Derbyshire
Pension
Fund

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The UK Stewardship Code 2020 Signatory Application

County Hall, Matlock, Derbyshire, DE4 3AH
Administered by Derbyshire County Council

lgps

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Glossary of Terms and Abbreviations

Abbreviation	Term
AA	Administering Authority or Administering Authorities
ABS	Annual Benefit Statement
AGM	Annual General Meeting
AUM	Assets Under Management
CA100+	Climate Action 100+
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIO	Chief Investment Officer
CIPFA	Chartered Institute of Public Finance Accountants
Committee	Pensions & Investments Committee
CIP	Conflicts of Interest Policy
CS	Climate Strategy
CSP	Climate Stewardship Plan
DCC or County Council	Derbyshire County Council
DPF	Derbyshire Pension Fund or Fund
DLUHC	Department for Levelling Up, Housing and Communities
ESG	Environmental, Social and Governance
FOI	Freedom of Information
FRC	Financial Reporting Council
FSS	Funding Strategy Statement
Fund	Derbyshire Pension Fund or DPF
IIGCC	Institutional Investors Group on Climate Change
IIMT	In-House Investment Management Team
ISS	Investment Strategy Statement
IWG	Investment Working Group
Joint Committee	LGPS Central Pool Joint Committee

LAPFF	Local Authority Pension Fund Forum
LGA	Local Government Association
LGIM	Legal & General Investment Management
LGPS	Local Government Pension Scheme
LGPSC	LGPS Central Limited
LGPS Central Pool	LGPS Central Pool comprising the LGPS Central Partner Funds
LGPS Central Partner Fund	The LGPS pension funds of Cheshire, Derbyshire Leicestershire, Nottinghamshire, Shropshire, Staffordshire, Worcestershire and West Midlands; the collective owners of the LGPS Central Pool and the shareholders of LGPS Central Limited
LGPSC	LGPS Central Limited
PAF	LGPS Central Pool Practitioners' Advisory Forum
RI / RI Framework	Responsible Investment / Responsible Investment Framework
RI&E	Responsible Investment & Engagement
RIWG	Responsible Investment Working Group
SAAB	Strategic Asset Allocation Benchmark
SAB	LGPS Scheme Advisory Board
SDG	United Nations Sustainable Development Goal
SEC	US Securities and Exchange Commission
SF	LGPS Central Pool Shareholders'' Forum
TCFD	Taskforce for Climate-related Financial Disclosures
The Fund	Derbyshire Pension Fund
TPR	The Pensions Regulator
UN	United Nations

INTRODUCTION

Derbyshire Pension Fund (DPF / the Fund / the Pension Fund) is an open-ended defined benefit Local Government Pension Scheme (LGPS) covering the Derbyshire region. With assets under management of around £6 billion, split across multiple asset classes, the Fund's primary responsibility is to meet the pension entitlements of its 90,000 scheme members. DPF is a member of the LGPS Central Pool.

The Fund is a long-term investor and believes that responsible investment can positively contribute towards investment returns and enhance shareholder value. The Fund continues to build its responsible investment capabilities and actively integrates Environmental, Social & Governance factors into its investment philosophy and processes.

Over the last three years, the Fund has developed both a Responsible Investment Framework and Climate Strategy, which support and enhance, the Fund's Investment Strategy Statement.

The Fund's Responsible Investment Framework uses a three-pillar approach to monitor responsible investment, covering selection, stewardship and transparency & disclosure. The Fund also believes that collaboration with other-liked minded investors, either through the LGPS Central Pool or other collaborative bodies such as the Local Authority Pension Fund Forum or the Institutional Investors Group on Climate Change, can promote positive change, increases engagement coverage and scale and can enhance long-term investment returns.

The Fund's Climate Strategy sets out how the Fund manages climate-related risks and opportunities, together with supporting the aims of the Paris Agreement. The Fund aims to achieve a portfolio of assets with net zero carbon emissions by 2050. This aim is supported by the following two initial Climate Strategy targets:

- reduce the carbon footprint (Scope 1 & 2) of the Fund's listed equity portfolio by at least 30% relative to the weighted benchmark in 2020 by the end of 2025; and
- invest at least 30% of the Fund portfolio in low carbon & sustainable investments by the end of 2025.

The Fund has already achieved the first target and made significant progress towards the second target. The Fund expects that its targets will evolve over time as both the level of consistency and completeness of carbon metric reporting improves. In line with best practice, the Fund publishes an annual Taskforce for Climate Related Financial Disclosures Report.

This document sets out the Fund's application to become a signatory to the UK Stewardship Code 2020. The application has been developed in alignment with the UK Stewardship Code 2020, and the content reflects guidance given by the Financial Reporting Council (FRC) contained within its 'Review of Stewardship Reporting 2022' and 'Effective Stewardship Reporting: Examples from 2021 and expectations for 2022' reports and the 'Investment Stewardship – What's new in 2022?' webinar.

The document has been through a robust evaluation process where it has been reviewed by the Investments Manager, Head of Pension Fund, the DCC Director of Finance & ICT and the Fund’s Pensions & Investments Committee. It has also been reviewed for comment by the responsible investment team at LGPS Central Limited, the Fund’s LGPS investment pooling operating company. The Fund is confident that its reporting is fair, accurate and balanced.

The Fund is pleased to apply to become a signatory to the Stewardship Code, and believes that the application, which has been unanimously approved by the Fund’s Pensions & Investments Committee, demonstrates the Fund’s commitment to long-term and sustainable responsible investment.

Approved by the Fund’s Pensions & Investments Committee: 26 April 2023

Purpose and Governance: Principle 1
Purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for employers and beneficiaries leading to sustainable benefits for the economy, the environment and society

1.1 Background and Context

Membership

DPF had 106,860 membership records on 31 December 2022 covering just over 90,000 individual members. These fall into three categories:

- Active members, who are currently employed by a local government employer or other organisation that offers LGPS membership within Derbyshire.
- Deferred members, who previously paid into the LGPS within Derbyshire and since leaving the scheme have left their pension on hold with the Fund.
- Pensioners and Dependents, who are currently in receipt of their pension benefits.

A breakdown of the Fund's membership is included in the table below.

Membership Records – 31 December 2022	Members	Share %
Active	37,650	35.2%
Deferred	34,680	32.5%
Pensioners and Dependents	34,530	32.3%
Total	**106,860**	**100.0%**

Employers

The Fund had 342 Scheme Employers on 31 December 2022. The majority of the Fund's Scheme Employers, by number, are Academies (62.0%), which are maintained schools that have converted to Academy status. However, the bulk of the scheme member records (68%) on 31 December 2022 related to the 10 main Councils participating in the Fund.

A breakdown of the Fund's Scheme Employers is included in the table below.

Scheme Employers – 31 December 2022	Employers	Share%
Main Councils	10	2.9%
Universities & FE Colleges	3	0.9%
Academies	212	62.0%
Maintained Schools	6	1.8%
Housing Associations	5	1.5%
Other Scheduled Bodies	4	1.2%
Admission Bodies	66	19.3%
Town & Parish Councils	36	10.4%
Total Scheme Employers	**342**	**100.0%**

Fund Assets

DPF's assets under management were valued at £5,821m on 31 December 2022. The Fund's assets are broadly split between three categories: Growth assets; Income assets; and Protection assets. These categories are described in more detail under **Principle 4.**

Total DPF Assets

£5,821m 100%

Growth Assets

£3,227m 55.4%

Listed Equity

£2,935m 50.4%

UK	£807m	13.9%
US	£59m	1.0%
Japan	£312m	5.4%
Emerging	£322m	5.5%
Global Sustainable	£1,435m	24.6%

Private Equity

£292m 5.0%

Unquoted	£194m	3.3%
Quoted	£98m	1.7%

Income Assets

£1,507m 25.9%

Infrastructure

£631m 10.8%

Unquoted	£509m	8.7%
Quoted	£122m	2.1%

Multi-Asset Credit

£412m 7.1%

Diversified MAC Funds	£226m	3.9%
Private Debt	£186m	3.2%

Property

£464m 8.0%

UK Direct Property	£307m	5.3%
Indirect Property	£157m	2.7%

Protection Assets

£1,087m 18.7%

Conventional Sovereign Bonds

£258m 4.4%

Index-Linked Sovereign Bonds

£287m 4.9%

Non-Government investment Grade Bonds

£329m 5.7%

Cash

£213m 3.7%

Geographic Exposure

The geographical breakdown of DPF's assets is shown below, at an overall Fund level, and at an asset class level. The portfolio is well diversified by geographic region.

The Fund's largest exposure to a specific region is to the UK at 44% of assets on 31 December 2022 followed by North America at 27% and Europe at 14%.

Total Fund	
£5,821m	100.0%
UK	44%
North America	27%
Europe	14%
Asia Pacific	9%
Emerging Markets	6%

Growth Assets	
£3,227m	55%
UK	31%
North America	34%
Europe	10%
Asia Pacific	14%
Emerging Markets	11%

Income Assets	
£1,507m	26%
UK	55%
North America	16%
Europe	26%
Asia Pacific	3%
Emerging Markets	0%

Protection Assets	
£1,087m	19%
UK	68%
North America	22%
Europe	9%
Asia Pacific	1%
Emerging Markets	0%

1.2 Purpose

The LGPS is a national pension scheme for people working in local government or for other employers that participate in the scheme. Although the scheme itself is national, it is administered locally in England and Wales through 86 local funds or sub-schemes.

Derbyshire County Council (County Council / DCC) is the administering authority for the LGPS within Derbyshire, investing and administering Derbyshire Pension Fund (DPF or the Fund) on behalf of over 340 employers and over 90,000 scheme members. The responsibilities of the administering authority include liaising with stakeholders, collecting and investing contributions, maintaining member records and paying pension benefits.

The primary objective of the Fund is to ensure that DPF will be able to meet all member benefit payments as and when they fall due (i.e. to ensure that sufficient assets and/or funding is available to meet the Fund's long term liabilities). Alongside this, the Fund has five other core objectives:

- To deliver secure, accurate and efficient administration of the LGPS
- To ensure sound governance arrangements for the pension fund
- To deliver a high-quality service to scheme members and employers
- To enable employer contribution rates to be kept as constant as possible and at reasonable cost to the taxpayer
- To deliver clear, timely and relevant communication to all stakeholders

1.3 Investment Beliefs and Strategy

The Fund has four key investment related documents:

- Investment Strategy Statement

- Funding Strategy Statement
- Responsible Investment Framework
- Climate Strategy (supported by an annual Taskforce for Climate Related Financial Disclosures Report)

The Investment Strategy Statement (ISS) and the Funding Strategy Statement (FSS) are inextricably linked, as the primary objective of the Fund (to meet all benefit payments as and when they fall due) will be met through a combination of employer contributions resulting from the funding strategy and asset returns and income resulting from investment strategy. The Responsible Investment Framework (RI Framework) works in tandem with the Fund's Climate Strategy (CS), and both policies help to align the Fund's investment beliefs with its fiduciary duty to members and employers.

DPF's Pensions & Investments Committee (Committee) oversees the management and administration of Derbyshire Pension Fund on behalf of DCC. The Committee is responsible for reviewing and approving the Fund's policies and strategies, approving quarterly asset allocation, monitoring investment performance, overseeing the Fund's involvement in investment pooling and the overall stewardship of the Fund.

The Committee has agreed a long-term investment strategy that aims to maximise the returns from investments within acceptable levels of risk, contributes to the Fund having sufficient assets to cover the accrued benefits, and enables employer contributions to be kept as stable as possible.

The ISS takes into account the following beliefs:

- A long-term approach to investment will deliver better returns
- The long-term nature of LGPS liabilities allows for a long-term investment horizon
- Asset allocation is the most important factor in driving long term investment returns
- Liabilities influence the asset structure; funds exist to meet their obligations
- Risk premiums exist for certain investments; taking advantage of these can help to improve investment returns
- Markets can be inefficient, and mispriced for long periods of time; therefore, there is a place for active and passive investment management
- Diversification across investments with low correlation improves the risk/return profile
- Secure and growing income streams underpin the ability to meet future liabilities
- Responsible investment can enhance long term investment performance
- Investment management costs should be minimised where possible but net investment returns after costs are the most important factor

The FSS is prepared in collaboration with the Fund's actuary, and after consultation with the Fund's employers. The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers pay for their own liabilities. A key objective of the FSS is to ensure the long-term solvency of the Fund.

The RI Framework sets out the Fund's approach to responsible investment which includes the integration of Environmental, Social and Governance (ESG) considerations into the investment process and the Fund's stewardship and governance activities. RI is a core part of the Fund's fiduciary duty. Effective management of financially material ESG risks should support the requirement to protect and enhance investment returns over the long term.

The Climate Strategy sets out the Fund's approach to addressing the risk and opportunities related to climate change. The Fund supports the ambitions of the Paris Agreement (to hold the increase in the global temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C) and aims to achieve a portfolio of assets with net zero carbon emissions by 2050. The Fund aims to ensure that its investment portfolio will be as resilient as possible to climate related risks over the short, medium and long term. The development of a separate Climate Strategy in 2020 reflects the potential material effect of climate change, and the response to climate change, on the assets and liabilities of the Fund.

To support the Fund in addressing the risks and opportunities surrounding Climate Change, the Fund has commissioned LGPS Central Limited (LGPSC), the Fund's investment pooling operating company, to produce an annual Climate Risk Report. The first report was commissioned in 2019 and the third annual report was considered at the January 2023 Pensions & Investments Committee. The Fund has also complied with disclosure requirements of the Task Force on Climate-Related Financial Disclosures (TCFD) since 2020. The Fund's third annual TCFD report was noted by the Pensions & Investments Committee in January 2023.

1.4 Culture and Values

The Fund's culture & values are consistent with DCC's (as administering authority for Derbyshire Pension Fund) Code of Conduct for Employees. The DCC Code of Conduct for Employees notes that everyone who uses Council services is entitled to expect the highest standards of conduct from Council employees and all employees are responsible for improving life for local people by delivering high quality services. To achieve this, all employees, whilst at work, must:

- Act fairly, honestly, objectively and to the best of their ability;
- Not allow personal or private interest to influence their work;
- Not do anything as an employee that may discredit the Council.

The DCC Code of Conduct sets values that underpin employee behaviour, including the need to be open minded, honest & accountable, political neutrality; equality; ensuring that decisions are fair and transparent; maintaining standards; personal relationships & interests; corruption; the use of information; and gifts and hospitality.

1.5 Outcome Reporting

The Fund is committed to always serving the best interests of its beneficiaries and stakeholders, adhering to its fiduciary duty to members and employers. One of the core objectives of the Fund is to deliver clear, timely and relevant communication to all stakeholders. DPF meets this objective by sending regular news updates and monthly Employer Newsletters to participating employers and also posting these on the Fund's website at www.derbyshirepensionfund.org.uk.

The Fund also seeks member and employer feedback on material policy and strategy updates, to ensure that the best interests of our beneficiaries and stakeholders are being met. Some examples of recent consultations are included under **Principle 6**.

Purpose and Governance: Principle 2
Signatories' governance, resources and incentives support stewardship

2.1 Governance Arrangements

Governance Structure

The Fund is managed and administered by Derbyshire County Council in accordance with the Local Government Pension Scheme Regulations 2013 (2013 LGPS Regulations). Under the terms of the Council's Constitution, responsibility for the functions of Derbyshire Pension Fund is delegated to the Pensions & Investments Committee. A Local Pension Board, set up in 2015 in accordance with the 2013 LGPS regulations, assists the Council with the governance and administration of the Fund.

The day-to-day management of the Fund is delegated to the Director of Finance & ICT who is supported by the Head of Pension Fund and in-house investment and administration teams. A significant proportion of the Fund's investment assets are managed by LGPSC (the Fund's investment pooling operating company) and by other external fund managers.

The Fund's governance objectives are to:

- Meet the highest standards of good governance through the application of the key principles of openness and transparency, accountability, integrity, clarity of purpose and effectiveness
- Ensure robust governance arrangements are in place to facilitate informed decision making supported by appropriate advice, policies and strategies, which do not unreasonably favour one group of stakeholders over another
- Ensure the Fund is managed, and its services delivered by people who have the appropriate knowledge and expertise
- Comply with all appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance

The identification and management of conflicts of interest is integral to the Fund achieving its governance objectives. A Conflicts of Interest Policy has been developed for the Fund and was approved by the Pensions and Investments Committee in November 2020. This is discussed in more detail under **Principle 3**.

Pensions and Investments Committee

The Committee comprises eight voting Councillors representing Derbyshire County Council as the administering authority for the Derbyshire Pension Fund, and two voting Councillors representing Derby City Council, a major participating employer. Two trade union representatives are also entitled to attend Committee meetings as non-voting members. Officers of the Council and an independent investment adviser also attend meetings as required to provide advice and support to members of the Committee. Members of Derbyshire Pension Board are invited to attend the Committee's meetings as observers.

The Committee formally meets at least six times a year, with a further two training sessions.

The Committee's responsibilities include:

- Approving and monitoring performance targets
- Reviewing and approving statements, strategies and policies, including: the Investment Strategy Statement; Quarterly tactical asset allocation; Funding Strategy Statement; Treasury Management Strategy; and other statutory policies required by the LGPS Regulations and strategy/policy statements in line with best practice
- Reviewing and considering reports, including triennial actuarial valuation report; annual report; administration and investment performance reports; and the risk register
- Ensuring arrangements are in place for communicating with the Fund's stakeholders and considering admission body applications
- Making appointments for the Fund, including the actuary; independent investment advisor; external fund managers for segregated mandates in advance of the management of the investment assets transitioning to the investment pool; and Additional Voluntary Contribution providers
- Overseeing DPF's involvement in investment pooling

Committee considered, noted or approved, 30 reports in 2022-23.

Copies of public Committee reports can be found on the Derbyshire Democracy website.

Committee meetings are open to the public, albeit there are some reserved matters (e.g. where they contain confidential information) which are discussed in a closed part of meetings, which the public is not allowed to attend.

A record of Committee attendance in 2022-23 Committee year is set out in the table below.

Derbyshire Pension Fund

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Register of Attendance at 2022-23 Pensions and Investment Committee Meetings									
Committee Meeting	**May-22**	**Jun-22**		**Sep-22**	**Oct-22**	**Dec-22**	**Jan-23**	**Mar-23**	
Training Meeting			**Jul-22**				**Jan-23**		
Derbyshire County Council									**Attendance**
Cllr Ron Ashton (C)	✓	✓	✓	✓	✓	✓	✓	✓	100.0%
Cllr Neil Atkin (C)	✓	✓	✓	✗	✓	✓	✓	✓	87.5%
Cllr Peter Smith (C) - **Vice Chair**	✓	✓	✓	✓	✓	✓	✓	✗	87.5%
Cllr Gary Musson (C)	✗	✓	✓	✓	✓	S_{Cllr}	✓	✓	75.0%
Cllr Mark Foster (C)	✗	✓	✓	✓	✓	✗	✓	✓	75.0%
Cllr Mick Yates (L)	✓	✓	✓	✓	✓	✗	✓	✗	75.0%
Cllr Barry Bingham (LD)	✓	✓	✓	✓	✓	✓	✗	✓	87.5%
Cllr David Wilson – (C) - **Chair**	✓	✓	✓	✓	✓	✓	✓	✓	100.0%
Substitute Members						✓			
Derby City Council									**Attendance**
Cllr Lucy Care (LD)	✗	✓	✓	✓	✓	✓	✓	✓	87.5%
Cllr Mike Carr (LD)	✓	✓	✓	✓	✗	✗	✓	✓	75.0%
Derbyshire Pension Board Representative									**Attendance**
Derbyshire Pension Board Member	✓	✓	✓	✓	✓	✓	✓	✗	87.5%
									Attendance
Trade Union Rep	✓	✓	✓	✓	✓	✓	✗	✗	75.0%
									Attendance
Head of Pension Fund	✓	✓	✓	✓	✓	✓	✓	✓	100.0%
Investments Manager	✓	✓	✓	S_{AFM}	**NR**	✓	✓	✓	85.7%
Regulations and Communications Officer	✓	✓	**NR**	**NR**	✓	✓	✓	✓	100.0%
Substitute Officers				✓					
Fund Adviser									**Attendance**
Anthony Fletcher	**NR**	✓	**NR**	✓	**NR**	✓	✓	✓	100.0%

DCC: *Derbyshire County Council*
C: *Conservative* ***L:*** *Labour* ***LD:*** *Liberal Democrat*
(S_{Cllr}**):** *Represented by Substitute (Councillor)*
(S_{AFM}**):** *Represented by Substitute (Assistant Fund Manager)*
NR: *Not required to attend*

Pensions and Investments Committee Training
The Fund's Training Policy was adopted in August 2017 and applies to all members of the Pensions & Investments Committee, Derbyshire Pension Board and senior officers involved in the management and administration of the Fund.

In relation to training for those involved in the governance and the day-to-day management and administration of the Fund, the objectives are to ensure that:

- Those persons charged with the financial management and decision making with regard to the Fund are fully equipped with the knowledge and skills required to discharge the duties and responsibilities allocated to them
- Those persons responsible for the day-to-day administration and running of the Fund have the appropriate level of knowledge and skills required to discharge their duties and responsibilities
- Those persons responsible for providing governance and assurance of the Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, to ensure their decisions are robust and soundly based
- Members of Derbyshire Pension Board have sufficient knowledge and understanding to challenge any failure to comply with the Regulations and other legislation relating to the governance and administration of Derbyshire Pension Fund and/or any failure to meet the standards and expectations set out in the Regulator's Codes of Practice

To assist in achieving these objectives, the Fund aims to comply with:

- CIPFA Pensions Finance Knowledge and Skills Frameworks
- Knowledge and skills requirements of the Public Service Pensions Act 2013
- The Pensions Regulator's Code of Practice No. 14, Governance and Administration of Public Service Pension Schemes 2015

CIPFA responded to the implementation of Local Pension Boards by issuing an expanded Knowledge and Skills Framework which identified a requirement for knowledge of eight core technical areas for those involved in the governance of public sector pension funds:

- Pensions legislation
- Public sector pensions governance
- Pensions administration
- Pensions accounting and auditing standards
- Financial services procurement and relationship management Investment performance and risk management
- Financial markets and product knowledge
- Actuarial methods, standards and practices.

