual securities which, taken in aggregate, constrain risk within • Investing across a range of liquid assets, including quoted equities and bonds. This recognises our need for access to liquidity in the short term. • Robust financial planning and clear operating procedures for all significant activities including regular review and monitoring manager performance against their mandate and investment process • Appointing several investment managers. In doing so we have considered the risk of underperformance by any single investment manager

	Risks identified	Management/Control
Systemic risk	We view climate change as a systemic risk that affects all assets. Considerations: • Integration of climate risk monitoring and management into external manager mandates • Identification of physical and transitional risks within the portfolio • Annual carbon-related metrics at portfolio level including absolute carbon emission, weight in fossil fossils and weight in clean technology etc disclosure in Climate Disclosure • Sensitivity analysis of portfolio investment returns against 1.5°C, 1.6°C, and 4°C climate scenarios stretching to 5- and 40-years' timeframes	The Climate Change Framework and Strategy outlines the approach to address climate change not limited to: • Defining our Climate Pledge - a set of beliefs that guide our approach to addressing climate change • Target setting for absolute carbon reduction, increase asset data coverage and reduction of our operational emissions • Setting climate change as one of four engagement priorities for 2020-2023 aiming to decarbonise through engagement • Regular disclosure and reporting on progress to achieving Report carbon reduction for accountability and transparency • Collaborating with initiative groups and peers to influence change on a global scale and enable the transition to a lower carbon economy

By actively embracing this ever-changing environment and adjusting risk management strategies accordingly, we can guarantee the security and sustainability of our members' futures.

Our Engagement and Voting Strategies

(Principles 9, 10, 11)

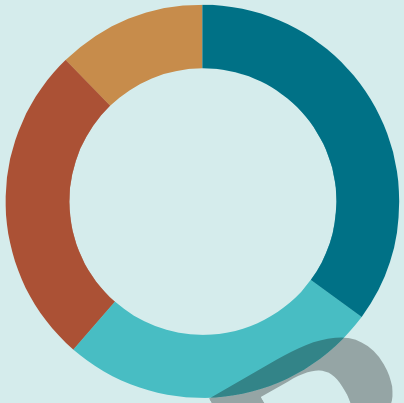
OUR ENGAGEMENT APPROACH

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

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

ENGAGEMENT OUTCOMES 2023

EOS[20] engaged with 748 companies on our behalf of during 2023 on 3,418 ESG issues and objectives

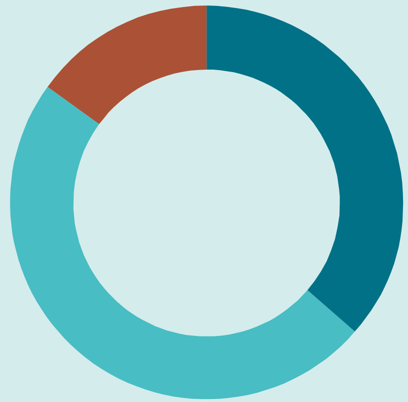


Global theme[21] (%)

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

Environmental by issue (%)

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



Social by issue (%)

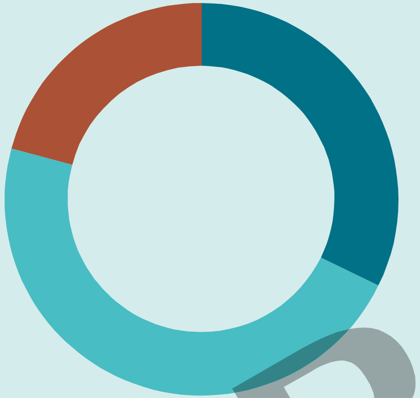
- Human and labour rights **36.6**
- Human capital **48.5**
- Wider societal impacts **14.9**