Members of the Committee and Derbyshire Pension Board complete self-evaluation forms on an annual basis assessing their knowledge of the eight core areas and also their knowledge about individual investment asset classes. The last self-evaluation exercise was completed in Q4-22. A Training Plan is then developed based on the results of these assessments and is supplemented, where appropriate, to cover matters arising in the course of managing the Fund (e.g. additional training in advance of the consideration of new asset classes).

The following training sessions have recently been held for members of the Pensions and Investments Committee:

- **January 2022:** Actuarial Valuations, Pensions Administration, Global Sustainable Equities
- **July 2022:** Direct Property, Financial Management and Budgetary Control, Pensions Administration: i-Connect and Member Self Service
- **December 2022:** Actuarial Valuations

- **January 2023:** Climate Stewardship (Climate Risk Report and TCFD Report), Contracts and Procurement

All new members of either Committee or Derbyshire Pension Board also receive standalone induction training.

Although it falls outside of the 2022-23 reporting period, training sessions were also held for Committee members in 2020-21 on the Fund's revised Investment Strategy and Strategic Asset Allocation Benchmark, Responsible Investment Framework and the introduction of a new Climate Strategy. These strategies are scheduled to be reviewed in 2023-24 and further training sessions will be arranged for Committee members as part of the review process.

Derbyshire Pension Board

The Public Service Pensions Act 2013 introduced a framework for regulatory oversight by the Pensions Regulator and introduced a new governance structure for the LGPS which came into effect in April 2015 and included the requirement for administering authorities to establish Local Pension Boards. Derbyshire Pension Board consists of two Scheme Member representatives and two Scheme Employer representatives together with a non-voting Independent Chair.

Officers of the County Council attend Derbyshire Pension Board meetings to provide advice and support to members of the Derbyshire Pension Board. The role of Derbyshire Pension Board is to assist the administering authority to ensure the effective and efficient governance and administration of the LGPS, including:

- Securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme
- Securing compliance with any requirements imposed by the Pensions Regulator in relation to the Scheme

Members of Derbyshire Pension Board are invited to attend Committee meetings as observers and receive all papers ahead of each meeting. The members of the Derbyshire Pension Board are also invited to attend the Pensions and Investments Committee training sessions noted earlier.

Independent Investment Advisor

In line with best practice, the Fund has an independent investment advisor, Anthony Fletcher of MJ Hudson Allenbridge, to provide advice to the Pensions & Investments Committee on an ongoing basis, including attending Committee meetings to provide an update on investment markets, investment strategy and provide quarterly tactical asset allocations recommendations.

The appointment of the Fund's independent investment advisor is subject to an open and transparent public procurement process and was last completed in 2022.

The Fund's external investment advisor has a broad range of experience across investments, economics and markets, in addition to possessing ESG related knowledge and skills, to ensure that ESG advice, including advice on climate change, is provided in the context of the broader range of risk and reward considerations.

Key Governance Documents

DPF's key investment related governance documents comprise: Investment Strategy Statement; Funding Strategy Statement; Responsible Investment Framework; Climate Strategy; Taskforce for Climate Related Financial Disclosures Report; Annual Report; Pension Fund Service Plan; Investment Procedures Manual; Governance Policy & Compliance Statement; Treasury Management Strategy; and Conflicts of Interest Policy.

LGPS Central Pool

Derbyshire County Council as the administering authority for Derbyshire Pension Fund, has partnered with the administering authorities for the LGPS pension funds of Cheshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands & Worcestershire (also referred to as Partner Funds) to form a collective investment pool, known as the LGPS Central Pool (the Pool), in accordance with Government guidance on the pooling of LGPS investment assets.

Each of the eight administering authorities is a one-eighth shareholder in LGPS Central Limited (LGPSC), the FCA authorised and regulated operating company set up by the eight shareholders, to manage pooled investment products on behalf of the eight LGPS pension funds.

The governance arrangements of the LGPS Central Pool include the following bodies:

The Joint Committee is a public forum for the Administering Authorities within the LGPS Central Pool to provide oversight of the delivery of the objectives of the Pool, the delivery of client service, the delivery against the Pool's business case and to deal with common investor issues. The Joint Committee provides assistance, guidance and recommendations to the individual administering authorities, taking into consideration the conflicting demands and interests of the participants within the Pool. The Joint Committee does not have delegated authority to make binding decisions on behalf of the administering authorities. Membership of the Joint Committee consists of one elected member from each of the administering authorities. The Chair of the Fund's Pensions & Investments Committee, or their nominee, represents Derbyshire County Council on the LGPS Central Pool Joint Committee

The Shareholders' Forum (SF) oversees the operation and performance of LGPSC and represents the ownership rights and interests of the eight shareholders within the LGPS Central Pool. Collective shareholder discussions take place in the Shareholders' Forum and aim to ensure that the shareholders act in a unified way in LGPSC company meetings, having agreed to a common set of principles.

Membership of the Shareholders' Forum consists of one representative from each shareholder. The Director of Finance & ICT or his/her nominee represents Derbyshire County Council at the Shareholders' Forum and at LGPSC company meetings, with delegated authority to make decisions on any matter which requires a decision by the shareholders of LGPSC.

The Practitioners' Advisory Forum (PAF) is a working group of officers appointed by the administering authorities within the LGPS Central Pool to support the delivery of the objectives of the Pool and to provide support for the Joint Committee and Shareholders' Forum. The Director of Finance and ICT, the Head of Pension Fund, the Investments Manager and the Assistant Fund Manager actively represent Derbyshire County Council on the Practitioners' Advisory Forum as required. PAF is supported by four sub-working groups: Finance Working Group, Governance Working

Group, Investment Working Group, and Responsible Investment Working Group. The Investment Working Group and Responsible Investment Working Group are discussed in more detail under **Principle 8**.

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

3.1 Conflicts of Interest Policy

The Fund's Conflicts of Interest Policy (CIP) sets out the process for identifying, monitoring and managing conflicts of interest in the governance and management of the Fund. The CIP is an aid to good governance, in conjunction with the Fund's other governance documents, encouraging transparency and minimising the risk of any matter prejudicing decision making or the management of the Fund.

The current legislative background largely relates to managing conflicts of interest with respect to members of Local Pension Boards. In the interests of best practice, the Fund's Policy relates to all individuals involved in the management and governance of the Fund, including Committee members, Derbyshire Pension Board members, Fund senior officers, Fund advisors and suppliers.

DPF encourages a culture of openness and transparency and encourages individuals to be vigilant, have a clear understanding of their role and the circumstances in which they may find themselves in a position of conflict of interest, and of how potential conflicts should be managed.

A summary of the policy is included in the table below:

Conflicts of Interest Policy
Purpose and Objectives The aim of the Policy is to provide guidance to members of the Pensions and Investments Committee and the Derbyshire Pension Board, officers, advisers and suppliers on how to manage conflicts when undertaking their roles and in relation to Fund. It is also intended to provide assurance to the Fund's members, employers and wider stakeholders that conflicts are managed appropriately. Along with the County Council's other constitutional documents, including Codes of Conduct for members and for officers, it aims to ensure that individuals involved in the governance and management of the Fund do not act improperly or create a perception that they may have acted improperly. **To whom the Policy applies** The Conflicts of Interest Policy is established for the guidance of: ➢ All members of Derbyshire Pension Board ➢ All members of the Pensions and Investments Committee, including trade union observers and any other representatives ➢ Senior officers involved in the governance and management of the Pension Fund (such as the Director of Finance & ICT and the Head of Pension Fund) ➢ All advisers and suppliers to the Fund, whether providing advice or supplies to the Derbyshire Pension Board, the Committee or Fund officers In addition to the requirements of the Conflicts of Interest Policy, elected members and officers are also required to adhere to the County Council's Code of Conduct and to the Member and Officer Relationships Protocol, which both form part of the County Council's Constitution. Reference to advisers includes all advisers, suppliers and other parties providing advice and services to the Fund, including but not limited to the asset pool operator, dispute adjudicators, actuaries, investment consultants, independent advisers, benefits consultants, third party administrators, fund managers, lawyers, custodians and AVC providers.

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3.2 Operational Procedures for Managing Conflicts of Interest

The Fund takes a three-stage approach to managing conflicts:

Identifying a conflict of interest

- All individuals to whom the CIP applies are provided with a copy of the CIP upon appointment to their role
- It is the responsibility of the individual to identify if a conflict exists and to seek advice from the Head of Pension Fund or County Council's Monitoring Officer, if required
- Members of the Pensions & Investments Committee, members of Derbyshire Pension Board and senior officers involved in the governance and management of the Fund will be required to complete a Declaration Form, on their appointment to their role
- It is the responsibility of members of the Committee, the Derbyshire Board, and relevant senior officers to keep their declarations of interest up to date
- In advance of any formal meeting, any individual who considers they may have a conflict of interest related to an item of business on the agenda should advise the Chair of the meeting and the Head of Pension Fund as soon as possible
- At the start of any meetings of the Pensions & Investments Committee meetings, Derbyshire Pension Board, or any other formal Pension Fund meetings, the Chair will ask all individuals present who are covered by this Policy to declare any interests

Managing a conflict of interest

- Where an actual conflict of interest on an agenda item is identified, an individual will be expected to exclude themselves from participating in the discussion and from voting on the relevant matter
- Where a potential conflict of interest on an agenda item is identified, advice will be sought from the Monitoring Officer, who will provide guidance regarding the individual's participation in the relevant discussion and vote based on all the available information
- If an actual or potential conflict of interest is identified outside of a meeting, the Head of Pensions will consult with the Monitoring Officer to consider any necessary action

Monitoring a conflict of interest

- All interests declared in meetings of the Committee, the Derbyshire Pension Board and any other formal Pension Fund meetings, will be recorded in the minutes of the meeting and noted in the Pension Fund's Register of Interests
- All actual or potential conflicts of interest identified outside of meetings will also be recorded in the Fund's Register of Interests
- The Register will be kept under review by the Head of Pension Fund and the Monitoring Officer. All relevant individuals will be required to confirm in writing to the Head of Pension Fund that the information held in respect to them is correct
- The Fund's Register of Conflicts of Interest may be viewed by any interested party

On 31 December 2022, the Fund's Conflict of Interests Register contained fifteen notifications, principally in respect of connections with Scheme Employers. Each of the notifications has been reviewed and assessed by the Head of the Pension Fund, together with a member of the County Councils in-house legal team under delegation from the County Council's Monitoring Officer. If required, the notification is also escalated to the County Councils Monitoring Officer.

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

4.1 Our Approach to Risk

DPF recognises the importance of effective risk management, including the identification and management of key risks. Risk management is a process by which the Fund identifies, assesses and seeks, to the extent possible, to mitigate the risks associated with its activities.

Effective risk management is a clear indicator of good governance. The Fund's Risk Register is the primary document for identifying, assessing and monitoring risks. The Fund's Risk Register is reviewed by the Director of Finance & ICT, the Pensions & Investments Committee and Derbyshire Pension Board on a regular basis and identifies the nature of the risk, the probability of the risk occurring, the potential impact, a current risk score, risk mitigation controls and procedures, a target risk score and a risk owner.

An example of one of the Fund's current high-risk items, together with planned mitigation, is set out in the table below:

Key Risk	Comments and Mitigation
Funding and fluctuation in assets and liabilities	➢ There is a risk that assets may be insufficient to meet liabilities; funding levels fluctuate from one valuation to the next, principally reflecting external risks around both market returns, and the discount rate used to value the Fund's liabilities ➢ Every three years, the Fund undertakes an actuarial valuation to determine the expected cost of providing the benefits built up by members at the valuation date in today's terms (the liabilities) compared to the funds held by the Pension Fund (the assets), and to determine employer contribution rates ➢ As part of the valuation exercise, the Fund's FSS is reviewed, to ensure that an appropriate funding strategy is in place. The FSS sets out the funding policies adopted, the actuarial assumptions used, and the time horizons considered for each category of employer ➢ DPF's 2020 FSS was approved by Committee in March 2020. An updated 2023 FSS is expected to be approved by the Committee in March 2023, following the completion of a consultation with Scheme Employers. ➢ DPF was 97% funded on 31 March 2019. Using a risk-based approach to determine the appropriate investment return assumption for reporting the whole Fund results, there was an improvement in the funding level of the Pension Fund to 100% at March 2022, with a reduction in the deficit from £163m to a surplus of £3m. This compares to a funding level of 87% in 2016 and a deficit of £564m. ➢ The funding level provides a high-level snapshot of the funding position at a particular date and could be very different the following day on a sharp move in investment markets ➢ Whilst DPF has a significant proportion of its assets in growth assets, the last two reviews of the Strategic Asset Allocation Benchmark have introduced a lower exposure to growth assets and a higher exposure to income assets with the aim of protecting the improvement in the Fund's funding position

Investment Risk

The Committee aims to balance risk and reward by apportioning the Fund's assets over a range of asset classes to achieve the Fund's goals, to manage risk and to match the investment horizons. The Fund's Strategic Asset Allocation Benchmark (SAAB) takes into account the required level of return and an appropriate balance between generating long term investment returns and exposure to investment risk. The SAAB includes a wide variety of asset classes, in order to diversify sources of risk and return. It takes into account the future expected returns from the different asset classes, the historic levels of volatility of each asset class and the level of correlation between the asset classes.

The Fund's asset classes are allocated into three broad categories, which are set out in more detail in the table below.

Asset Class	Comprise	Asset Class Characteristics
Growth Assets	➢ Quoted Equities ➢ Private Equity	o **Publicly Quoted Equities** are classed as growth assets with the potential to provide returns in excess of inflation from growth in both capital values and income o As equity returns are linked to company revenues and profits, investing in equities increases exposure to volatility. Investors expect to be compensated for that volatility by higher returns o **Private Equity** investment refers to investment in unquoted, privately owned companies o Investors expect to receive an illiquidity premium for investing in this asset class and target returns above those expected from publicly quoted equities
Income Assets	➢ Infrastructure ➢ Multi-Asset Credit ➢ Property	o Income Assets are designed to deliver an excess return, but with more stable return patterns than Growth Assets because income represents a large proportion of the total return of these assets o **Infrastructure** offers access to long term predictable cash flows, which are often linked to inflation o A low correlation to the business cycle and the other major asset classes provides diversification benefits and long investment horizons o **Multi-Asset Credit** typically relates to sub-investment grade corporate bonds and includes private debt, high yield debt and asset-backed securities o Multi-Asset Credit offers a predictable income stream and a yield pick-up relative to sovereign bonds and investment grade corporate bonds reflecting the increased risk of default o **Property** returns come from rental income and change in market values, with rental income accounting for the largest proportion of total returns over the long term o Given the relative stability of rental income, which gives property bond like characteristics, the returns from property are generally expected to fall between the returns from equities and those from bonds
Protection Assets	➢ Government Bonds ➢ Index-Linked Bonds ➢ Non-Government Bonds ➢ Cash	o **Bonds** (sovereign and corporate) offer predictable streams of income and predictable returns if held to maturity. They are held as stabilising assets to reduce volatility and to provide diversification o As pension funds mature, they can be used to provide liquidity and to match liabilities as they fall due o **Cash** is primarily held by the Fund to fulfil its daily liquidity and operational requirements o Depending on market conditions, cash can also act as a Protection Asset in falling markets

The asset allocation of the Fund is reviewed on a quarterly basis, and tactical positions around the SAAB are agreed by Committee following advice from the Fund's in-house investment managers and the Fund's Independent Adviser, Anthony Fletcher, of MJ Hudson Allenbridge. The Fund's SAAB was formulated in consultation with the Independent Adviser following the completion of the 2019 triannual valuation conducted by Hymans Robertson, the Fund's actuary, and was approved by Committee in November 2020, after a consultation with Pension Fund stakeholders.

To implement the SAAB, it required several significant asset class transitions relative to the previous SAAB, increasing the Fund's exposure to transition risk. To manage the transition risk, the implementation of the SAAB was split into two parts, an Intermediate SAAB, which came into effect on 1 January 2021, and a Final SAAB, which came into effect on 1 January 2022. The Intermediate SAAB was effectively set half-way towards the Final SAAB. For example, in the Final SAAB, the Fund would completely divest from its regional North America, European and Asia-Pacific Equity holdings, taking the exposure to 0%. The Intermediate SAAB reduced the Fund's neutral weight to those regions by 50% relative to the previous SAAB.

The Fund's Intermediate and Final SAAB's are set out in the table below. The arrows indicate the direction of change from the previous SAAB.

SAAB	Previous SAAB	Intermediate SAAB	Final SAAB
Growth Assets	**57.0%**	**56.0% ↓**	**55.0% ↓**
Global Sustainable Equities	3.0%	16.0% ↑	29.0% ↑
UK Equities	16.0%	14.0% ↓	12.0% ↓
Japanese Equities	5.0%	5.0%	5.0%
Emerging Market Equities	5.0%	5.0%	5.0%
North American Equities	12.0%	6.0% ↓	0.0% ↓
European Equities	8.0%	4.0% ↓	0.0% ↓
Asia-Pacific Ex-Japan Equities	4.0%	2.0% ↓	0.0% ↓
Private Equity	4.0%	4.0%	4.0%
Income Assets	**23.0%**	**24.0% ↑**	**25.0% ↑**
Infrastructure	8.0%	9.0% ↑	10.0% ↑
Property	9.0%	9.0%	9.0%
Multi-Asset Credit	6.0%	6.0%	6.0%
Protection Assets	**20.0%**	**20.0%**	**20.0%**
Government Bonds	6.0%	6.0%	6.0%
Index Linked Bonds	6.0%	6.0%	6.0%
Non-Government Bonds	6.0%	6.0%	6.0%
Cash	2.0%	2.0%	2.0%

4.2 The Principal Risks Faced by the Fund

The overall risk for the Fund is that its assets will be insufficient to meet its liabilities. The FSS, which is developed as part of the triennial actuarial valuation of the Fund, sets out how any deficit in assets compared with liabilities is to be addressed.

Underlying the overall risk, DPF is exposed to demographic risks, regulatory risks, governance risks and financial risks (including investment risk). The measures taken by the Fund to control these risks are reviewed quarterly by the Committee through the Fund's Risk Register.

The primary investment risk is that the Fund fails to deliver the returns anticipated in the actuarial valuation over the long term. The assumed long-term investment return included in the actuarial valuation is a prudent estimate of expected future returns, reducing the risk of the Fund's investment assets underperforming expectations.

It is important to note that the Fund is exposed to external, market driven, fluctuations in asset prices which affect the liabilities (liabilities are partially estimated with reference to future expected investment returns) as well as the valuation of the Fund's assets. Measures taken to control/mitigate investment risks are set out in detail in the table below:

Risk Category	Risk Description
Concentration Risk	➢ The Fund manages the risk of exposure to a single asset class by holding different categories of investments (e.g. equities, bonds, property, alternatives and cash) and by holding a diversified equity portfolio, spread by both geography and market sectors ➢ Each asset class is managed within an agreed permitted range to ensure that the Fund does not deviate too far away from the SAAB, which has been designed to meet the required level of return with an appropriate level of exposure to risk, taking into consideration the level of correlation between the asset classes
Volatility Risk	➢ The SAAB contains a high proportion of equities with a commensurate high degree of volatility ➢ The strong covenant of the major employing bodies enables Committee to take a long-term perspective and to access the forecast inflation plus returns from equities
Performance Risk	➢ The Fund uses a mix of active and passive management ➢ Active investment managers are expected to outperform the individual asset class benchmarks detailed in the overall SAAB ➢ Manager performance is monitored on an on-going basis by the Fund's Inhouse Investment Management Team (IIMT) ➢ The Fund's performance is measured by an independent provider and reported to the Committee on a quarterly basis ➢ Committee takes a long-term approach to the evaluation of investment performance but will take steps to address persistent underperformance
Currency Risk	➢ The Fund's liabilities are denominated in sterling which means that investing in overseas assets exposes the Fund to a degree of currency risk ➢ Committee regards the currency exposure associated with investing in overseas equities as part of the return on the overseas equities; the currency exposure in respect of the Fund's Income Assets and Protection Assets is hedged back to sterling
Stock Lending Risk	➢ The Fund does not currently participate in any standalone stock-lending arrangements ➢ As part of the LGPS Central Pool, the funds managed by LGPSC participate in stock-lending arrangements. LGPSC is responsible for ensuring that appropriate controls are place to protect the security of the Fund's assets
Custody Risk	➢ The risk of losing economic rights to the Fund's assets is managed by the use of a global custodian for custody of the assets, regular scrutiny of the Fund's providers, and the maintenance of independent investment accounting records

Climate Risk

The Fund recognises that financial markets will be impacted by climate change and by the response of policy makers. Risks and opportunities related to climate change are likely to be experienced across all asset classes and consequently the whole of the Fund's portfolio. Climate change therefore represents a long-term financial material risk for the Fund. It has the potential to affect the funding level through impacts on employer covenant, asset pricing, and longer-term inflation, interest rates and life expectancy.

The current understanding of the potential long-term risks posed by climate change, together with the development of climate- related measurements and disclosures, are still at an early stage, and there is considerable variability in the quality and comparability of carbon emission estimates. It is recognised that it will take time for companies to adapt to the changing regulatory and market positions.

Reflecting the potential material effect of climate change, and the policy responses to climate change, on the assets and liabilities of the Fund, the Fund has developed and published a Climate Strategy. The Climate Strategy sets out the Fund's approach to addressing the risks and opportunities related to climate change. The Climate Strategy works in tandem with the Fund's Responsible Investment Framework, Investment Strategy Statement and Funding Strategy Statement.

To support the Fund in addressing the risks and opportunities surrounding climate change, the Fund has commissioned LGPSC to produce an annual Climate Risk Report. The first report was presented to Committee in early 2020, followed by a second report in December 2021 and a third report in January 2023. The Fund also complies with disclosure requirements of the Task Force on Climate-Related Financial Disclosures (TCFD). The Fund's third TCFD report was presented to Committee in January 2023 and is has been uploaded to the Fund's website.

Climate-Related Objectives

- DPF supports the ambitions of the Paris Agreement and aims to achieve a portfolio of assets with net zero carbon emissions by 2050. This will be achieved through its selection of investments and investment managers
- DPF aims to have access to the best possible information available on the risk and opportunities presented by climate change
- DPF aims to ensure that its investment portfolio will be as resilient as possible to climate related risks over the short, medium and long term. For an effective first line of defence, the Fund aims to integrate climate-related factors into the investment process, including the selection of investment managers

Climate-Related Strategic Actions: Measurement and Observation

The Fund makes regular measurements and observations on climate-related risks and opportunities relevant to the Fund, including:

- The identification of material climate-related risks
- An investment return assessment of the Fund's asset allocation against plausible climate-related scenarios
- A suite of carbon metrics to allow the Fund to assess progress in responding to climate-related risks and opportunities, including carbon intensity, weight in companies with fossil fuel reserves, weight in companies with thermal coal reserves, percentage of investee companies with a net-zero target and weight in companies with clean technology
- Assessment of progression against the Fund's carbon footprint and low carbon & sustainable investment targets

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Climate-Related Strategic Actions: Asset Allocation and Targets

The Fund believes that portfolio-wide 'top down' targets are an important means to set direction and appropriate ambition for an investment strategy towards net zero, and to monitor whether that strategy is achieving expected outcomes. However, a focus on just a single top-down portfolio emissions reduction target can incentivise a shift of assets within a portfolio from high to already lower carbon assets and sectors, rather than driving additional 'real world' emissions reductions from increasing investments in climate solutions that contribute to the achievement of the net zero goal. The Climate Strategy includes the following aims:

- reduce the carbon footprint (Scope 1 & 2) of the Fund's listed equity portfolio by at least 30% relative to the weighted benchmark in 2020 by the end of 2025; and
- invest at least 30% of the Fund portfolio in low carbon & sustainable investments by the end of 2025.

Outcome Reporting: Progress against the Fund's Climate Targets on 31 March 2022

- The Fund's Total Equities Carbon Footprint was 102.2 (tCO_2e/\$m revenue) on 31 March 2022, 44.1% lower than the 2020 weighted benchmark of 182.8 (tCO_2e/\$m revenue), and 14.1 percentage points higher reduction than set out in the 2025 Climate Strategy Target

- 27% of the Fund's total assets were also invested in low carbon and sustainable investments (29% on a committed basis), representing an 8.0 percentage point improvement from 31 March 2021 reporting date. The Fund expects to achieve the 2025 Climate Strategy Target of 30% in 2023-24

- 7.3% of the Total Equity portfolio was invested in fossil fuel companies on 31 March 2022, 3.0 percentage points lower than 2020 weighted benchmark and 1.0 percentage points lower than the benchmark on 31 March 2022

- DPF had close to £300m invested into renewable energy assets on 31 March 2002, including onshore & offshore wind, solar, hydro and associated supporting assets (e.g. battery storage and transition assets)

4.3 Participation in Industry initiatives

Organisation/Initiative Name	About the Organisation / Initiative
Local Authority Pension Fund Forum	➢ The Fund was a founding member of the Local Authority Pension Fund Forum (LAPFF) ➢ LAPFF conducts engagements with companies on behalf of over 80 local authority pension funds, with combined assets under management of £350 billion ➢ Officers of the Fund, together with the Chair of the Pensions & Investments Committee, regularly attend the quarterly LAPFF business meetings, where LAPFF's on-going engagement work is discussed ➢ LAPFF engaged with multiple companies in 2022, through meetings across a spectrum of material ESG issues, including climate change, human-rights and fair tax practices
IIGCC The Institutional Investors Group on Climate Change	➢ The Fund became a member of the Institutional Investors Group on Climate Change (IIGCC) in January 2023 ➢ The IIGCC is an influential asset owner and asset manager group, which has a mission to support and enable the investment community to drive significant and real progress by 2030 towards a net zero and resilient future
Local Government Pension Scheme: Governance and Reporting of Climate Change Risks Consultation	➢ The Department for Levelling Up, Housing and Communities (DLUHC) opened a consultation to seek views on policy proposals to require administering authorities of the Local Government Pension Scheme to have effective governance, strategy, risk management and accompanying metrics and targets for the assessment and management of climate risks and opportunities ➢ It also invited responses on proposals to disclose these in line with the recommendations of the international industry-led Taskforce on Climate-related Financial Disclosures ➢ The Fund's officers prepared a detailed response to each of the twelve consultation questions. The consultation response was approved by the Director of Finance and ICT and the Chair of the Pensions & Investments Committee ➢ An example of the Fund's response to question 3, in relation to the suggested requirements for scenario analysis, is included at Appendix 1

Climate Action 100+	➢ On behalf of the LGPS Central Pool, LGPSC is a member of Climate Action 100+ (CA100+), an engagement collaboration of more than 700 investors with a combined $68 trillion assets under management ➢ CA100+ engages with companies on climate risk that are responsible for 80% of global industrial GHG emissions ➢ LGPSC Head of Stewardship is a member of the CA100+ Mining and Metals Sector Group
LGPS Central Limited	➢ The Fund is a one-eighth owner of LGPSC, which has identified four stewardship themes that are the primary focus of engagement (climate change, plastics pollution, fair tax payment and tax transparency, and human rights ➢ These themes are viewed as likely to be material to the Partner Funds' investment objectives and time horizons, likely to have broader market impact, and to be of relevance to stakeholders ➢ LGPSC was directly involved in multiple engagements across these themes in 2022 ➢ In 2022, LGPSC voted on 41,747 resolutions at 3,410 meetings. At 2,200 of those meetings, LGPSC voted against management's recommendation or abstained from voting on at least one resolution. LGPSC voted with management by exception at 159 meetings and supported management on all resolutions at 1,051 meetings
Federated Hermes	➢ EOS at Federated Hermes is contracted by LGPSC to expand the scope of its engagement programme, especially to reach non-UK companies ➢ In 2022, EOS at Federated Hermes engaged with 833 companies on 3,477 environmental, social, governance, strategy, risk and communication issues and objectives. EOS attended 13 shareholder meetings and asked questions at eight of these, including BP, Volkswagen, BMW, Royal Bank of Canada, Bank of Nova Scotia, Siemens Energy and Canadian Imperial Bank of Commerce. At Berkshire Hathaway, EOS made a statement and co-filed a shareholder resolution ➢ EOS takes a holistic approach to engagement and typically engages with companies on more than one topic simultaneously
ISS	➢ The Fund's specialist third party voting service provider. ISS research includes recommendations on casting votes on climate-related shareholder resolutions
Cross-Pool Responsible Investment Group within LGPS	➢ Collaboration group across the LGPS Pools ➢ Includes individual funds and pool operators ➢ LGPSC Head of Stewardship was Chair of the group in 2022, after working as Vice Chair in 2021

Purpose and Governance: Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities

5.1 Review and Assurance Processes

The Fund's policies, strategies, statements and governance arrangements are available to view on the Fund's website at www.derbyshirepensionfund.gov.uk.

All policies, strategies and statements have a formal review date of at least every three years, though in practice they are kept under regular review to reflect wider market and regulatory developments and to ensure the Fund's policies remain fit for purpose.

Sources of assurance for the Fund are described in more detail in the table below.

Sources of Assurance	Remit/Description
Internal Review Process	➢ All of the Fund's strategy and policy statements relating to investment, stewardship and responsible investment are subject to a rigorous internal review process that involves the IIMT, Head of Pension Fund, Director of Finance & ICT and an Assistant Director of the Legal services team. Internal challenge is a key step in the assurance process before strategies are presented to Committee for approval. Strategy documents relating to investment, stewardship and responsible investment are formally reviewed every 3 years, or as required reflecting changes to regulations and guidance, best practice, and wider developments in investment markets and responsible investing policy
Formal Consultations with Members and Scheme Employers	➢ The Fund seeks input and feedback from pension fund stakeholders when changes are made to key existing strategies and policies, or new strategies or policies are being developed. Views of stakeholders are carefully considered and where necessary and relevant, changes are made to the strategy or policy before being presented to Pensions & Investment Committee for approval ➢ Recent consultation examples include: a consultation with scheme employers on draft updates to the Fund's Funding Strategy Statement; a consultation with scheme employers on a revised version of the Fund's Pension Administration Strategy; and a consultation with Fund stakeholders, which includes scheme employers and scheme members, on the Fund's updated Investment Strategy Statement, and the creation of a standalone Responsible Investment Framework and Climate Strategy ➢ The consultation examples above are described in more detail in **Principle 6**

Independent Advisor	➢ The Fund's ISS, SAAB, RI Framework and Climate Strategy were developed with support from the Fund's independent advisor ➢ The Fund's independent advisor brings specialist knowledge, technical skills and expertise in markets, investment products, economics and responsible investment ➢ The Fund's independent advisor attends Committee on a quarterly basis to present a market update and quarterly tactical asset allocation recommendations, together with responding to questions from Committee members
Pensions and Investment Committee	➢ Committee is responsible for the management and administration of the Fund on behalf of Derbyshire County Council as the administering authority for the Derbyshire Pension Fund ➢ There are at least six formal Committee meetings a year where the Fund's Officers present an update on a number of matters, including: investment performance; administration performance; stewardship activities, including stewardship reports from LGPSC and LGIM and engagement reports from LAPFF; governance arrangements; and new or updated policies and strategies ➢ Committee is responsible for either noting or approving the Fund's: Investment Strategy Statement; Responsible Investment Framework; Climate Strategy; TCFD Report; Funding Strategy Statement; Treasury Management Strategy; Quarterly Tactical Asset Allocation; Communications Policy; Pensions Administration Strategy; Governance Policy & Compliance Statement; and Annual Report
Derbyshire Pension Board	➢ The role of Derbyshire Pension Board is to assist the administering authority to ensure the effective and efficient governance and administration of the LGPS in Derbyshire, including securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the scheme; and securing compliance with any requirements imposed by the Pensions Regulator in relation to the scheme ➢ Derbyshire Pension Board plays a leading role in providing assurance that the Fund is undertaking its governance responsibilities ➢ Members of Derbyshire Pension Board are invited to attend Committee meetings as observers and receive all Committee papers
Climate Risk Report	➢ LGPSC has produced an annual Climate Risk Report (CRR) for the Fund since 2020. The first report was received in February 2020, followed by a second report in November 2021 and a third report in January 2023 ➢ Through a combination of bottom-up and top-down analysis, the CRR is designed to allow the Fund to form a view on climate risk running through the entire asset portfolio, to assess the financially material risks and opportunities the Fund may be exposed to and to identify a series of measures by which the Fund can continue to manage material climate risks ➢ The report is complementary to the climate-related work being carried out by the Fund and as a source of assurance on the progress the Fund is making against its climate targets
External Audit	➢ The Fund's Annual Report and Financial Statements are externally audited by Mazars

Internal Audit	➢ The role of the County Council's internal audit function is to provide independent, objective assurance to enhance and protect organisational value by evaluating and improving the effectiveness of risk management, control and governance processes ➢ The Fund is routinely audited by the County Council's internal audit team, which provides assurance that overall best practice is being followed in governance matters, including those relating to responsible investment and stewardship activities
LGPSC	**LGPSC Internal Reviews** ➢ Prior to the launch of LGPSC in April 2018, LGPSC's Board approved three RI-related policy documents: LGPSC RI&E Framework; LGPSC RI&E Policy; and LGPSC Voting Principles. Each document is subject to an annual review by the LGPSC Board at the start of every year. Ahead of each annual review, LGPSC consults its Partner Funds to solicit their views. Revisions will then be taken through LGPSC's Investment Committee and Executive Committee for discussion and approval before the LGPSC Board finally assesses and approves them **Externally Assessed Audit and Assurance Faculty (AAF) Technical Standard** ➢ The sections in LGPSC's report and accounts that relate to responsible investment are reviewed by LGPSC's external auditors, Deloitte. Particular attention is paid to voting and engagement activities. The Responsible Investment Team at LGPSC works with its Enterprise Risk Team to maintain a responsible investment risk register. Net risk levels are agreed following the consideration of controls and outstanding actions. **LGPSC Review of EOS at Federated Hermes** ➢ LGPSC conducts an annual review of EOS' stewardship services, which is based on multiple interactions with EOS throughout the year. The results of the review are reviewed by the LGPSC Chief Investment Officer and the LGPSC Investment Committee. EOS has its voting process independently assured on an annual basis (AAF 01/06) **On-going Discussions with Investor Peers** ➢ LGPSC discusses trends and developments in responsible investment with investor peers on a continuous basis, in particular with the other LGPS Pools across England & Wales. LGPSC's Head of Stewardship was Chair of the Cross Pool Responsible Investment Group in 2022, after working as the Vice Chair of the Group in 2021
Actuary	➢ The Actuary carries out a valuation of the Fund every 3 years to review the financial position of the Fund to set employer contribution rates ➢ The actuary estimates the amount of assets that will be required to meet the benefit payments owed to members as they fall due ➢ The actuary makes recommendations to the Fund on the financial demographic assumptions to be used in the actuarial valuation and recommends funding strategies for different categories of employers
LGPSC Partner Fund Collaboration	➢ The Fund works in collaboration with the other seven LGPS pension funds in LGPS Central Pool, including participating in monthly Investment Working Group (IWG) and quarterly Responsible Investment Working Group (RIWG) meetings. These working groups allow for open discussion, information and knowledge sharing, and checks on LGPSC's provision of responsible investment services and the investment performance of the LGPSC funds ➢ The IWG and RIWG meetings are discussed in more detail under **Principle 8**

Investment Approach: Principle 6

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

6.1 Our Membership and Employer Profile

As discussed in **Principle 1**, DPF had 106,860 membership records on 31 December 2022, covering just over 90,000 individual scheme members. The membership base is split approximately one-third each between active, deferred and pensioner members. The Fund is open to new members and in the 12 months to 31 December 2022, membership records increased by 2,134.

The liability weighted average age of the membership base, calculated at the previous actuarial valuation in 2019, is set out in the table below.

Membership Category	Average Age
Active Members	51.7
Deferred Members	50.9
Pensioners and Dependents	68.3
All members	**56.2***

*Source: Fund 2019 Actuarial Valuation. *Implied weighted average by membership numbers*

In the March 2022 Actuarial Valuation (not yet finalised), Hymans Robertson LLP, the Fund's Actuary, used the following life expectancy assumptions for measuring the funding position: male pension 21.3 years, female pensioner 24.3 years.

Employer Profile

DPF had 342 Scheme Employers on 31 December 2022. Most scheme employers, by number, relate to Academies (maintained schools that have converted to Academy status). However, the 10 main councils accounted for over 68% of scheme member records on 31 December 2022. Future scheme employer growth is expected to be driven by schools transitioning from maintained status to Academy status. There are over 300 maintained schools within Derbyshire County Council and Derby City Council which are yet to academise.

Scheme Employers – 31 December 2022	Employers	Share
Main Councils	10	2.9%
Universities & FE Colleges	3	0.9%
Academies	212	62.0%
Maintained Schools	6	1.8%
Housing Associations	5	1.5%
Other Scheduled Bodies	4	1.2%
Admission Bodies	66	19.3%
Town & Parish Councils	36	10.4%
Total Scheme Employers	**342**	**100.0%**

6.2 Investment Time Horizon

The primary objective of the Fund is to ensure that over the long term the Fund will be able to meet all benefit payments as and when they fall due. As the Fund is still open to new employers and members, the timescale over which benefit payments will be made continues to extend well into the future. The long-term nature of the Fund's liabilities allows for a long-term investment horizon. This approach is further supported by the fact that the Fund is net cash flow positive, with member contributions, together with investment income, being in excess of member pension payments. The Fund believes that a long-term approach to investment will deliver better risk-adjusted returns.

However, although the Fund's overall investment time horizon is fundamentally long-term in nature, at an asset class level the Fund's investment time horizon can range from short term (e.g. cash), medium term to long term (e.g. growth assets) and long term to very long term (e.g. infrastructure and property) depending on the characteristics of the asset class.

6.3 Diversification

As shown in Table 1 below, DPF aims to diversify its investments across a mixture of asset classes with low correlations and differing risk characteristics and performance drivers, that are expected to perform at different times during an economic cycle. The IIMT strongly believe that diversification will improve the long term risk/return profile of the Fund, resulting in lower volatility and higher risk-adjusted returns.

Table 2 below shows the Fund's long term correlation expectations for the major asset classes that the Fund invests in. Although the Fund generally expects correlations to be higher within an asset class, as is the case within Equities and within Fixed income, there are additional steps the Fund can take which can help to reduce the level of correlation and improve diversification. For example, within the Growth Assets portfolio the Fund diversifies its holdings by investing across:

- Countries and regions, that will transition through the economic cycle at different rates and durations and be subject to different sector compositions
- Stages of economic development (e.g. Developed Markets vs Emerging Markets)
- Investment Styles (e.g. Growth and Value)
- Investment Factors (e.g. Value, Quality, Low Volatility, Momentum & Size)
- Company size (e.g. Large-Cap, Mid-Cap and Small-Cap)
- ESG and Climate Factors

Table 1 - Investment Horizon by Asset Class

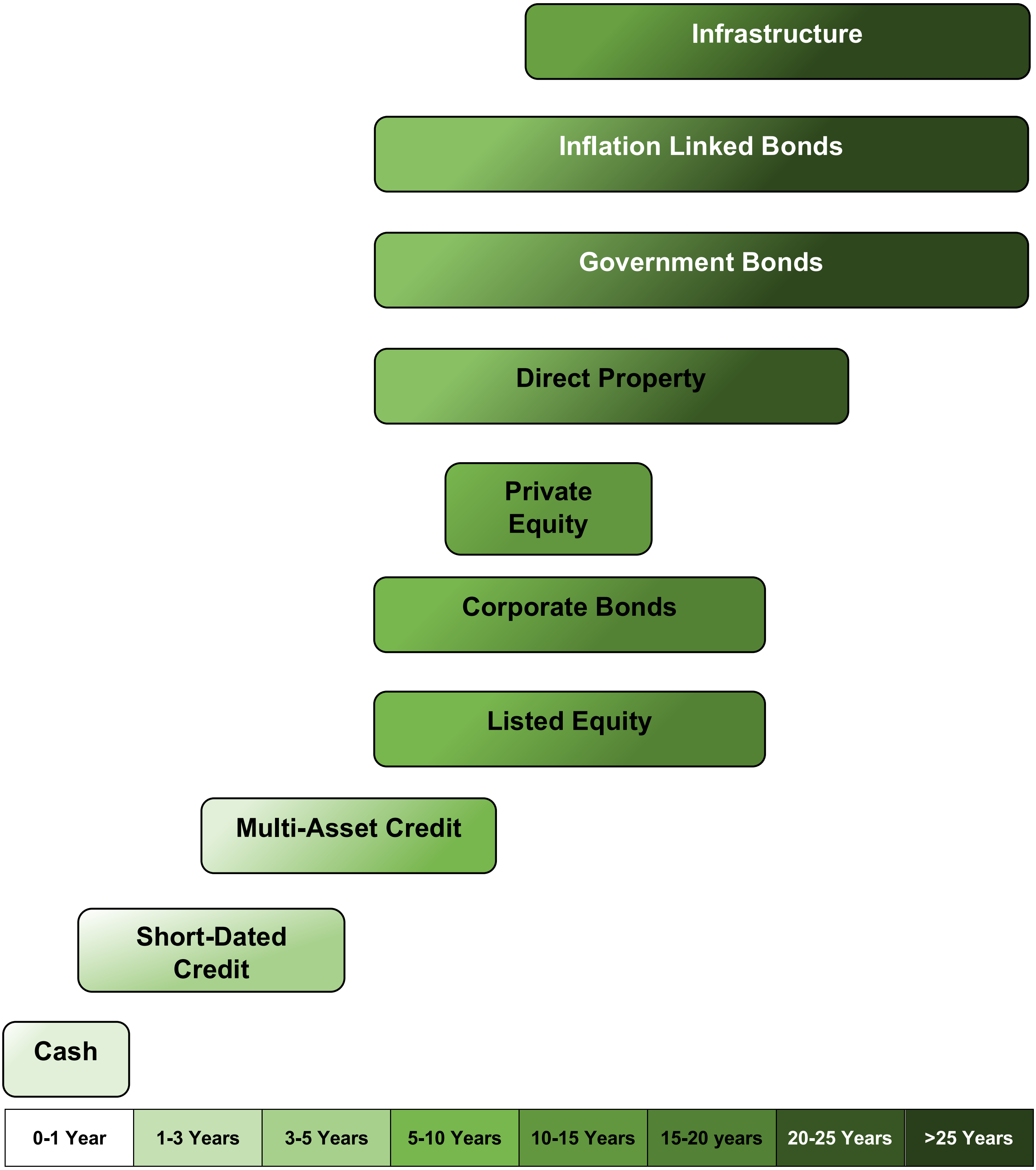


Table 2 - Long Term Asset Class Correlation Expectations Matrix

Long Term Asset Class Correlation Expectations Matrix		Equities			Alternatives (Unquoted)				Fixed Income		
		Global Equity	Global Sustainable Equity	UK Equity	Private Equity	Infrastructure	Property	Private Debt	Government Bonds	Corporate Bonds	Multi-Asset Credit
Equities	Global Equity										
	Global Sustainable Equity	🟣									
	UK Equity	🟣	🟣								
Alternatives (Unquoted)	Private Equity	🟡	🟡	🟡							
	Infrastructure	🟡	🟡	🟡	🟡						
	Property	🟡	🔴	🔴	🟡	🟡					
	Private Debt	🔴	🔴	🔴	🔴	🔴	🔴				
Fixed Income	Government Bonds	🔴	🔴	🔴	🔴	🔴	🔴	🔴			
	Corporate Bonds	🔴	🔴	🔴	🔴	🔴	🔴	🔴	🟣		
	Multi-Asset Credit	🔴	🔴	🔴	🔴	🔴	🔴	🟡	🟣	🟣	

Low to Negative Correlation	Low to Medium Correlation	Medium to High Correlation
🔴	🟡	🟣

6.3 Seeking the Views of Beneficiaries

Communications Policy

The Fund's Communications Policy sets out how the Fund communicates and engages with its stakeholders. The most recent iteration was approved by the Pensions & Investments Committee in April 2021, and the policy also incorporates the Fund's plan for developing its communications over the 3-year period to 2024.