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

[21] Totals may not sum to 100% due to rounding

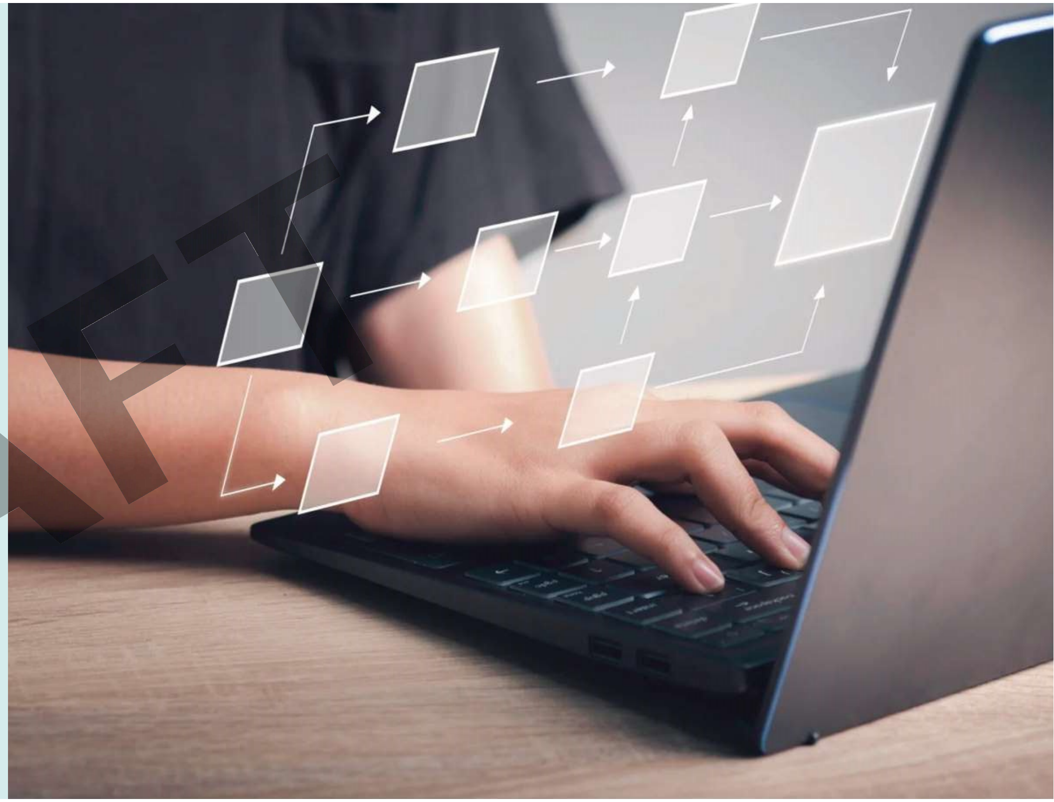
Governance by issue (%)

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



Strategy, risk & communication by issue (%)

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



ENGAGING OUR PORTFOLIO COMPANIES

We are aware of the challenges of engaging effectively in certain asset classes and take a pragmatic approach based on materiality and the likelihood of improving outcomes to ensure effective stewardship across the portfolio.

We therefore focus on larger, growing, and prospective investments where managers are more inclined to engage, and we have the greatest opportunity to add value.

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

- Hold constructive dialogue with investee companies
- Encourage disclosure on responsible investment (“RI”) issues
- Participate in the development of public policy on RI issues

We have four engagement themes, Climate Change, Sustainable Food Systems, Human Rights and Responsible Tax Behaviour, that runs through the period of 2020-2023. This our priorities in terms of engagement and the way that we vote, linking to systemic and material risks to our investments.

ENGAGEMENT CASE STUDIES
CLIMATE CHANGE

Stewardship strategy: Engagement is conducted through LGPS Central and via key collaborative initiatives including Climate Action 100+ (CA100+), the Institutional Investor Group on Climate Change (IIGCC) and the Transition Pathway Initiative (TPI).

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

Our aims are:

- To see reduction in our portfolio's carbon emissions against a 2019 baseline assessed through annual climate risk monitoring
- To see an increase proportion of companies in the portfolio setting net zero targets with credible transition plans
- To see progress in the CA100+ Benchmark Framework (launched March 2021)

Company	HSBC
Asset type	Corporate Bond (External Manager)
Geography	United Kingdom
Objectives	HSBC commits to achieving net-zero carbon emissions by 2050 yet faces complexity due to its significant presence in carbon-intensive sectors, especially in Asia. The bank aims to advocate for and partner with clients in their decarbonization efforts. The aim of the engagement was to urge HSBC to improve disclosure on its long-term climate strategy and progress in client engagement on the subject.
Engagement strategy	In 2023, the external managers' ESG analyst met with HSBC to evaluate its progress on its long-term climate strategy. The company was encouraged to share more information on its climate engagement model. The analyst also stressed the importance of HSBC publishing a comprehensive climate transition plan to provide investors with greater insight and potentially serve as an industry model.
Outcome	In response to the engagement, HSBC made significant progress in its climate-related initiatives. The company implemented a client engagement model pilot for high-emitting sectors, scoring clients on their transition plans to inform decision-making at both portfolio and business levels. The establishment of the 'Sustainability Centre of Excellence' in 2022 ensured that relationship managers had access to relevant expertise for client engagement. The climate engagement model pilot underwent rigorous audits for independence. Additionally, HSBC confirmed that its bank-wide Climate Transition Plan was on track, and by January 2024, the company published its 'Net Zero Transition Plan,' emphasizing client engagement for financing decarbonization rather than divestment. The approach adopted by HSBC is seen as a potential industry model.
Next steps	Persistence is planned for monitoring HSBC's disclosures and practices, with a focus on tracking the implementation and progress of the bank's climate strategy. Specifically, attention will be on observing how HSBC integrates its climate engagement efforts into credit-making decisions and portfolio management activities, ensuring ongoing evaluation and scrutiny of the bank's commitment to sustainable practices.