The Fund's stakeholders and audience

The Fund's stakeholders and other organisations with which it regularly communicates include:

- Active, Deferred and Pensioner members
- Representatives of scheme members
- Prospective scheme members (employees who can join the LGPS within Derbyshire, but who are not currently paying in)
- Scheme employers
- The internal Pension Fund team
- Elected Councillors on the Pensions and Investments Committee
- Members of the Local Pension Board
- Other external bodies, including the Department for Levelling Up, Housing and Communities (DLUHC), The Scheme Advisory Board (SAB), The Local Government Association (LGA), The Pensions Regulator (TPR) and other LGPS pension funds

Communications Policy Objectives

The Fund's overriding communications objective is to ensure that it delivers clear, timely and accessible communications to its stakeholders. The Fund aims to achieve this by delivering communications to its stakeholders which are:

- **Targeted** - with the aim of delivering clear, accurate and effective communications to each different audience group, in terms of the style of content and the method of delivery
- **Easy to understand** – providing clear and easy to follow explanations of pension issues, particularly where pension related decisions are being made
- **Accessible** - ensuring that all scheme members and other stakeholders can access the Fund's services, online content, and communications equally

- **Cost effective** – providing value for money by utilising technology to its fullest potential

Communication Methods

Derbyshire Pension Fund Website: The Fund's website (www.derbyshirepensionfund.org.uk) is its primary source of general LGPS information and Fund specific material, with sections providing an extensive information resource for all existing and prospective members and Fund employers. The website has sections dedicated to the Fund's governance arrangements including its policies, strategies and other statements. Other resources also include easy to understand content, videos on specific LGPS matters, forms and guides on a range of topics, links to other official websites and an online pension calculator tool. The website has been designed to be easily browsed, accessible and user friendly from desktop, laptop, tablet and smartphone devices.

Pension & Investments Committee Reports: Copies of all public Committee reports can be found on the Derbyshire Democracy website. Members of the public can also attend the public parts of Committee meetings and are also able to submit questions to Committee in advance of a Committee meeting.

Policy and Strategy Documents: The Fund's policy and strategy documents are published on the Fund's website and printed copies are available on request. News items are posted on the Fund's landing page when new or updated policy/strategy documents are published.

Annual Report: In line with best practice and CIPFA guidance, the Fund prepares an Annual Report which sets out details of the Fund's investment and administration performance, together with a copy of the Fund's financial statements.

Communications to Scheme Members: Each year, the Fund provides Annual Benefit Statements (ABS) to active and deferred members. These statements summarise a member's pension account balance to the previous 31 March.

The Fund also produces an active member newsletter each year in collaboration with a regional Joint Communications Group, which is published on the Fund's website. Active members are directed to the newsletter by a link provided in their annual benefit statement. The content comprises current pension topics within the LGPS and the pensions industry in general, plus important Fund messages.

Face-to-face meetings with active members are arranged when it is appropriate to do so. These are delivered by the Fund's Regulations and Communications Team in the form of 'Understanding your LGPS pension' presentations and drop-in sessions at various venues around the County hosted by scheme employers. The presentations help to explain the significant changes in the LGPS regulations over time, and to assist where an employer is going through a restructuring or outsourcing exercise that will have pension-related implications. Drop-in sessions are targeted to coincide with events, such as the issue of the annual benefit statements. The nature of the drop-in sessions means that members can meet the team informally and ask questions they may have about their pension at a convenient time for them.

The Fund also produces a deferred member newsletter each year, which is also published on the Fund's website. Deferred members are directed to the newsletter by a link provided in their Annual Benefit Statement.

My Pension Online: In 2021, the Fund developed and rolled-out My Pension Online, a member self-service portal where scheme members can access their pension information. The online portal is a secure area allowing members to view and update some of their personal details held by the Fund. Active and deferred members are also able to view their latest, and previous, Annual Benefit Statements. Members continue to have the option to request a paper copy of their Annual Benefit Statement.

Scheme Employer Monthly Newsletters: The Fund sends a monthly Scheme Employer Newsletter to employers and publishes it on the Fund's website.

Pensions Help Desk: The Fund operates a pension helpline which is open weekdays Monday to Friday between 9am and 5pm to deal with scheme member and scheme employer queries.

TCFD Report: The Fund publishes an annual Taskforce for Climate-Related Financial Disclosures Report on its website, which sets out how the Fund is managing climate-related risks and opportunities, together with carbon metrics and progress relative to the Fund's Climate Strategy.

6.4 Stakeholder Consultations

The Fund regularly seeks the views of scheme members, scheme employers and other stakeholders when significant changes are made to its key policies and strategies through consultations.

Two recent consultation examples have been included below, which were originally posted as news updates on the Fund's website. The first relates to a consultation in respect of the Fund's FSS, which opened in December 2022. The second relates to a consultation in respect of the Fund's ISS, RI Framework and CS, which opened in October 2020. Whilst the 2020 ISS, RI Framework and CS consultation falls outside of this application reporting window, it reflects the most recent date at which these strategies were updated, and subject to consultation. These strategies are reviewed on at least a three-year basis and the next review is scheduled to take place in 2023-24 period, at which time a new consultation will be opened. Although not included in the examples, there has also been a recent consultation in respect of the Fund's Pension Administration Strategy, which opened in June 2022.

Funding Strategy Statement – December 2022 Consultation

As part of the March 2022 triennial actuarial valuation the Fund has updated its Funding Strategy Statement. The Funding Strategy Statement (FSS) sets out the guidelines for the valuation exercise including how each employer's LGPS liabilities are measured; the pace at which the liabilities are funded; and how employers, or pools of employers, pay for their own liabilities.

As required by The Local Government Pension Scheme Regulations 2013, the draft revised Funding Strategy Statement is subject to review through consultation with appropriate stakeholders. The consultation papers highlighted the key changes relative to the Fund's previous FSS to help stakeholders. The consultation opened in December 2022 and closed on 31 January 2023.

Consultation Result: The Fund actively encouraged consultation engagement by writing to +330 participating employers via email to make them aware of the consultation. The Fund received 6 responses on behalf of 17 scheme employers. All the responses were reviewed by the Fund and the results of the consultation were reported back to the Pensions & Investments Committee in March 2023. There were no changes to the Funding Strategy Statement resulting from the consultation responses, albeit an additional paragraph was added to the Funding Strategy Statement at the request of the

Fund's actuary in respect of the expected regulations around the LGPS remedy following the McCloud ruling.

In addition to the consultation, the Fund arranged an update presentation via Microsoft Teams for scheme employers in December 2022. On the update, the Fund's actuary, explained the main changes to the Funding Strategy Statement. The update presentation was attended by 70 attendees, representing around 160 scheme employers. The update presentation was also recorded and made available to all Fund stakeholders.

Investment Strategy, Responsible Investment Framework and Climate Strategy Consultation – October 2020 Consultation

Following Committee approval in October 2020, the Fund launched a consultation in respect of the Fund's updated Investment Strategy Statement, together with the Fund's first Responsible Investment Framework and Climate Strategy. Given the potentially sensitive nature of the consultation (e.g. Responsible Investment and Climate Strategy), the Fund sent around 80,000 letters to its scheme members and over 300 emails to scheme employers, to notify them of the consultation and encourage participation.

Consultation Results: The Fund received 49 responses to the consultation, which were presented to Committee in November 2020. Most responses related to the proposed Climate Strategy, principally in respect of the pace of the Fund's initial decarbonisation targets and the Fund's continued investment in fossil fuel companies. As a result of the consultation, Committee agreed to change the review period for the initial decarbonisation targets from five years to three years.

6.5 Freedom of Information Requests and Enquiries from Pension Fund Members and Stakeholders

DPF regularly receives freedom of information (FOI) requests about the Fund and replies to such requests as and when they arise in line with the statutory deadlines. During 2022, the Fund received 30 FOI requests, comprising 23 investment related requests, 5 subject matter requests and 2 multi-departmental requests. These covered matters including ESG topics such as the carbon transition and geopolitical issues, in particular the Fund's exposure to Russian investments following the start of the conflict between the Ukraine and Russia. In response to the Russian investment FOI requests, together with wider scheme member queries, the Fund uploaded a news article to the Fund's website on 9 March 2022, quantifying the Fund's Russian investments, together with the Fund's approach to managing these assets moving forward.

DPF also regularly receives communications and enquiries from scheme members and stakeholders on a range of ESG and stewardship topics, to which the Fund responds to in a timely manner. These enquiries frequently relate to climate change, human rights and responsible investment themes. At the January 2023 Pensions & Investments Committee meeting, three scheme members attended the public section of the Committee meeting to ask questions about the Fund's approach to climate change. A copy of the questions, together with the response from the Pensions & Investments Committee, is attached at Appendix 2.

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

7.1 Responsible Investment

Our Approach to Responsible Investment

The Fund's RI Framework sets out the Fund's approach to responsible investment which includes the integration of ESG considerations into the investment process and Fund stewardship and governance activities.

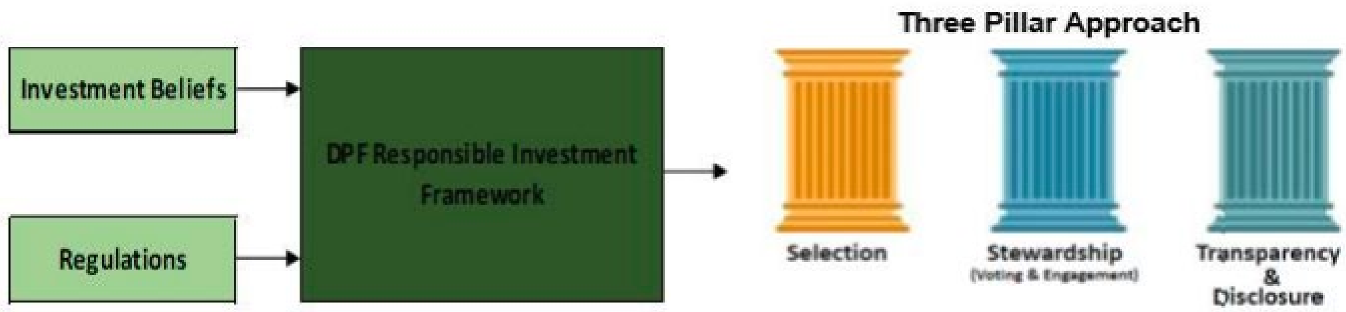
The RI Framework works in tandem with the Fund's Climate Strategy, Investment Strategy Statement and Funding Strategy Statement. This holistic approach helps to align the Fund's investment beliefs with its fiduciary duty. A fundamental belief underpinning the Fund's investment strategy is that RI can enhance long term investment performance and help to better manage risk.

The Pensions & Investments Committee is responsible for reviewing and approving the RI Framework. The RI Framework is kept under regular review by the Fund and is formally reviewed by Pensions & Investments Committee at least every three years. Responsibility for the implementation of the Framework resides with the Head of Pension Fund and the Investments Manager.

The Fund uses a three-pillar approach to responsible investment, which covers:

- **Investment Selection** - which ensures that ESG factors are taken into consideration when investments are chosen for the fund.
- **Stewardship Activities** - which involves voting on shareholder resolutions and engaging with companies that the fund invests in.
- **Transparency and Disclosure** - keeping stakeholders informed about the fund's responsible investment activities.

The Fund's Responsible Investment Three Pillar Approach



Engagement and Collaboration

The Fund supports a strategy of engagement with companies to influence behaviour and enhance shareholder value, rather than adopting a divestment approach, believing that this is more compatible with the Fund's fiduciary duties and supports responsible investment. Engagement allows the Fund to use its influence as an active owner, with other like-minded investors, to improve ESG practices in investee companies (an influence that would be lost through a divestment approach). It is recognised that change takes time, and therefore as a long-term investor the Fund takes a long-term approach to its stewardship activities.

DPF also aims to increase the effectiveness of engagement by working collaboratively with other investors and bodies.

Local Authority Pension Fund Forum

DPF was a founding member of the Local Authority Pension Fund Forum (LAPFF), a voluntary association of the majority of Local Authority pension funds based in the UK with combined assets of over £350bn[1]. Membership of LAPFF provides the Fund with independent research and advice on RI risks of companies to inform further stakeholder engagement; advice on the governance practices of companies; and a forum to engage with companies to improve governance practices.

Collective pressure from investors via organisations such as the LAPFF helps to encourage listed companies to enhance their corporate governance and improve their environmental and social impacts.

DPF officers and the Chair of the Pensions & Investments Committee regularly attend quarterly LAPFF business meetings, where LAPFF's on-going engagement work is discussed.

The Institutional Investors Group on Climate Change

The Fund became a member of the Institutional Investors Group on Climate Change (IIGCC) in January 2023. The IIGCC is the European membership body for investor collaboration on climate change and the voice of investors taking action for a prosperous, low carbon future.

IIGCC's mission is to support and enable the investment community in driving significant and real progress by 2030 towards a net zero and resilient future. This will be achieved through capital allocation decisions, stewardship and successful engagement with companies, policy makers and fellow investors. IIGCC works to support and help define the public policies, investment practices and corporate behaviours that address the long-term risks and opportunities associated with climate change.

During 2022, IIGCC formulated 10 climate change themed consultation responses on topics ranging from green financing strategy, climate and investing reporting and disclosures and asset class specific net-zero frameworks and pathways.

Furthermore, IIGCC plays a key role in the delivery of global investor initiatives and collaborations. Climate Action 100+ engagements directly supported by IIGCC accounted for 48% of all global improvements in corporate net-zero commitments between March and October 2022.

Legal & General Investment Managers (LGIM)

A significant proportion of the Fund's growth assets (listed equities) are managed by LGIM through passive index funds covering UK, Japanese and Emerging Markets Equities. Under the Fund's Global Sustainable Equity allocation, the Fund has also invested in a LGIM low carbon index fund.

[1] On 31 December 2021

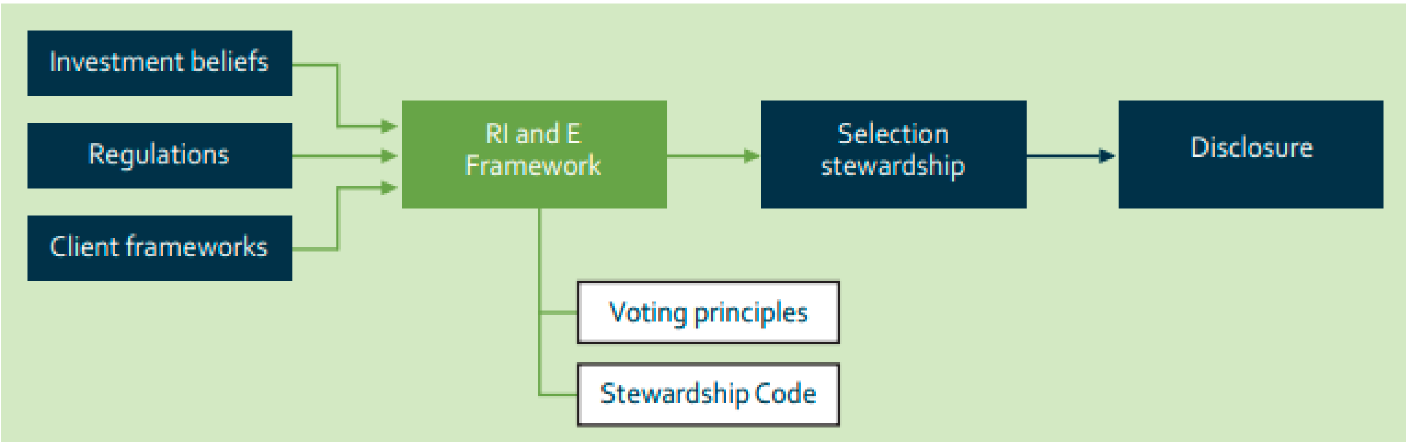
On a quarterly basis, LGIM produces an ESG Impact Report, which covers its engagement activity and significant votes. The LGIM ESG Impact Report is presented to, and considered by, the Pensions & Investments Committee on a quarterly basis.

LGIM's Voting Policy is discussed in more detail later.

LGPS Central Pool & LGPSC

Following the launch of the LGPS Central Pool in April 2018, an increasing portion of the Fund's investments are expected to be transitioned into products managed by LGPSC. LGPSC has developed a Responsible Investment and Engagement Framework. It incorporates the responsible investment beliefs of the LGPS pension funds within the LGPS Central Pool, which is applied to both internally and externally managed investments. LGPSC has also appointed EOS at Federated Hermes to expand the scope of its engagement activities, especially to reach non-UK companies.

A high-level depiction of LGPSC's RI&E Framework is shown below:



LGPSC produces Stewardship Updates three times a year, alongside an Annual Stewardship Report, which covers its engagement activity and significant votes. These reports are presented to, and considered, by the Pensions & Investments Committee.

Examples of engagement pieces by LGPS Central are included under **Principle 8.**

LGPSC's Voting Policy is discussed in more detail later.

7.2 Responsible Investment Implementation

The Fund aims to put its RI strategy into practice through actions both before (asset allocation & manager selection) and after the investment decision (stewardship). As a largely externally managed pension fund, the identification and assessment of RI factors is also the responsibility of individual investment managers appointed by the Fund. The Fund aims to be transparent to its stakeholders through regular, high-quality disclosure.

Asset Allocation: The Fund's SAAB reflects the Fund's RI Framework and Climate Strategy, in particular the Fund's allocation to Global Sustainable Equities (i.e. targeting long-term sustainable businesses, together with a meaningful reduction in the Fund's carbon footprint) and Infrastructure (which has been tilted towards renewable energy assets).

Selection: ESG factors are integrated into the Fund's investment decision making process where those factors are financially material within the context of the investment mandate. As part of the investment manager due diligence process, the Fund obtains a copy of the potential investment manager's RI or stewardship policies which sets out how RI factors are integrated into the investment manager's investment process. The Fund obtains (and discuss) real life examples of how investment managers integrate ESG factors into their investment process, and examples of engagement and any corresponding engagement outcomes.

External Investment Manager Monitoring: The Fund's external investment managers are monitored on a regular basis to review the integration of ESG risks into portfolio management, and to understand their engagement activities. During the 2022, the IIMT held 50 external investment manager meetings across a range of the Fund's asset classes including: UK Equities, Global Sustainable Equities, Emerging Market Equities, Private Equity, Direct Property, Multi-Asset Credit and Private Debt, Infrastructure and Corporate Bonds. Key discussions focussed on investment performance and ESG integration including climate change risk. Most of the Fund's investment managers now produce quarterly or six-monthly ESG reports, and these are reviewed by the IIMT on an ongoing basis,

Company Engagement and Engagement through Partnership

As discussed in **Principle 7**, the Fund's strategy is to engage with its investee companies either on its own or through partnerships on a range of financially material ESG investment factors to protect and increase shareholder value. Engagement activities during the 2022-23 period are discussed in more detail under **Principle 9**.

Voting

A significant proportion of the Fund's assets are managed through pooled products, where the voting activity is carried out by external investment managers. These principally relate to funds managed by LGIM, LGPSC, two Global Sustainable Equity Managers procured through a collaboratively procured LGPS pension fund framework and legacy managers in transition and winddown.

Examples of the approach to engagement and responsible investment by some of the Fund's external managers (LGIM, RBC, Graphite Capital, Baillie Gifford, CQS, Janus Henderson and Colliers Global) are set out below. On a combined basis, together with LGPSC, these managers accounted for 61% of the Fund's total assets under management on 31 December 2022.

External Manager - LGIM – Passive Equities

Active ownership forms a key part of how LGIM embeds ESG considerations into its business. LGIM is committed to using its scale and influence to encourage companies to improve its management of ESG issues and LGIM has dedicated significant resources to their stewardship obligations. LGIM has established a fully integrated framework for responsible investing, across both public and private assets, to strengthen long-term returns and raise market standards. This is based on stewardship with impact and collaborative, active research across asset classes.

Together, these activities enable LGIM to conduct engagement that helps drive positive change and to deliver integrated solutions for clients.

Ongoing dialogue with companies is a fundamental aspect of LGIM's commitment to responsible investment. Engagement will be triggered in a variety of ways, such as a regular catch-ups;

analysis of responsible investment themes and voting issues; general knowledge of the company; or a media report.

Voting activity is carried out in accordance with LGIM's voting policy and is based on a set of corporate governance principles.

Previous engagement with an investee company also determines the manner in which voting decisions are made and cast. Voting activity is combined with direct engagement with the investee company to ensure that the investee company fully understands any issues and concerns that LGIM may have and to encourage improvement.

LGIM utilises the voting information services of ISS and Institutional Voting Information Services (IVIS) to conduct thorough analysis and research on investee companies. The voting principles of ISS cover the four key tenets of accountability, stewardship, independence, and transparency. IVIS does not provide voting recommendations but instead it highlights issues or concerns for its subscribers to consider prior to voting.

An example of LGIM's approach to board composition is included below:

Company Board[2]

Board leadership: LGIM believes that having the right board composition is an essential element of a company's success. LGIM expects each director on the board to fully exercise their duties and promote the long-term success of the company.

The board chair and the chief executive officer (CEO): The responsibilities of the chair include leading the board, setting the agenda for board meetings, and ensuring directors receive accurate and timely meeting information. Under their direction, there should be a good flow of information between the board and the board committees. The chair is also responsible for leading the appointment process for the CEO.

The chair should be able to challenge the executive directors and encourage the non-executive directors to actively participate in board discussions. It is the chair's role to regularly assess whether the board members have the adequate skills, commitment and are sufficiently diverse to make a positive contribution. By contrast, the CEO has the responsibility of executing the strategy agreed by the board and of leading the business. Given the importance of the role, we expect the chair to be independent. LGIM would therefore not expect a retiring CEO to take on the role of chair.

These two roles involve different responsibilities and a different approach to board relations and the company. Additionally, we have concerns that a hands-on CEO may find it difficult to become a hands-off chair. Where a company would find the presence of the former CEO on the board beneficial in times of transition, LGIM would encourage the CEO to be consulted by the board, but not to be a formal board member and would stipulate for this to be for a maximum period of one year.

There are also some instances where a company may, for a short period, be governed by an executive chair. This tends to be when the company is undergoing a shift in its structure, management or is under severe stress. In such circumstances, LGIM expects companies to commit to separating the roles within a short, pre-set timetable. In addition, LGIM expects a deputy chair to be appointed to ensure that no person has unfettered decision-making powers.

[2] LGIM 2022 – UK Corporate Governance and Responsible Investment Policy

Senior independent director

The senior independent director plays an essential role on the board and should lead the succession process of the chair and appraise their performance. Additionally, they should meet investors regularly to stay well informed of any concerns. They can also be a key contact for investors, especially when the normal channels of the chair, CEO or chief financial officer have failed to address concerns or are not the appropriate avenues. LGIM expects senior independent directors to be fully independent non-executive directors. This is of extra importance when the company has a combined chair and CEO.

Non-executive directors
LGIM expects non-executive directors to use their skills and experience to constructively contribute to board discussions and help develop proposals on strategy. They are expected to oversee management performance and to provide a constructive challenge at board meetings. Given the responsibility the role entails, non-executive directors must make sure they have sufficient time to perform their duties. LGIM expects non-executive directors to take this into account when they take on outside board roles.

Non-executive directors should continually update their skills and knowledge and agree on their specific training and developmental needs, which should include all aspects of social, environmental, ethical and reputational risks faced by the business.

LGIM Climate Impact Pledge

LGIM's Climate Impact Pledge is a targeted engagement campaign which began in 2016 to address the systemic issue of climate change. Initially targeted at 84 companies, which LGIM deemed to have the most significant role in transitioning to a low carbon future, LGIM has since increased the ambition of the Pledge to now include almost 1,000 companies world-wide in 20 climate critical sectors. Companies are assessed against 70 metrics and scored under a 'traffic light system', drawing on independent data and research providers and proprietary climate modelling.

These metrics are used to inform LGIM's engagements. LGIM will take action against companies that fail to demonstrate adequate climate commitments, through its voting rights across its entire holdings and investment decisions within some of its funds.

In June 2022, LGIM reported that engagement work via the Climate Impact Pledge had resulted in a 35% reduction in the number of companies not meeting its minimum climate standards over the past 12 months. LGIM also disclosed that during the 2022 proxy season, a total of 80 companies were currently subject to voting sanctions for not meeting LGIM's minimum climate-change standards.

External Manager - RBC – Global Sustainable Equities

DPF invests in a Global Equity fund managed by RBC, as part of the Fund's Global Sustainable Equity allocation. RBC's approach to engagement and investment is noted below.

RBC's Responsible Investment beliefs:

- Being an active, engaged, and responsible investor empowers us to enhance the long-term, risk-adjusted performance of our portfolios and is part of our fiduciary duty
- Issuers that manage their material ESG risks, and opportunities effectively are more likely to outperform on a risk-adjusted basis, over the long-term Engagement through direct dialogue is

often effective at facilitating change & Initiatives that increase transparency and foster fair, and efficient markets benefit all investors and clients globally
- Collaboration with like-minded investors may give us greater influence on issues that are material to our investments.

RBC's approach to RI is comprised of three pillars: ESG integration, Active Stewardship and Client-Driven Solutions and Reporting. The approach for Active Stewardship is discussed in more detail below.

Active Stewardship

RBC is committed to ensuring that the issuers in which it invests act in alignment with the long-term interests of clients. RBC addresses topics such as board structure, executive compensation, gender diversity, and climate change with issuers and regulatory bodies, through proxy voting, engagement, and participating in collaborative initiatives.

Proxy Voting

Voting responsibly at the general meetings of public equity holdings is an important way RBC acts in the best interest of clients. RBC makes each voting decision independently, in accordance with its Proxy Voting Guidelines and through engagements with proxy voting advisors, to decide on a voting position for each individual ballot item. The company's Proxy Voting Guidelines provide an overview of the principles that RBC supports and how it will vote on particular issues. The guidelines cover how RBC will vote on matters such as the board of directors, management and director compensation, and shareholder proposals covering environmental issues, human rights, and employee rights, amongst many others. They are updated yearly to reflect views on emerging trends in corporate governance and responsible investment.

An example of RBC's Proxy Voting Guideline for Say-on-Climate votes is included below:

Say-on-Climate[3]
The impacts of climate change are systemic and unprecedented. The quality of disclosure on how companies are understanding, assessing, and managing material climate-related risks and opportunities is being heavily scrutinized by shareholders. Many companies are now seeking regular advisory votes from shareholders on their climate transition plans and progress made on these plans (i.e. a "say-on-climate" vote).

Voting guideline
RBC evaluates say-on-climate management proposals on a case-by-case basis, but will generally not support proposals where the climate-related plans have: a lack of clear and appropriately detailed disclosure of their climate change emissions governance, strategy, risk mitigation efforts, and metrics and targets, for example such as according to the TCFD; a lack of improvement on disclosure and performance; a lack of targets and emissions reductions at least in line with industry peers; and a lack of reporting showing that the company's corporate and trade association lobbying activities are in alignment (or are not in contradiction) with limiting global warming in line with Paris Agreement goals, where material.

When evaluating say-on-climate management proposals, RBC considers newly disclosed climate transition plans that do not meet these minimum criteria if there is demonstrable evidence and commitments indicating the minimum criteria will be met.

[3] RBC GAM Proxy Voting Guidelines

Engagement

RBC engages with issuers, regulatory bodies, lawmakers and other stakeholders with a view to the best interests of its clients. The majority of the engagements are with issuers, where it seeks to understand how an issuer is addressing its ESG risks and opportunities, and to convey its views. Typically, engagement includes:

1. Information gathering on ESG risks and opportunities and the steps the issuer is taking to address them. This may result in continued monitoring of an existing or emerging ESG risk or opportunity, or an update to the analysis and assessment of an issuer.
2. Seeking better public disclosure of material ESG risks and opportunities and the steps the issuer is taking to address them.
3. Encouraging more effective management of material ESG factors when RBC believe they may impact the value of an investment.
4. Where an issuer is lagging its peers on a material ESG issue, requesting a commitment for change, monitoring any changes, and encouraging continued improvements that are expected to positively impact the long-term value of an investment.

Collaboration

RBC works closely with other like-minded investors to maximise the impact in improving ESG-related disclosure and corporate practices. The strategic collaborations allow RBC to address the issues that are becoming increasingly important to its clients.

RBC notes that '*We participate in initiatives that will increase transparency, protect investors, and foster fair and efficient capital markets. We recognize that advocating for regulatory and legal reform can be more effective when market participants work together. Where interests are aligned, collaboration with like-minded investors can give us greater influence on issues specific to our investments and on broader, market-wide considerations. In either case, we work to encourage changes that are in the best interests of our clients*.'[4]

RBC's strategic collaboration includes Carbon Disclosure Project, Climate Action 100+, Council of Institutional Investors, Global Impact Investing Network, International Corporate Governance Network, Investor Stewardship Group, Responsible Investment Association, UN Principles for Responsible Investment, The Forum for Sustainable and Responsible Investment.

External Manager - Graphite Capital – Private Equity

One of DPF's external Private Equity Managers is Graphite Capital, which focuses on mid-market firms, predominantly within the UK. Graphite Capital's approach to responsible investment, and the ways in which the company has integrated responsible investment into the life cycle of an investment, is discussed in more detail below.

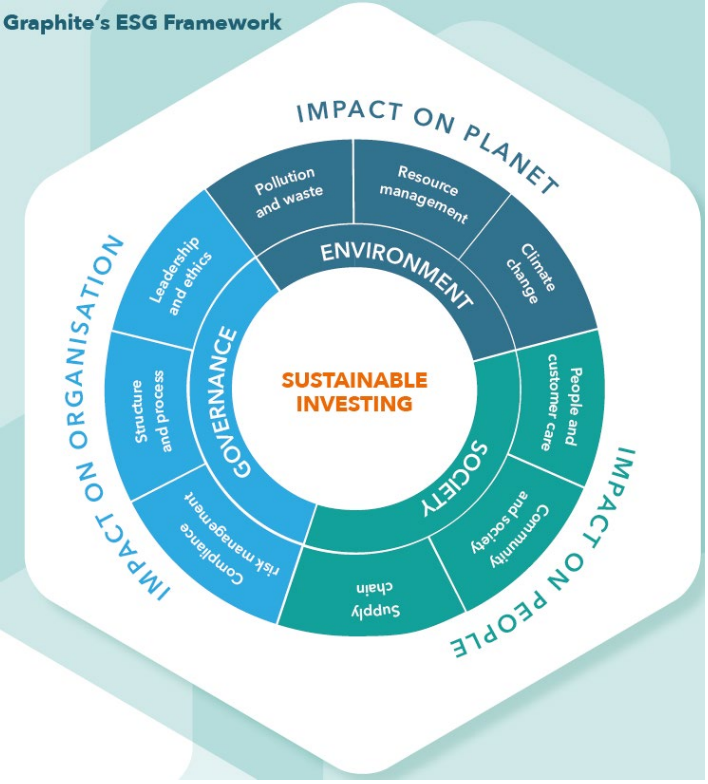
Graphite has developed an ESG framework that is fully integrated over the life cycle of an investment, that covers the following areas: Sustainable Investment Framework; Initial Screening; Portfolio Management; and Exit. Each is discussed in turn below:

[4] RBC GAM Our Approach To Responsible Investment

Sustainable Investing Framework: Graphite has developed a Sustainable Investing Policy and Framework which sets out the overall approach, ambition and methodology in relation to sustainable investment.

Initial Screening: Graphite has developed a proprietary deal screening tool which guides the deal team through questions to ensure that all potentially material ESG considerations are evaluated. It has also created thematic ESG mind maps which provide structure and prompts for deeper evaluation of ESG issues. This aids the team in identifying and profiling potentially material ESG risks and opportunities during the due diligence phase.

Portfolio Monitoring: Graphite's post-investment review process helps it to secure ongoing engagement of directors within each portfolio company. ESG is a subject matter at every board meeting, and Graphite instil new ESG disciplines where improvements are required. Graphite gather on-going ESG data from portfolio companies using structured questionnaires, which are reviewed and followed up by investment team. Graphite report findings in a structured format, using a bespoke template that helps them identify material key risks and opportunities. It shares the findings with the Board of each Portfolio Company, to help it understand where they are doing well and where further opportunity for performance improvement exists.



Exit: Graphite undertake ESG due diligence where appropriate, when preparing portfolio companies for exit. Graphite believes that substantiating value creation by integrating material ESG topics throughout their ownership supports this goal. Graphite evidence impact through the life of the investment in a post-exit impact assessment.

External Manager - Baillie Gifford – Global Sustainable Equities

The Fund invests in a Positive Change fund managed by Baillie Gifford. The Positive Change fund invests into four key themes: Social Inclusion & Education; Environmental & Resource Needs; Healthcare & Quality of Life; and Base of the Pyramid. Baillie Gifford maps the Positive Change fund's investments against the UN Sustainable Development goals.

Baillie Gifford's SDG mapping is underpinned by the use of 169 targets which sit below the 17 SDGs. SDG mapping is the output of Baillie Giffords investment philosophy and process and will change as the composition of the portfolio changes. The portfolio currently addresses 16 SDGs. Baillie Giffords SDG mapping incorporates significant contributions that investee companies are making via their products and services only. It does not encompass the business practices of the fund's holdings. Baillie Gifford's explicit aim is to identify and hold companies for their positive contributions.

Some examples of the investee company positive change impacts are shown below:

Coursera: Coursera is an online learning platform hosting education content including Massive Open Online Courses, guided projects, professional certification, and online degrees. Its scale, with 97 million registered learners, helps to attract academic and corporate partners to produce content for Coursera, which in turn attracts more learners. Coursera has the potential to improve education by lowering costs, improving accessibility, and providing accredited qualifications relevant to the ever-changing job market.

HDFC: HDFC provides housing finance products that promote home ownership in India and offers loans for the development of better quality and more affordable housing. Through expanding its customer base, particularly among lower-income households and women, HDFC helps to deliver positive social outcomes that are attributed to stable ownership of safe housing, such as improved health and wellbeing.

Ecolab: Across hundreds of industries, Ecolab's products help minimise harm to human health from infection, protect local water resources and mitigate climate change. Ecolab is the partner of choice for millions of companies striving to achieve safer, more efficient and more sustainable operations.

External Manager – CQS – Diversified Multi-Asset Credit

CQS manages part of the Fund's diversified Multi-Asset Credit allocation. An example of CQS's responsible investment work is shown below:

CQS is striving to increase its engagement on social issues. Poor mental health costs employers billions of pounds each year, and the cost has risen since the Covid-19 pandemic. To tackle this, CQS is a supporter of the Corporate Mental Health Benchmark by CCLA and associated corporate engagements. CQS was one of 29 founding signatories of the Global Investor Statement on Workplace Mental Health, representing $7 trillion in assets under management. CQS has also co-signed letters to 100 UK companies and 100 global companies, which have received a positive response and led to improved mental health disclosures over the last six months of 2022. In 2023, CQS plan to support CCLA in direct corporate engagement on mental health with two companies that were ranked bottom tier in the CCLA Corporate Mental Health Benchmark Global report.

External Manager – Janus Henderson – Diversified Multi-Asset Credit

Janus Henderson manages part of the Fund's diversified Multi-Asset Credit allocation. An example of Janus Henderson's responsible investment work is shown below:

Janus Henderson engaged with VW, the global car manufacturer, following a move by MSCI to flag the company as a 'FAIL' in respect of Global Compact Compliance Principle 4 'Businesses should uphold the elimination of all forms of forced and compulsory labour'. This stemmed from allegations, refuted by the company, of the use of forced labour, specifically Uyghur minorities, at one of its JV plants in China, and in the plant's supply chain. The objective for the engagement was to gain further background to the issue. Janus Henderson discussed what direct oversight the company had of the factory given it is operated by another entity and what steps are being taken directly by the company's senior management to investigate the claims and ensure policies are in force. The company states that it is not aware of any cases where employees were in internment camps, however, the company accepts that they have limited oversight of the plant. A board management visit to the plant is planned. The company has notified the United Nations Global Compact, and MSCI's decision is based on its own methodology of compliance with the principles and is not endorsed by the UN. Whilst the plant produces a very small number of vehicles per annum, the matter could become financially material to the company if future financing is hampered by the 'FAIL' flag from MSCI as funds with ESG restrictions are unable to invest in the company's bonds.

External Manager - Colliers Global – Direct Property

The Fund's Direct Property allocation is managed by Colliers Global. The portfolio comprised 21 UK commercial properties on 31 March 2022, spread across the retail, office, industrial and alternative (e.g. travel and leisure) sectors. As part of the ongoing management of the property portfolio, Colliers Global is upgrading the portfolio wherever possible to reduce the portfolio's carbon footprint.

Case study: In 2022-23, Colliers Global completed a major refurbishment of some office accommodation in London to bring it up to a modern standard and to improve its ESG credentials. The floors were completely refurbished including new suspended ceilings, new partitioning, new carpeting and complete redecoration throughout. In particular, to improve on the buildings "green" credentials, the following was undertaken: Installation of energy saving lighting with PIR sensor activation; Installation of energy saving LED lamps within the light fittings in the offices; Installation of new energy efficient air conditioning to heat/cool the building; Improved thermal carpeting throughout; Installation of new suspended ceilings with additional insulation above; Installation of new tap and flush sensors in the WC's to reduce water waste; A reduction of data cabling for Wi-Fi connectivity; Electricity provision from 100% renewable energy sources. The refurbishment also included improved provision for office workers who cycle to work, an increasingly important aspect of office life which reduces reliance on cars and public transport and encourages physical activity. The refurbishment included installation of additional shower cubicles and new changing rooms and a new larger cycle storage area to the rear of the property. The refurbishment improved the EPC rating in the building from D to B.

7.3 IIMT Responsible Investment

The Fund's IIMT continues to directly manage a small proportion of the Fund's investment assets and the IIMT embeds ESG considerations into its investment process and monitoring process as demonstrated below:

Case study: DPF Sovereign Bond investments are managed in-house by the IIMT and relate entirely to UK or US conventional or index-linked bonds. DPF made its first investment in respect of the recently launched UK Government 'Green Gilt' programme in 2022. The Fund further increased its allocation to UK Government 'Green Gilts' in Q1-23. UK Green Gilts are used by the UK Government to finance expenditure in clean transportation, energy efficiency, renewable energy, pollution prevention and control, living and natural resources, and climate change adaptions. Subject to performance, debt security and valuation, the Fund expects to make further investments in green bonds moving forward.

As set out in this report, the Fund's IIMT is also responsible for monitoring the responsible investment practices of the Fund's external managers.

7.4 Climate Stewardship Plan

The Fund maintains a Climate Stewardship Plan (CSP) which monitors the stewardship and engagement activities with those companies which account for a significant proportion of the Fund's carbon footprint. Progress against the Fund's CSP forms part of the annual LGPSC Climate Risk Report. For 2023-24, the Fund's CSP includes seven companies (BP, Shell, CRH, Taiwan Semi-Conductors, Rio Tinto, Anglo American, Glencore).

The companies included in the Fund's 2023-24 CSP accounted for 22.7% of the Fund's Total Quoted Equity carbon footprint on 31 March 2022 on a weighted average carbon intensity basis, and 33.5% of the Fund's Total Quoted Equity financed emissions at the same date.

Each of the companies on the 2023-24 CSP is tracked using the Transition Pathway Initiative (TPI). The TPI is a global, asset-owner led initiative which assesses companies' preparedness for the transition to a low carbon economy. The assessments provide a rating for each company that can be used to target engagements to specific issues relating to climate change.

All the companies on the forward Climate Stewardship plan have committed to net zero by 2050.

7.5 Updating Stakeholders on the Fund's Responsible Investment Activities

The Fund aims to keep its stakeholders aware of RI activities through:

- Making its Responsible Investment Framework, together with the supporting Climate Strategy, public documents, available on the Fund's website
- Reporting to the Pensions & Investments Committee on the stewardship activities (including voting decisions) of the Fund's principal investment managers on a quarterly basis
- Providing a summary of the Fund's Responsible Investment activities in the Annual Report
- Reporting annually using the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), as well as publishing the annual public Climate Risk Report commissioned from LGPSC

Investment Approach: Principle 8

Signatories monitor and hold to account managers and/or service providers

8.1 Monitoring Investment Performance and Responsible Investment of External Managers

Although underlying investment decisions have largely been delegated to external investment managers, the Fund is ultimately responsibility for the RI and stewardship of the Fund's assets. As a result, the Fund sets clear RI expectations for its external investment managers to consider ESG factors when selecting investments and ensuring good stewardship practices are followed through engagement and voting. Monitoring external investment managers is a fundamental aspect of the Fund's approach to good stewardship.

Manager monitoring enables the Fund to assess, on an on-going basis, whether its needs are being met in terms of performance objectives and RI integration. As set out in **Principle 7**, RI fully is integrated into the Fund's investment decision making and investment manager selection processes.

Investment manager performance is reviewed by the IIMT on a quarterly basis against benchmark and target returns, in addition to annual and longer-term performance. The Fund receives, and reviews, external investment manager factsheets and reports, together with holding regular review meetings with its external investment managers to discuss investment performance and to review the integration of ESG risks into portfolio management, and to understand engagement activities.

The frequency of review meetings depends on the investment horizon for the asset class, the management style (active or passive) and the liquidity of the underlying investments. Meetings with investment managers that cover active equities and active fixed income, which tend to be more liquid, are typically held on a quarterly or semi-annual basis, whereas meetings with managers who cover illiquid asset classes such as infrastructure, property and private debt are generally held on a semi-annual to annual basis. For illiquid asset classes, meetings are often arranged on an ad-hoc basis when significant new investments are made or when existing investments are exited, which means in practice the Fund is in regular contact with its private market managers.

As noted in **Principle 7**, the IIMT held 50 meetings with its investment managers over the course of 2022, averaging 4 to 5 meetings a month. Meetings were held with managers covering UK Equities, Global Sustainable Equities, Emerging Market Equities, Private Equity, Infrastructure, Direct Property, Indirect Property, Diversified Multi-Asset Credit and Private Debt, Investment Grade Bonds and Short-Dated Credit. ESG is a standard agenda item.

Investment manager performance, ESG risks and developments and engagement and voting activity are formally discussed in detail by the IIMT at the quarterly investment strategy meeting, which feeds into the Fund's tactical asset allocation changes.

Internal control reports are also received on an annual basis from investment managers and the Fund's custodian. These are reviewed by the IIMT and the in-house administration team to identify potential areas of concern.

8.2 Monitoring of LGPSC

PAF Investment Working Group (IWG)

IWG is a Partner Fund led forum which includes representatives from each of the eight LGPS pension funds forming the LGPS Central Pool.

IWG meets monthly, with the meeting split into two parts. The first part of the meeting provides an opportunity for the Partner Funds to work collaboratively to share knowledge, discuss developments in economic and market conditions and to review investment performance. It also provides an opportunity for collaborative discussion about the pooling process, LGPSC investment performance and LGPSC product development. For the second part of the meeting, the IWG invites LGPSC to provide updates on product investment performance and product development.

Updates are presented by the LGPSC Chief Investment Officer, the LGPSC Investment Directors responsible for each LGPSC investment product and the LGPSC Director of Responsible Investment & Engagement.

The IWG is the principal mechanism through which administering authorities engage with, and hold, LGPSC to account on investment performance, product development and the evolution of the LGPS Central Pool, to ensure each Fund's investment needs are being met.

The IIMT uses the IWG meetings to reiterate expectations around investment performance, to gain a better understanding of the drivers of performance and how LGPSC act to hold the underlying investment managers to account. When necessary, the IIMT escalates issues directly with LGPSC on a one-to-one basis.

For example, in the 2022-23 period, the IIMT escalated its monitoring in respect of an active equity product manged by LGPSC by: submitting written questions in respect of the product to the LGPSC Active Equities Director, and requesting additional analysis and supporting evidence, together with further meetings with the LGPSC Active Equities Team to discuss the fund.

The IIMT also provided direct input into the product's scheduled three-year review process.

PAF Responsible Investment Working Group (RIWG)

RIWG is a Partner-Fund led forum which includes representatives of the eight LGPS pension funds forming the LGPS Central Pool, together with representatives from the LGPSC Responsible Investment Team, including the LGPSC Director of Responsible Investment & Engagement and members of the LGPSC Responsible Investment & Engagement Team.

RIWG meets quarterly to discuss Responsible Investment matters.

LGPSC provides updates and works with the group on topics such as climate change, the use of plastics, voting issues and climate risk reporting. EOS at Federated Hermes, LGPSC's Responsible Investment Engagement partner, also provides updates on the progress and outcomes of its engagements with non-UK companies, and discussions on emerging responsible investment and ESG trends.

The RIWG is the principal mechanism through which Partner Funds engage with, and hold, LGPSC to account on stewardship, voting and the integration of RI, to ensure client needs are being met.

Pensions & Investments Committee – Review of LGPSC Active Mandates

Representatives from LGPSC were invited to attend the Fund's October 2022 Pensions & Investments Committee meeting to present an update on LGPSC, together with providing details in respect of two LGPSC active products used by the Fund.

LGPSC representatives at the meeting included the Chief Executive Officer, Chief Investment Officer, Chief Stakeholder Officer, and the lead fund managers for the two active products.

The LGPSC product presentations covered product objectives, product construction and composition, RI integration and product performance.

Committee found the product presentations helpful and engaged in a series of questions with the lead fund managers, particularly focusing on product performance; LGPSC performance expectations; LGPSC views on each of the underlying external investment managers; and the process by which LGPSC holds the underlying external investment managers to account. Subsequent to the meeting, there have been further meetings between the IIMT and the LGPSC lead fund managers to cover some of the material in the LGPSC presentations in more detail.

8.3 LGPSC External Manager Monitoring Process

Active Equities

LGPSC monitors external fund managers to ensure the ongoing application and efficacy of its approaches to RI and stewardship. External fund managers are required to report to LGPSC on a regular basis in respect of how engagement activities have been discharged during the period in review. LGPSC's external managers conducted 272 direct engagements with 172 investee companies in 2022 covering several LGPSC active products.

LGPSC believes that the engagement undertaken by its external managers in 2022 has been comprehensive and robust. These managers are all long-term investors with sizeable positions in their highest conviction portfolio holdings, giving them excellent access to company management which they used effectively to drive company change.

There were a few occasions where LGPSC viewed the level of engagement disclosure from external managers as unsatisfactory, or where the link between an engagement and subsequent investment decision-making was not clear. In these instances, fund managers were marked down during their RAYG rating (red – amber – yellow – green) review and LGPSC discussed its concerns in the quarterly manager meetings.

An example of LGPSC changing the RAYG rating occurred in Q3-21. Going into 2021, one of its managers achieved only a 'yellow' status due to concerns around the level of engagement being conducted. Compared to other managers, the number of engagements appeared low, and the accompanying description was poor. LGPSC initiated a dialogue with the manager around this issue and reiterated their expectations for managers' stewardship activities. Following this, the level of disclosure greatly improved. The manager now provides a full summary of its interactions with investee companies, and LGPSC is able to gain greater confidence that the manager is using their ownership position to maximum effect. LGPSC subsequently upgraded the managers engagement rating from a 'yellow' to a 'green'.

LGPSC Engagement Example: Engagement with External Manager Regarding ESG Methodology Changes

Reason for Engagement: One of LGPSC's external managers updated its methodology for evaluating companies on ESG issues and the categories used to assess them.

Scope and Process/Actions Taken: LGPSC integrates responsible investment into its investments and regularly engages with external managers on ESG and responsible investment issues. During one of these meetings, the external manager informed LGPSC of changes to its sustainability research methodology. As a result, several positions in the portfolio were affected.

Escalation: As ESG and responsible investment are integrated into LGPSC's investments, it is important to understand how external managers incorporate ESG into their portfolios. LGPSC arranged a follow-up meeting to discuss the implications of the changes in methodology and their impact on future investment opportunities.

Outcomes: The external manager presented the changes to its sustainability research methodology, which included several new categories that rendered certain investment opportunities ineligible. While the methodology was not intended to be more stringent, it resulted in the exiting of companies that were previously eligible. LGPSC gained an understanding of how investment opportunities were being assessed and was pleased to see the external manager upholding high ESG standards.

Next Steps: LGPSC continues to meet with external managers on a quarterly basis and more frequently as needed. This monitoring process enables LGPSC to remain comfortable with the processes, people, and policies of external managers as significant changes occur following the initial selection process.

LGPSC Engagement Example: Emerging Market Equities
External Manager: UBS
Company: Undisclosed
Region: Asia
Sector: Electronics
Issue:

- The UBS ESG Dashboard flagged for elevated ESG risk for a breach of UNGC principles as MSCI had moved the company's UNGC compliance status to 'Fail' in November 2022. This was based on an allegation, made by the Australian Strategic Policy Institute (ASPI) back in March 2020, that the company may have benefited from the use of Uyghur workers outside Xinjiang through labour transfer programs
- The MSCI downgrade was made following the conclusion by the United Nations Office of the High Commissioner for Human Rights in August 2022 that 'serious human rights violations' against the Uyghur and 'other predominantly Muslim communities' have been committed in the Xinjiang region. Following MSCI's downgrade the company Chair issued a letter to shareholders claiming that the company had not employed any forced labour (i.e. upholding to the principle of voluntary employment), and that internal and independent audits were conducted for confirmation

Action taken:

- The Sustainable Investment and the Investment Teams at UBS had two bilateral dialogues with the company to better understand the evidence the company had collected before issuing the letter to shareholders, and the quality of its internal human rights management systems

Outcome:

- The company confirmed to UBS that its HR department had again validated the background and voluntary declarations of all its Uyghur workforce
- Through this exercise, the company also confirmed that none of the Uyghur workforce had ever entered or participated in any vocational education and training centre (i.e. the alleged re-education camp). UBS was also satisfied with the quality of the company's internal human right management systems
- The company has been applying relevant policies to its direct and indirect hiring, in line with the International Labour Organisation best practices
- Two additional safeguards were also in place at the time of the allegation: 1. company claims that it did not work with governmental hiring agencies, nor prison labour programs, and that all external hiring agencies are expected and engaged to uphold its human right policies; and, equally importantly, 2. plant general managers are subject to performance reviews and internal audits which consider human rights

- Responding to the allegation, the company has been actively communicating with both the ASPI and MSCI. The company has provided a third party onsite human right audit report in line with the Responsible Business Alliance standards, confirming the non-existence of forced labour. The company is committed to publicly disclose future audit results
- UBS will continue to engage with the company on progress made with respect to their bilateral conversations with relevant parties

Fixed Income

LGPSC monitors engagements undertaken by fixed income managers during quarterly meetings. It seeks to determine whether the manager is fulfilling the level of engagement that was pitched, and challenge accordingly if the response is unsatisfactory. These discussions subsequently feed into LGPSC's manager scoring system.

LGPSC considers its fixed income managers to have conducted meaningful and effective engagement in 2022. Throughout the year, LGPSC's external managers conducted 299 direct engagements with 213 companies held in the Global Active Investment Grade Corporate Bond Multi Manager Fund, Global Active Emerging Market Bond Multi Manager Fund and Multi Asset Credit Fund.

LGPSC Engagement Example: Active Global Investment Grade Bonds
External Manager: Neuberger Berman
Company: Anheuser-Busch InBev
Sector: Consumer Discretionary
Objective: Establish and publicly disclose ESG objectives around smart agriculture goals, water stress, circular packaging, product portfolio, and diversity and inclusion. As well as disclose more information on water stress improvement.
ESG Topics Addressed: Disclosure of climate and diversity objectives.
Issue/Reason for Engagement: The Anheuser-Busch InBev S.A.'s Company's ESG reporting practices lagged sector peers, making it difficult to analyse and benchmark performance on material metrics.
Scope and process/actions taken: Neuberger Berman undertook due diligence with the members of company's Treasury Team and the Head of Sustainability. Neuberger Berman sought to educate the issuer on the importance of disclosing key metrics such as water intensity and diversity performance.
Outcomes and Next Steps: Following this engagement, Anheuser Busch published its first ever standalone ESG report and implemented feedback on publicly disclosing more detailed information around water sourcing and geographic priority areas. While this is a positive outcome, Neuberger Berman is continuing to engage with the issuer for even greater disclosure on additional information and goals regarding diversity and inclusion.

Engagement: Principle 9

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

9.1 Engagement Examples

DPF largely accesses investment markets indirectly through pooled products managed by external investment managers, including LGPSC, and as such, voting and engagement activity has largely been delegated to the external investment managers selected. However, as set out in **Principle 8**, the Fund is ultimately responsibility for the RI and stewardship of the Fund's assets, and therefore the Fund sets clear RI expectations for its external investment managers to consider ESG factors when selecting investments and ensuring good stewardship practices are followed through engagement and voting. Some examples of external investment manager engagement are set out below.

Listed Equities: LGIM Active Ownership and Engagement
Protecting Shareholder Rights in Mergers and Acquisitions
Company: Aveva
Sector: Technology
Issue Identified: The UK-listed software company, AVEVA Group plc, is 59% owned by Schneider Electric. In September 2022, the AVEVA board recommended a takeover by Schneider Electric. LGIM and several other shareholders were not satisfied with the bid, as they believed it to significantly undervalue the company, particularly given that the AVEVA business was in a period of transition. The initial EGM (Extraordinary General Meeting) was set for 17 November 2022, however, following shareholder concerns about the deal and a raised offer from Schneider Electric, the meeting was adjourned to 25 November 2022.
How LGIM voted: Against the proposal (i.e. against management's recommendation).
Rationale for the vote decision: LGIM joined the collaborative engagement established and led by an investor forum. LGIM's Stewardship Team also engaged internally with LGIM's Investment Team regarding the proposed deal. LGIM voted against the resolution as they considered the proposed acquisition to significantly undervalue the company.
Outcome: The bidder was forced to increase its offer by 4% in order to gain sufficient support, despite an AVEVA board recommendation. This case illustrates that potential takeover deals are not a foregone conclusion and that target boards are prepared to recommend a bid and then hand the decision over to their shareholders. It also illustrates the power of collaborative shareholder engagement, where the bidder increased their offer due to shareholder dissatisfaction. Given the acquirer, Schneider Electric, already controlled 60% of the AVEVA share capital, there was little chance of the deal not being approved. The deal was approved, and the acquisition is expected to close in 2023.
Why is this vote 'significant'?: Mergers and acquisitions – this vote demonstrates the power of collaborative shareholder engagement in a takeover situation where LGIM believed the original offer undervalued the company significantly.

<u>Listed Equities: LGIM Active Ownership and Engagement</u>
Governance Arrangements
Company: Microsoft
Sector: Technology
Issue Identified: In 2021, without seeking prior shareholder approval, Microsoft took the decision to recombine the roles of chair and CEO, which had previously been separate for many years.
How LGIM voted: At the December 2022 AGM, LGIM voted against the proposal (and against management recommendation).
Rationale for the vote decision: LGIM expects companies to have a separate chair and CEO on account of risk management and oversight considerations, and because the roles are substantially different and require different skills. Previously, in Microsoft's 2021 AGM, LGIM voted against both the re-election of the chair and of the board nomination committee chair/lead independent director, and LGIM has conveyed their disappointment at this change.
Outcome: 94.8% shareholders voted for the resolution (for the re-election of Satya Nadella). Nevertheless, LGIM maintain its belief in the importance of the separation of the chair and CEO roles, on account of the different skillsets and different responsibilities of these roles. LGIM was disappointed that Microsoft took the decision to recombine these roles and will continue to engage with them on this and other topics.
Why is this vote 'significant'?: LGIM believes that, within the broader topic of board effectiveness, the roles of chair and CEO should be separate.

<u>Private Equity: Graphite Capital Active Ownership and Engagement</u>
- Ten10 is a Graphite Capital's portfolio company. Ten10 is an independent UK quality engineering and software testing services provider that Graphite Capital originally acquired in 2020. Key highlights of ESG improvements that have occurred since the investment include:

Ten10 Case Study: Driving ESG Improvements
- Signing up to become a member of the UN's Global Compact, agreeing to align itself to ten principles in the areas of human rights, labour, the environment and anti-corruption
- Ten10 also aligned to the UN's Sustainable Development Goals (SDGs). The company is currently positively impacting 16 out of 17 SGDs and is working to explore options to widen and deepen their commitment to each SDG
- 60% of Ten10's energy is now sourced from renewables across its operational sites. Beyond this, Ten10's offices also have energy-efficiency features, including LED lighting and light sensors to reduce electricity usage
- Ten10 has also created a supplier Code of Conduct and it is in the process of rolling this out across its material suppliers. By doing this, the company is making a clear statement that leaves no place for discrimination, harassment or bullying within its supply chain. Ten10 will only work with suppliers who commit to upholding human rights and those seeking to protect the environment
- Working with Future Plus, a specialist carbon consultancy, Ten10 has signed up to several climate-related commitments. It has agreed to monitor, record and report energy use and carbon emissions and to set significant targets to reduce its energy consumption and carbon emissions. Ten10 has committed to offsetting its residual scope 1 & 2 emissions, which cannot be reduced or eliminated

Infrastructure: Macquarie Asset Management (MAM) Active Ownership and Engagement

- One of MAM's companies is Beauparc Utilities

Turning waste into energy for the Republic of Ireland

- Beauparc Utilities is an Irish waste management company acquired by MAM in June 2021. The company is active in professionalising the waste industry in the Republic of Ireland and is transitioning to be a low-carbon and circular economy company
- The Republic of Ireland was previously dependent on landfill as a waste management solution, which cause odour, pest nuisance, ground and surface water pollution. Since the late 1990s the Republic of Ireland has gradually closed non-engineered landfills and replaced them with waste-to-energy facilities and modern landfills compliant with stringent EU environmental directives
- Beauparc Utilities operates the Knockharley landfill site in county Meath. One of only three operating MSW landfills in the Republic of Ireland, the site was selected for its highly impermeable soils. The facility operates on a 135-hectare landscaped site which was built to comply with the EU landfill directive, and it operates under an Industrial Emissions licence from the Environmental Protection Agency
- On launch in 2004, Beauparc Utilities was initially authorised to accept up to 88,000 tonnes of waste per annum. In 2021 it received planning permission to increase capacity by 500%, up to 440,000 tonnes per annum
- Landfills were historically a source of odour nuisance due to the gases produced by the decay of organic materials in the core of the landfill. This gas was comprised primarily of methane, a greenhouse gas up to 80 times more potent than CO2
- To prevent odours, Knockharley captures landfill gases under a gas impermeable liner which forms part of a complex multilayer landfill cap
- The gas is then directed through an extensive network of pipes, captured and pumped to onsite gas engines which can produce up to 4.2MW of instantaneous output which is fed to the Republic of Ireland's national electrical grid. A novel gas cleaning system was added to the site's landfill gas treatment system in 2021. Placed upstream of the gas engines, it removes unwanted components in the gas, improving the efficiency of the gas engines and further reducing emissions. By capturing the gas and combusting in the gas engines, the facility creates a triple win: eliminating local odour nuisance, generating renewable electricity and eliminating methane emissions

Private Debt: CVC Capital Partners Active Ownership and Engagement

- One of the Fund's external Private Debt managers is CVC Capital Partners (CVC). This investment forms part of the Fund's Multi-Asset Credit allocation. In 2021, CVC further integrated ESG into the investment process by introducing ESG margin ratchets to incentivise companies to improve their ESG programmes by way of a margin reduction on their loans, typically ranging from five to fifteen basis points
- As part of the investment process, when a company confirms it wishes to enter an ESG margin ratchet, the CVC Private Credit team assesses the proposed ESG Key Performance Indicators (KPIs) and the suitability of the KPI hurdles that the company is required to address to meet the required threshold for a margin reduction. For example, a company can achieve a reduction by commissioning an ESG report from a third party, such as EcoVadis, and can receive a further reduction if the report shows the company meeting certain ESG metrics
- Since introducing the ESG margin ratchet, CVC Private Credit had arranged the financing of over €2.4bn ESG-linked loans by 30 June 2022
- Case study: Company A *[name redacted]* specialise in motor insurance products. At the time of investment, the company had some processes in place to address ESG and corporate social responsibility, but it was noted that reporting, governance and KPI tracking should be improved following acquisition. To incentivise management to improve ESG standards, a margin ratchet was negotiated and built into the financing documents, that would be worth 10 basis points if obtained. The company was awarded a 5-basis point margin reduction for undergoing an ESG audit by EcoVadis, a third-party provider of business sustainability ratings. Company A were awarded a 'Bronze' award by EcoVadis, and the company will be awarded an additional 5 basis point margin reduction if they achieve a 'Silver' rating, which would place Company A in the top 25% of more than 100,000 firms

globally that are audited by EcoVadis. On the back of ESG ratchet being agreed, Company A have built out an ESG team and they are now working on designing a company roadmap to achieve Net Zero status by 2050. To that end, Company A has partnered with a Net Zero consultancy. During 2022, Company A supplied data enabling the consultant to undertake full scope 1, 2 and 3 carbon footprint analysis across Company A. Company A is committed to reducing its energy use, generating its energy needs from lower and zero carbon solutions and ultimately offsetting the balance

9.2 LGPSC Engagement

LGPSC continued engagement on four, core Stewardship Themes: climate risk, plastic pollution, responsible tax behaviour and tech sector risks in 2022. Alongside LGPSC's direct engagements, the LGPSC also has several partners which engage with companies on LGPSC's behalf, including EOS at Federated Hermes (Stewardship provider to LGPSC) and LAPFF. Through these partnerships, the LGPS Central Pool was able to engage more than 308 companies on material ESG related issues in 2022. An example of LGPSC's engagement is set out below.

LGPSC: Active Ownership and Engagement
Company: Glencore
Theme: Climate change
Objective: LGPSC expects companies to set clear, reasonable, and measurable climate action targets aligned with the Paris Agreement. It also compares those targets with the company's industry peers, as well as Paris-aligned sector pathways, and engage with the company in case of any major deviations.
Engagement:

- LGPSC sent a letter to the CEO of Glencore from LGPSC, outlining concerns that led the company to vote against Glencore's climate progress report at the 2022 AGM. Glencore's total carbon footprint is highly correlated with coal production. LGPSC takes the view that the company should seek alignment with the International Energy Agency's (IEA) Net Zero Emissions 2050 coal pathway rather than an overall fossil fuel pathway.
- Based on Glencore's current disclosures, LGPSC is concerned that Glencore's current plans to reduce coal production over the next decade appear inconsistent with a 1.5C trajectory
- In a letter to Glencore's CEO in December 2022, signed by eight investors including LGPSC, they reiterated this concern asking for clarification on the expansionary capital expenditure for thermal coal and whether this is consistent with a 1.5C trajectory

Outcome:

- Glencore has responded to the letters stating that the company will provide further detail in the upcoming 2022 report against the climate strategy, and that they welcome our feedback to these disclosures
- In December 2022, Glencore decided to withdraw a coal project in Australia from the current approvals process. LGPSC is seeking a meeting with the company to discuss how this will affect Glencore's achievement of climate targets and the responsibly managed decline of coal assets, alongside other issues raised

LGPSC: Active Ownership and Engagement
Company: Amazon **Theme:** Responsible tax behaviour **Objective:** ➢ LGPSC recognises the importance of companies being accountable for and transparent about their tax practices. LGPSC expects portfolio companies to have a tax policy that outlines the company's approach to taxation and how it aligns with the overall business strategy. It also expects companies to have a robust tax governance and management framework in place, to pay taxes where economic value is created and to provide country-by-country reporting ➢ Through its engagement with companies on tax, LGPSC aims to support investor expectations (e.g. as expressed by the GRI tax standard and the UK Fair Tax Mark) in dialogue with companies **Engagement:** ➢ In March 2022, in support of a shareholder proposal at Amazon asking for tax transparency, LGPSC signed a letter to the US Securities and Exchange Commission (SEC), alongside over 100 other investors. The company had earlier in January 2022 written to the SEC requesting approval for the shareholder resolution to be excluded from voting at the AGM **Outcome:** ➢ The SEC ruled in favour of the shareholders and hence the proposal was put to a vote. This represented one of the first times the regulator granted a shareholder request on tax matters. The proposed tax transparency report had to be in line with the Global Reporting Initiative's (GRI) Tax Standard. LGPSC voted in favour of this resolution, and it received 17.5% shareholder support which is reflective of shareholder concerns

9.3 DPF Monitoring

Details about how the Fund monitors the responsible investment activities of its external investment managers is set out under Principle 7 and Principle 8. As noted in Principle 7, the Fund receives quarterly stewardship reports, including voting activity, from both LGIM and LGPSC (the Fund's two largest asset managers) and these reports are reviewed by the Fund's IIMT. These stewardship reports are also presented to, and considered by, the Pensions & Investments Committee on a quarterly basis.

Engagement: Principle 10

Signatories, where appropriate, participate in collaborative engagement to influence issuers

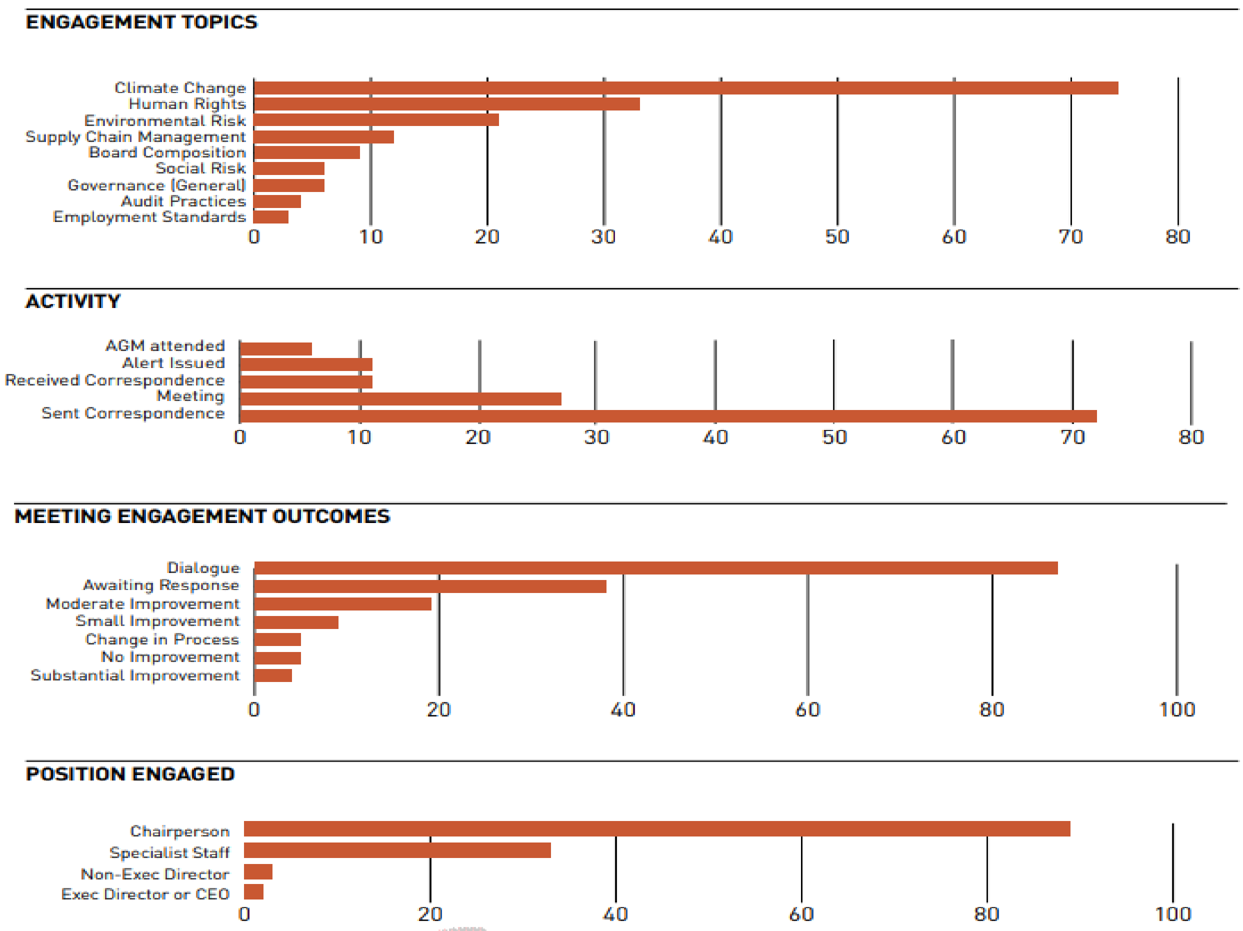
10.1 Collaborative Engagements

LAPFF Engagement Work

- LAPFF engages with companies on behalf of its 85 local authority LGPS pension fund members and 6 LGPS Investment Pools
- LAPFF's mission is to protect local authority pensions by promoting the highest standards of corporate governance and corporate responsibility
- With members' assets exceeding £350bn, the Forum engages directly with company chairs and boards to affect change at investee companies
- Through collaboration and collective action, the Forum can realise significant and tangible improvements in the practices of some of the world's biggest corporations

In Q2-22, LAPFF engaged with over 90 companies on a range of topics including climate change, human rights, board composition and governance, audit practices and employment standards. A summary of its engagement activities is included below.

LAPFF Engagement Activities, Q2-22



Source: LAPFF Quarterly Engagement Report, Q2-22

LAPFF Long Term Engagement Example: Rio Tinto
Issue identified

- LAPFF became increasingly concerned over corporate governance failings at Rio Tinto after the company destroyed 46,000-year-old Aboriginal caves in the Juukan Gorge region of Western Australia in May 2020, through its mining exploration operations in the region. In Q3-20, LAPFF began engaging with the company to review its corporate governance arrangements, particularly in relation to the lack of engagement with indigenous communities

Engagement methods

- In 2020, LAPFF issued press releases citing its concerns over its lack of engagement with indigenous communities and wider corporate governance failings at Rio Tinto to improve awareness, garner investor support and to pressure the company to improve its governance arrangements
- LAPFF also made repeated attempts to obtain meetings with Rio Tinto's Chair to discuss the Juukan Gorge incident. However, LAPFF was disappointed in Rio Tinto's unwillingness to engage as it took more than six months after the incident had occurred to secure a meeting
- LAPFF was pleased to meet with Rio Tinto's CFO in 2021 at the company's AGM to discuss the issue further, noting that the company had made substantial improvements in its willingness to engage, having previously attended a meeting with the Chair and CEO during the year. LAPFF noted that the CFO appeared to understand and agree that social impacts affect financial materiality
- LAPFF continued to engage and liaise with other interested investors, Rio Tinto, and affected communities, but acknowledged that improved engagement in itself is not progress, and that the company had some way to go to regain investor and affected community trust in its operations
- In February 2022, Rio Tinto published a comprehensive external review of its workplace culture, commissioned as part of its commitment to ensure sustained cultural change across its global operations. Rio Tinto announced that it would implement all the report's recommendations. LAPFF described the report's findings as 'not flattering'
- Following the release of the report, Rio Tinto reached out directly to LAPFF to offer a meeting with the company CFO. LAPFF's aim for the meeting was to assess the extent to which Rio Tinto was accounting for social and environmental factors in its financial considerations. LAPFF's view was that that the company still had some work to do to create a culture whereby its staff understands that social and environmental impacts are the basis for financial resilience, but the improvement in the company's openness will ultimately help to build a company that is financially resilient
- At the 2022 AGM, LAPFF representatives asked whether Rio Tinto would be willing to review its processes for undertaking social and environmental impact assessments. LAPFF had follow up conversations with CEO, incoming Chair and outgoing Chair, and they extended further invitations for engagement to LAPFF. LAPFF will seek to discuss the topic of impact assessments further with company representatives at the highest level of decision-making
- In October 2022, Rio Tinto published a progress report updating investors on its commitments for community engagement, as part of efforts to increase transparency in its approach to cultural heritage protection
- In Q4-22, LAPFF also attended an ESG briefing which discussed the report's findings. Given Rio Tinto's description of increased cultural heritage assessments, LAPFF asked if the company has also committed to independent environmental and social impact assessments as part of its approach

The Institutional Investors Group on Climate Change – IIGCC

DPF is a member of the Institutional Investors Group on Climate Change (IIGCC).

IIGCC Mission Statement: *'Our mission is to support and enable the investment community in driving significant and real progress by 2030 towards a net zero and resilient future. This will be achieved through capital allocation decisions, stewardship and successful engagement with companies, policy makers and fellow investors.'*

The IIGCC is a European membership body for investor collaboration on climate change and investor action towards a low-carbon future. The Group is made up of over 350 members, mainly pension funds and asset owners, with combined assets under management of over €51tn.

IIGCC works to support and help define the public policies, investment practices and corporate behaviours that address the long-term risks and opportunities associated with climate change. The IIGCC's work is split into 4 sections:

- Policy programme helps shape sustainable finance and climate policy, and regulation for key sectors of the economy
- Corporate programme is focused on listed equity and corporate bonds. It supports members in effective stewardship and active ownership of investments
- Investor practices programme helps members and the broader investment sector better integrate climate risks and opportunities into their investment processes and decision-making
- Paris Aligned Investment Initiative looks at how investors can align their portfolios to the goals of the Paris Agreement

The Fund looks forward to working with IIGCC members to plan for a sustainable transition to net zero. An example of the work carried out by the IIGCC is shown below.

At the 15th Conference of the Parties to the United Nations Convention on Biological Diversity (COP15) in 2022, a group of institutional investors announced the formation of Nature Action 100, a new global engagement initiative which focuses on investors driving urgent action on the nature-related risks and dependencies in the companies they own.

Nature Action 100 aims to drive greater corporate ambition and action on tackling nature loss and biodiversity decline, and will complement the United Nations Convention on Biological Diversity's Global Biodiversity Framework by identifying the private sector actions that need to be undertaken to protect and restore nature and seek to catalyse these actions via investor-company engagements. A formal launch of the Nature Action 100 initiative will take place in 2023.

More than half of the world's GDP ($44 trillion of economic value generation) is either moderately or highly reliant on nature's services, and by some estimates, tens of billions of dollars in assets could be at risk of stranding over the next five to 10 years if companies continue to produce deforestation-linked commodities. In addition, wildlife populations have declined by an average of 69% since 1970, with an estimated one million plant and animal species at risk of extinction by 2050 – approximately 25% of all species on Earth. By the end of the century, 50% or more is at risk.

Ceres and IIGCC will co-lead the initiative's Secretariat and Corporate Engagement workstreams; the Finance for Biodiversity Foundation and Planet Tracker will co-lead the Technical Advisory Group. The Secretariat will be responsible for setting up the initiative's Steering Group and supporting administrative, communications and fundraising activities. The Corporate Engagement workstream will focus on developing a multi-year engagement plan to engage companies deemed most important to stemming nature and biodiversity loss, while the Technical Advisory Group will help to identify priority engagements and develop science-based investor guidance and tools.

Investors will focus on companies in key sectors that are deemed to be systemically important to the goal of reversing nature and biodiversity loss by 2030. They will work to ensure companies are taking timely and necessary actions to protect and restore nature and ecosystems. Specifically, the initiative will:

- Map sector pathways and identify a list of 100 focus companies for investor engagement
- Support engagements between investor teams and focus company executives and board members around initiative priorities
- Identify corporate actions that need to be undertaken to protect and restore nature
- Track the progress of focus companies against key indicators and provide annual progress updates
- Support investor and corporate advocacy efforts with relevant policymakers on nature-focused policies

The group of launching investors consists of the following firms: AXA Investment Managers, Columbia Threadneedle Investments, BNP Paribas Asset Management, Church Commissioners for England, Domini Impact Investments, Federated Hermes Limited, Karner Blue Capital, Robeco, Storebrand Asset Management, Christian Brothers Investment Services, and Vancity Investment Management.

Climate Action 100+

Through LGPSC and IIGCC, DPF is a member of Climate Action 100+ (CA100+). CA100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Over 700 investors, responsible for over $68 trillion in assets under management, are engaging companies on improving climate change governance, cutting emissions and strengthening climate-related financial disclosures.

The work of the initiative is coordinated by five regional investor networks: the Asia Investor Group on Climate Change (AIGCC), Ceres, Investor Group on Climate Change (IGCC), Institutional Investors Group on Climate Change (IIGCC) and Principles for Responsible Investment (PRI). It is supported by a global Steering Committee.

Two examples of the engagement carried out by Climate Action 100+ are set out below:

BP: EOS at Federated Hermes acting as lead investor engaging with BP as part of Climate Action 100+ welcomed BP's announcement of its plans to accelerate its net zero ambition. EOS at Federated Hermes has been engaging with BP through the initiative for several years. BP now aims to reduce its operational emissions by 50% by 2030, compared with an aim of 30-35% previously. It is also aiming for net zero lifecycle emissions from the energy products it sells by 2050 or sooner, including Scope 3 emissions, expanding on a previous target of a 50% reduction.

Duke Energy: Duke Energy expanded its net zero by 2050 target to include indirect emissions from the procurement of fossil fuels used for generation, the electricity purchased for its own use, the methane and carbon from production of natural gas, and the carbon emissions from customers' consumption. At the same time, Duke Energy, a focus company of the Climate Action 100+ initiative, committed to exiting coal by 2035 and reducing the amount of power the company produces from coal to just 5% of generation by 2030.

10.2 LGPSC Collaborative Engagements

LGPSC has, and continues, to participate in several investor collaborations that pursue better corporate standards across ESG issues, including for several Stewardship Themes. LGPSC has also supported theme-relevant industry standards and benchmarks, which clarify investor expectations of companies and provide a mechanism for measurement of progress.

Examples of collaborative initiatives that form part of LGPSC's stewardship activities are set out below:

LGPSC: Collaborative Engagements and Initiatives
Company: Experian
Theme: Responsible tax behaviour
Objective:

- LGPSC aims for positive interactions at senior levels of target companies encouraging robust tax governance and acknowledgement of lack of tax transparency as a business risk, along with commitments to strategies or targets to manage those risks

Engagement:

- Following engagement with LGPSC and a group of four other European investors, Experian published its first standalone tax report in 2022. LGPSC expects companies to disclose tax-relevant Country-by-Country-Reporting (CBCR), which would facilitate analysis of their tax behaviour. The report should show jurisdiction-wise activities of a company and disclose how the activities correspond to tax paid. The underlying aim is to ensure that multinational enterprises are taxed where their economic activities take place, and value is created
- LGPSC commends Experian for taking this important step to provide shareholders and wider stakeholders an overview of their approach to tax and how the company manages its tax affairs in an easily explained and accessible format. In feedback to Experian, LGPSC has suggested that they consider using the Global Reporting Initiative (GRI) Tax Standard 207, which covers key elements that should be included in tax reporting such as approach to tax, tax governance/controls/risk management, stakeholder engagement and CBCR. LGPSC believes that the company is well on its way to meet core elements of the standard, while there is further scope related to CBCR

Outcome:

- LGPSC appreciates the company's effort in disclosing a tax contribution report. Experian has found the collective feedback constructive and has expressed its plans to take the feedback into account in its tax report next year

Engagement: Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers

Escalation is a key component of stewardship. Should engagement with an investment manager prove unsuccessful (or in the case of one of the Fund's external investment managers, unsuccessful engagement with an investee company), the Fund or the external investment manager may consider using its voting rights accordingly, or potentially reducing its investment.

Some examples of engagement escalation by the Fund's external investment managers are set out below, together with escalation through LAPFF.

11.1 LGIM Escalation of Engagement

External Manager: LGIM
Escalation Example: Royal Mail

- LGIM extended its gender diversity policy in 2022 to include the executive committee, as well as the company board. The new policy sees LGIM apply voting sanctions to FTSE 100 companies that do not have at least one woman on the executive committee, with the expectation that there should be a minimum of 33% over time
- At Royal Mail's AGM in July 2022, LGIM voted against the re-election of Keith Williams as a Director because the company had an all-male executive committee
- Outcome: 92.7% of shareholders supported the resolution to re-elect. LGIM continues to engage with companies on gender diversity, and to implement their global and regional voting policies on this issue
- LGIM believes that this vote is significant as it relates to the escalation of their activities on one of their core stewardship themes, gender diversity

External Manager: LGIM
Escalation Example: Informa

- LGIM has noted concerns about Informa's remuneration practices for many years, both individually and collaboratively. Due to continued dissatisfaction, LGIM had already voted against the company's pay proposals at its December 2020 and June 2021 meetings
- At the 2022 AGM, LGIM voted against the management recommendations for four resolutions covering the Remuneration Report, the Remuneration Policy, and the re-election of two incumbent Remuneration Committee members
- Rationale for the Vote Decision: The Remuneration Policy was put to a vote again at this AGM, with the main changes being the re-introduction of the performance based long-term incentive plan, which was under a separate resolution, to come into force from 2024. Although this is a positive change, the post-exit shareholding requirements under the policy do not meet LGIM's minimum standards and with regard to pensions, it is unclear whether reductions will align with the wider workforce. Given previous and continuing dissatisfaction as outlined, LGIM also voted against incumbent remuneration committee member
- Outcome: More than 70% of shareholders voted against the Remuneration Report. The Remuneration Policy was approved by 93.5% of shareholders, and 20% of shareholders voted against the re-election of Helen Owers, incumbent member of the remuneration committee. The resolution to re-elect Stephen Davidson, former chair of the remuneration committee, was withdrawn due to him stepping down from the board entirely. Although the Remuneration Report failed to pass, such votes are advisory and not binding. LGIM will continue to engage both individually and collaboratively with the company to help push for improvements
- LGIM considers this vote to be significant as it is in application of an escalation of their voting policy on the topic of remuneration (escalation of engagement by vote)

11.2 LGPSC Escalation of Engagement

The Stewardship Themes that LGPSC has identified as priority areas for engagement are all long-term and systemic in nature. Against that backdrop, LGPSC will often use escalation tactics to enhance the chances of achieving long-term engagement outcomes. Examples of how LGPSC might escalate include, but are not limited to:

- Additional meetings with the management or the directors of an investee company
- Escalating the dialogue from the executive to the board of directors or from one board member to the Chair and/or a more amenable board member
- Collaboration with fellow investors and/or with partnership organisations
- Public statement
- Voting against management (e.g. against the annual report, the appointment of directors or the auditors)
- Filing and/or co-filing shareholder resolutions
- Attendance and raising questions at the company AGM

Through its involvement in collaborative engagement projects, like CA100+, LGPSC is continuously assessing the need for escalation depending on individual companies' response to expectations from investors. Going into 2021, CA100+ had established a Benchmark Framework which allows evaluation of company progress against Paris alignment on key parameters, such short/medium/long-term targets, decarbonisation strategy, capital expenditure plans, remuneration and disclosures.

LGPSC: Escalation
Company: Shell
Theme: Climate Change
Objective:
- LGPSC expects companies to set clear, reasonable, and measurable climate action targets aligned with the Paris Agreement. LGPSC also compares those targets with the company's industry peers, as well as Paris-aligned sector pathways, and engage with the company in case of any major deviations

Engagement:
- In November 2022, LGPSC sent a letter to the Chair of the Board at Shell, outlining why LGPSC voted against the company's Energy Transition Strategy in the 2022 AGM. The letter outlined the strategy's misalignment with the Paris Agreement; a lack of targets which would facilitate the achievement of the Strategy; and questioned whether Shell's capital expenditure plans were genuinely aligned with a 1.5˚C temperature rise scenario. Following receipt of this letter, a 1-1 meeting was scheduled between LGPSC and the head of Investor Relations at Shell
- This meeting allowed a detailed discussion on Shell's climate strategy, highlighting the risks and opportunities the company has focussed on ahead of the energy transition. LGPSC was happy to hear that Shell recognises the key role it must play in addressing climate risk on a global level and was encouraged by the company's progress in decreasing its oil production. However, Shell expressed a reluctance to set absolute short- and medium-term Scope 3 targets for its upstream emissions. Shell also stressed the fact that it believes it is currently a leader in the global transition, and that now the responsibility must shift towards governments and consumers to continue progress towards net zero

Outcome:
- LGPSC very much appreciates Shell's desire to have a meaningful and open dialogue with its shareholders, and LGPSC believes that Shell is a sector leader in the climate transition. However, significant doubts remain regarding the feasibility and robustness of Shell's transition strategy, evidenced by a lack of meaningful targets which detail how Shell will achieve its long-term goals. LGPSC is therefore considering further engagement or escalation in early 2023. In February, the

environmental charity ClientEarth filed a derivative claim against the Board of Directors at Shell, stating that the Board is mismanaging climate risk, evidenced by an insufficient Energy Transition Strategy and a fundamental misalignment with the goals of the Paris Agreement

- Following an assessment of the potential risks and benefits associated with supporting the claim, LGPSC provided a copy of a recent engagement with Shell to the Court as evidence of LGPSC's concerns. This escalation was made in recognition of the significant overlap between the points raised in the ClientEarth claim and LGPSC's own engagement objectives for dialogue with Shell

LGPSC Expectations for External Managers to Escalate on Their Behalf

LGPSC expects its external managers to be ready to escalate any engagement where there is lack of progress relative to engagement objectives, on any material ESG topic.

LGPSC: External Manager Escalation of Engagement Activities
Sub-Fund: LGPSC Multi Asset Credit Fund
External Manager: CTI
Company: Stellantis
Sector: Automotive
Objective: Improve climate-related disclosures.
ESG Topics Addressed: Strategy and business model; transparency and disclosure; climate change.
Issue / Reason for Engagement: The company was slow to publish publicly released details on its climate ambition, strategy, and management.
Scope and Process / Action Taken: CTI engaged with Stellantis six times over a 12-month period on climate change. Main asks include an ambitious net zero target and Battery Electric Vehicle (BEV) strategy.
Escalation strategy: Repeated engagements with different people in the company, including the Head of Sustainability, the Strategy Lead, and the CFO.
Outcomes and next steps:

- Following these escalations, the company has unveiled a strategy plan to achieve net zero by 2038 across its entire value chain and cut emissions intensity by 50% by 2030
- It also includes a sales target of 100% BEV passenger cars in Europe by 2030. Going forward, CTI will focus engagement on shifting from climate targets to strategy, climate lobbying and sustainable sourcing

LGPS Central: External Manager Escalation of Engagement Activities
Sub-Fund: LGPSC Global Sustainable Equity Broad Strategy
External Manager: Mirova
Company: Orpea
Sector: Residential Care
Objective: Improve the social aspects of the business which had been the subject of controversies.
ESG Topics Addressed: Social issues and governance.
Issue/Reason for Engagement: Mirova has a long history of successful engagement with Orpea related to processes implemented to address serious social risks. Following allegations made against the company during early 2022, this engagement and the expectations of the company have been materially strengthened.
Scope and Process/Action Taken:

- Mirova sent a letter to the President of the Board regarding specific points related to potential social risks as well as Mirova's expectations of the company
- The company responded stating that it was willing to consider Mirova's demands and committed to answer concerns. Mirova was able to escalate this engagement, and arranged two meetings, the first with the CEO and Board members and the second with CSR representatives
- Mirova followed up, arranging a further three meetings with the company, firstly meeting the recently appointed Transition Manager - HR Strategy. Mirova also had a meeting with current CEO, future CEO and Board members, where they discussed proposed AGM resolutions. In May 2022, financial

malpractices by Orpea’s former management team were revealed. Mirova immediately advocated for a change of management and a new board

Outcomes and Next Steps:

- Following this engagement, at the Orpea's AGM, the new CEO expressed the company’s commitment to transition the company towards more consideration of residents and employees
- However, in conjunction with an unexpected conciliation plan, which would leave Mirova with less influence with the company, together with the fact that Mirova had no guarantee that Orpea was going to align on social issues which had dominated the engagements, Mirova decided to divest from its holding in the company

11.3 LAPFF Escalation of Engagement

Each year the LAPFF engages with many companies, often directly with company chairs.

When company dialogue is deemed to be too slow, LAPFF escalates its engagement. This escalation may include voting recommendations to LAPFF members in respect of a company’s AGM to directly promote change or filing shareholder resolutions with companies to progress action on a given topic. To leverage engagement outcomes, the LAPFF often works with other asset owners and managers. An example, of LAPFF engagement was set out under **Principle 10** in respect of Rio Tinto.

Exercising Rights and Responsibilities: Principle 12

Signatories actively exercise their rights and responsibilities

12.1 Exercising Voting Rights

As discussed in **Principle 7,** the Fund believes that voting is an integral part of the responsible investment and stewardship process. The responsibility for exercising voting rights has largely been delegated to Fund's external investment managers, including LGPSC.

The level of direct voting by the Fund has reduced significantly over the last few years as the Fund has increasingly transitioned into pooled investment products, largely managed by either LGIM or LGPSC. However, DPF continues to exercise its voting rights where it retains a direct voting responsibility. These largely relate to some small allocations in respect of listed private equity investment trusts, listed infrastructure investment trusts and real estate investment trusts. The Fund's approach to voting is set out in the Fund's Responsible Investment Framework, a copy of which is published on the Fund's website. The Fund uses ISS, a specialist third party specialist voting provider, to provide voting research and recommendations.

12.2 LGIM Exercising Voting Rights

The Fund's single largest investment manager is LGIM, which manage assets for the Fund on a passive index basis. Votes for these products are therefore cast in accordance with LGIM's voting policies. As one of the largest asset managers in the world, with over £1.3 trillion of assets under management, LGIM has the scale and influence to enact tangible positive change in corporate behaviour, improving environmental, social and governance outcomes and promoting sustainable investment returns. LGIM's voting policy is discussed in greater detail under **Principle 7**, and examples of some its voting, engagement and escalation activities are discussed under **Principle 9** and **Principle 11**. The voting principles, and LGIM's broader voting activity during 2022, is summarised below.

LGIM Voting Principles

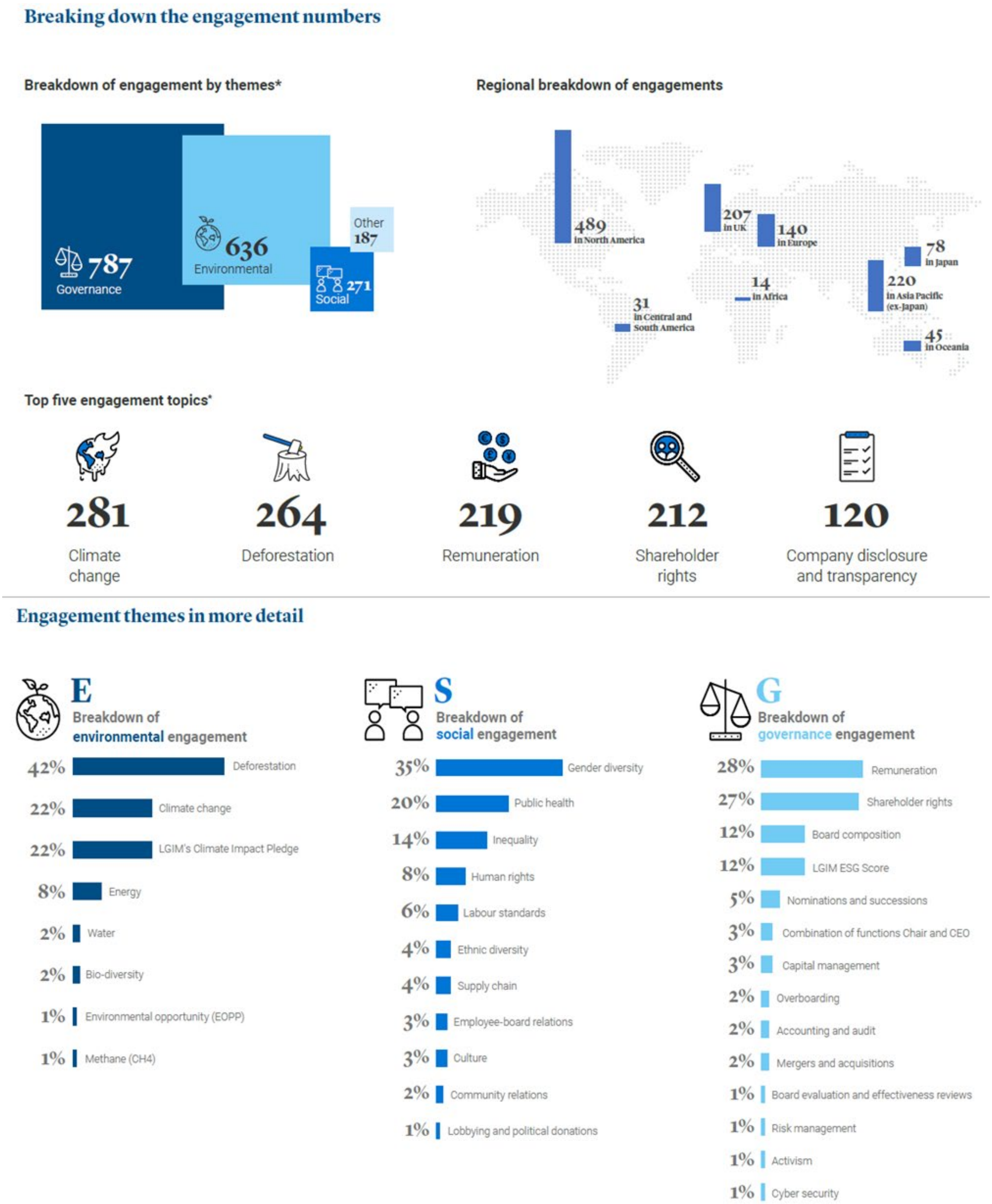
- Active ownership forms a key part of how LGIM embed ESG considerations into their business
- LGIM's voting principles are based on a set of corporate governance principles
- Previous engagement with an investee company also determines the way voting decisions are made and cast
- Voting activity is combined with direct engagement with the investee company to ensure that the investee company fully understands any issues and concerns that LGIM may have and to encourage improvement

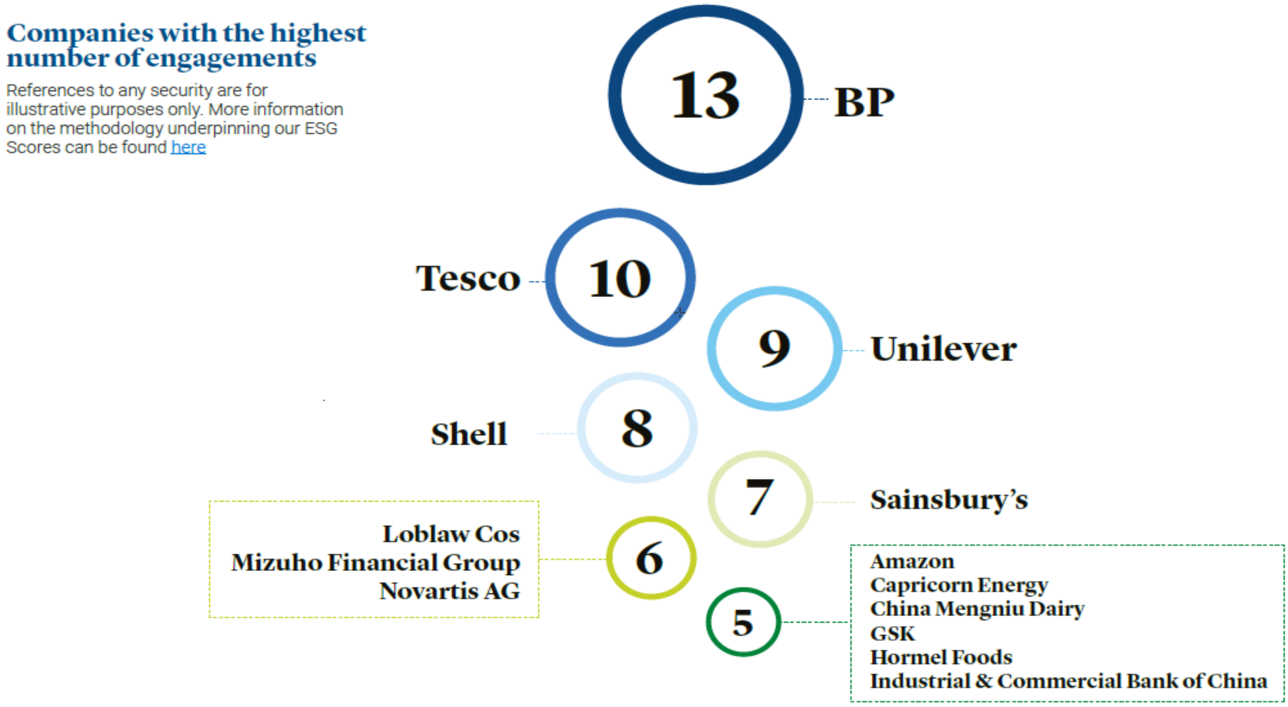
The Fund also receives a quarterly ESG impact report from LGIM which contains a summary of key engagements and significant voting activity.

Some of LGIM's voting and engagement activity in 2022 is noted below:

- Globally, LGIM voted on 67,833 resolutions in 2022, voting on 4,200 individual companies
- In the UK, LGIM voted on 10,145 resolutions on 618 individual companies
- In the UK, LGIM voted against/abstained on at least one resolution at 273 companies in 2022
- 44% of UK companies received at least one vote against management in 2022, compared to 99% for North America, 92% for Europe, 73% for Japan and 82% for Emerging Markets

A breakdown of the votes against management for UK companies, including abstentions, is included in the charts below to be updated to show 2022. Governance issues were the most common reason for voting against management in UK companies, particular in relation to Directors and non-salary compensation.





12.3 LGPSC Exercising Voting Rights

The Fund's second largest investment manager is LGPSC. Voting is a core part of LGPSC's overall Stewardship effort as a shareholder in investee companies.

LGPSC Voting Objectives

High-level objectives

LGPSC views voting as a core component of its stewardship activities. In a long-term perspective, all voting activities they undertake aim to:

- support the long-term economic interests of our stakeholders
- ensure boards of directors are accountable to shareholders
- encourage sustainable market behaviour across companies and sectors

Principles-based approach

LGPSC take a principles-based approach to voting is guided by LGPSC's established Voting Principles. At high level, it expects companies to:

- Adhere to essential standards of good governance for board composition and oversight
- Be transparent in their communication with shareholders
- Remunerate executives fairly
- Protect shareholder rights and align interests with shareholders
- Promote sustainable business practices and consider the interests of other stakeholders

Voting Watch List

LGPSC has established a voting 'watch list' that consists of around 50 companies which cover larger holdings and/or core engagements in and outside of Stewardship Themes. Votes at these companies are scrutinised ahead of the AGM. The Voting Watch List serves a further purpose, in allowing LGPSC to test whether its votes are generally cast in alignment with their Voting Principles.

Interaction with EOS at Federated Hermes

Ahead of each voting season, LGPSC shares its Voting Watch List with EOS to ensure that it receives a more detailed analysis to substantiate the voting recommendations for companies on this list ahead of relevant AGMs. LGPSC also seeks ad-hoc interactions/meetings with EOS regarding core engagements, where either LGPSC or the Partner Funds would like further input from the other ahead of a vote.

In 2022, LGPSC and EOS at Federated Hermes voted on 41,747 resolutions at 3,410 meetings. At 2,200 of those meetings, LGPSC voted against managements' recommendation or abstained from voting on at least one resolution. LGPSC voted with management by exception at 159 meetings and supported management on all resolutions at 1,051 meetings.

In 2022, EOS at Federated Hermes engaged with 833 companies on 3,477 environmental, social, governance, strategy, risk and communication issues and objectives. EOS attended 13 shareholder meetings and asked questions at eight of these, including BP, Volkswagen, BMW, Royal Bank of Canada, Bank of Nova Scotia, Siemens Energy and Canadian Imperial Bank of Commerce. At Berkshire Hathaway, EOS made a statement and co-filed a shareholder resolution.

An example of LGPSC's voting activities is set out below:

LGPSC: Exercising Voting Rights
Company: Barclays Bank
Theme: Climate change
Objective:
- LGPSC expects companies to set clear, reasonable, and measurable climate action targets aligned with the Paris Agreement. LGPSC also compares those targets with the company's industry peers, as well as Paris-aligned sector pathways, and engage with the company in case of any major deviations

Vote decision and rationale:
- Barclays Bank published its updated Climate Strategy, Targets and Progress Report for an advisory vote at its AGM on 4 May 2022. Following an analysis of the report as well as a review of LGPSC's long-standing engagement with the bank, LGPSC decided to vote against the resolution
  While Barclays has taken some positive steps on climate, LGPSC analysis shows that Barclay Bank has yet to fully align with a 1.5C trajectory. LGPSC were concerned with Barclay Bank's target ranges for emissions intensity for several high emitting sectors which in their view were not aligned with IEA Net Zero Emissions and may not lead to absolute emission reductions
- Barclay Bank's planned exit from US coal power generation is also later than the limit set by IEA Net Zero Emissions

Outcome:
- Following the AGM, LGPSC sent a letter to Barclay Bank explaining why it had voted against Barclays Bank's Climate Strategy, Targets and Progress 2022 report and subsequently engaged on the same alongside a group of other investors
- LGPSC appreciates Barclays Bank's positive approach towards engagement. While the company initially set a 2035 timeline for phasing out financing of US thermal coal power generation, LGPSC welcomes their recent commitment to bring forward this deadline from 2035 to 2030. This took effect at the time of Barclays Bank's 2022 year-end climate update and aligns with the company's approach in the UK and the EU
- LGPSC continues to engage with the company on their climate transition efforts, including on targets to reduce absolute emission in the period to 2030

12.3 Other External Managers Exercising Voting Rights

DPF expects all its external investment managers to fully exercise their voting rights and responsibilities. For example, part of the Fund's cash allocation is managed through a Short-Dated Investment Grade Bond Funds managed by Aegon Asset Management. An example of Aegon Asset Management exercising its voting rights is set out below:

Aegon Asset Management (AAM): Exercising Rights and Responsibilities in Fixed Income

- Company B *[name redacted]* had an unexpected guidance downgrade and management change, which was subsequently compounded by the Covid-19 crisis causing significant financial stress ahead of key debt maturities and potential covenant breaches. AAM was invested across the near-dated maturities, which were themselves a potential default trigger, and the longest-dated maturities, which were exposed to the greatest risk of a credit negative outcome
- AAM engaged with financial and legal advisors, as well as other investors, to re-underwrite the credit risk and seek to optimise outcomes for AAM's investment in the structure. This engagement culminated in forming a creditor group of similarly aligned creditors, engaging with Company B, and eventually supporting a transaction
- AAM formed a group with other investors that shared a similar risk profile and had similar interests to AAM. As part of a group, AAM hired a legal advisor to act as a holder of confidential information between investors, act as a party that could theoretically work on inside information while allowing the investors to stay public, and as a key advisor to help diligence process and legal risks
- Through the group's legal representation, AAM and the other investors wrote letters to Company B's Board of Directors, outlining transactions that they would support and transactions that they would not support. AAM sought to assert their position that a transaction that would substantially subordinate AAM's position and expose AAM to higher risk in a default scenario would not be viewed favourably by AAM
- Outcome: The situation was resolved by Company B proposing a market-based solution to issue new securities that would clear all maturities and default triggers (bar liquidity) until 2024. While AAM's longer-dated position was ultimately subordinated, it was to a significantly lessor extent than initially feared and the risk of material value leakage to other creditors was closed. AAM's position in the near-dated maturities was redeemed at par, while the longer-dated maturity remained outstanding, and its terms were unchanged
- After further engagement with Company B, AAM supported the new market-based transaction and continues to be positioned as a constructive creditor to Company B

12.3 Private Markets Exercising Voting Rights

DPF has a large portfolio of private markets investments spanning Private Equity, Infrastructure, Diversified Multi-Asset Credit, Private Debt and Property, with commitments to these asset classes totalling over £1 billion. Most of the Fund's private market investments are through closed-ended Limited Partnership arrangements which do not have automatic voting rights, except where the Fund is a member of Limited Partnership Advisory Committee (LPAC), albeit the matters considered by an LPAC largely relate to potential conflict of interests and changing partnership terms (see examples below). To the extent that DPF is an LPAC member, it actively attends meetings to discharge its responsibilities in the best interests of DPF.

Examples of LPAC matters considered by DPF in 2022-23:

- Extension to a property fund's re-investment period
- Extension to an infrastructure fund's geographical investment parameters
- Approval of changes to an infrastructure fund's Key Person provisions
- Approval of an infrastructure fund's fees payable to an associated undertaking of the investment manager
- Extension of a private equity fund's termination date

Appendix 1: DPF DLUHC TCFD Consultation Response – Question 3

Question 3: Do you agree with our suggested requirements in relation to scenario analysis?

The Fund agrees that at a minimum, two climate related scenarios should be considered.

It would also be beneficial for AAs to have the flexibility to consider a range of different temperature scenarios.

The Fund's latest 2022 Climate Risk Report, produced by LGPS Central Ltd (LGPSC), with Scenario Analysis from Mercer, considers three scenarios: A rapid transition (<1.5°C temperature rise); An orderly transition (1.6°C temperature rise); and A failed transition (4°C temperature rise).

The outcome for global warming and the transition to net-zero is highly uncertain. There is, therefore, significant value in considering a range of temperature rises and the Fund broadly supports the approach taken by Mercer to consider 3 scenarios (rapid, orderly and failed transitions).

A requirement to carry out scenario analysis on at least a three-year basis to fit in with the triennial valuation cycle makes sense, as does a requirement to consider whether scenario analysis should be repeated on any material change in strategy.

It is important that the current limitations of climate scenario analysis, which is a relatively new discipline, are recognised, particularly if such analysis is expected to increasingly inform strategic asset allocation and funding decisions.

In its current form, Scenario Analysis is at its most useful when used as a directional indicator. As with any forecasting model, small changes to the methodology, or the underlying assumptions and inputs, can result in significant changes to model outputs. Scenario analysis is likely to be directionally accurate, but with low levels of absolute precision.

It will be vital for the outputs of climate scenario analysis to be caveated when reported to stakeholders.

Further progress on the development of climate scenario expertise and methodologies to reach a position of greater consistency will be welcomed.

The Fund agrees with the consultation response from the Local Authority Pension Fund Forum (LAPFF) on a 1.5°C scenarios, which is summarised below:

There is broad consensus around the need to achieve temperature rises of no more than 1.5°C

- A scenario of 1.5°C would more closely align with the UK government's commitment to reduce greenhouse gas emissions by at least 100% by 2050, enshrined in the 2019 Climate Change Act.
- The objective of limiting warming to 1.5 degrees was also the clear message from the UK government after COP26 in Glasgow.

Using 2 degrees would therefore seem to undermine the ultimate objective of UK policy and would create transition risks for asset owners if they are not considering the ultimate objective of UK policy (i.e., regulatory risks).

Appendix 2: Committee – January 2023 Responses to Public Questions

Question 1

[Name redacted], on behalf of Derbyshire Pensioners Action Group

Your 2020 and 2021 Climate Related Disclosures reports have the following analysis of resilience of the Pension Fund's investment strategy:

- A 2°C scenario would have a positive impact on the Fund's returns considering both a timeline to 2030 and to 2050. This positive impact is boosted under the Strategic Asset Allocation reflecting the 3% allocation to Global Sustainable Equities.
- A 3°C scenario (which is in line with the current greenhouse gas trajectory) has a relatively muted impact on the Fund's annual returns.
- A 4°C scenario would reduce the Fund's annual returns, with most asset classes expected to experience negative returns

I am sure you are aware that currently the world is at 1.2 degrees of warming, which has resulted in unprecedented temperatures, e.g. 40 degrees in UK in 2022, unstoppable fires and devastating floods. This has resulted in trillions of pounds of damage globally. The world will have large areas that are uninhabitable by humans if we reach 3 degrees. There will be a shortage of fresh water and food, rising sea levels and hundreds of millions of climate refugees. Everything will change. The analysis that 3C warming will have a muted impact on the fund's returns seems to lack recognition of the reality of what will happen and seems incredibly complacent. Can you explain where this analysis has come from and whether you think it represents a realistic analysis of the future?

Fund Response

The climate scenario analysis conducted by Mercer LLC (Mercer) was included in LGPS Central Limited's 2020 Climate Risk Report, which was the first such report commissioned by the Fund. Mercer is widely regarded as a leading consultancy firm in terms of developing, and reporting on, climate change scenario analysis.

For the climate scenario analysis included in the 2022 LGPS Central Limited Climate Risk Report, which is being presented to Committee today, Mercer has partnered with Ortec Finance and Cambridge Econometrics to develop climate scenarios that are grounded in the latest climate and economic research.

As noted in the 2022 Climate Risk Report, there remains a great deal of uncertainty for investors around the market reaction to climate risks and to changing climate policies. Climate scenario analysis forecasts different possible eventualities across a range of scenarios. As a developing field, which by necessity uses assumptions about inherently unpredictable matters over long time horizons, it is prudent to view the outputs from the analysis as directional information on the sensitivity of the Fund's portfolio to different climate scenarios to be considered in tandem with all the other factors which have the potential to impact on investment returns.

Question 2

[Name redacted]

Does your advisor Mr A Fletcher have expertise relevant to the climate and ecological crisis and if so, is the level of his knowledge sufficient to the task of providing guidance on pensions investment to assure the security of many hundreds of people for years to come?

Fund Response

The Fund's external investment advisor has a broad range of experience across investments, economics and markets, in addition to possessing ESG (environment, social and governance) related knowledge and skills, to ensure that ESG advice, including advice on climate change, is provided in the context of the broader range of risk and reward considerations.

The Fund also has access to a wide range of climate related knowledge and research via its membership of the Local Authority Pension Fund Forum and via ongoing dialogue with the Fund's investment managers and with the Responsible Investment and Engagement Team at LGPS Central Limited which prepares the annual Climate Risk Report for the Pension Fund.

Additionally, the Fund has recently become a member of the Institutional Investors Group on Climate Change (IIGCC), the leading European membership body for investor collaboration on climate change. The IIGCC has around 375 members, representing around €60 trillion of assets under management. Membership will enable the Fund to work with other like-minded investors on the journey to a net zero future.

Question 3

[Name redacted]

Does the Committee know whether the Derbyshire Pension Fund's equities/shares portfolio has an average, above average or below average exposure to green companies, relative to the market as a whole? And for bonds, what part of the Derbyshire bonds portfolio are green bonds? If the Committee does not know the answer please could they ask their investment advisers to check?

Fund Response

The Fund uses a range of carbon measures to manage climate-related risks and opportunities, and these are set out in the Fund's annual TCFD report, a copy of which can be found on the Fund's website. One of these measures covers the weight of the Fund's listed equity portfolio invested in companies whose products and services include clean technology (Alternative Energy, Energy Efficiency, Green Buildings, Pollution Prevention, and Sustainable Water). The measure indicates that 33.2% of the Fund's listed equity portfolio at 31 March 2022 was invested in companies whose products and services include clean technology. Whilst this was slightly lower than the benchmark weight of 34.4% at the same date, it was 9.4% higher than the Fund's clean technology exposure at 31 July 2019.

UK sovereign green bonds are very much in their infancy, with the UK Government issuing its first green conventional bond in 2021, followed by the issue of a second green bond in 2022. These two issues currently account for around 1.5% of the total UK conventional gilt market. The Fund made its first investment into one of the two issues in 2022, and the investment currently accounts for just over 5% of the Fund's UK conventional gilt portfolio.

Derbyshire Pension Fund

lgps

Question 4

[Name redacted], on behalf of Transition Chesterfield

In the response from Cllr Barry Lewis to a question from [name redacted] at the last council meeting, he stated that: "The Fund's in-house investment management team, together with the Fund's underlying investment managers, integrate ESG considerations, including climate related risks and opportunities, into the investment decision making process. Climate related risks and opportunities are considered alongside a wide range of factors that are likely to impact potential investment returns, including economic and market risks, volatility, liquidity, currency exposure and concentration risk." This statement suggests that the Fund has a "reactive" approach to managing risk, rather than a "proactive" one that mandates the investment managers to go out and search for climate related opportunities. As the energy system changes from high carbon to low carbon and we need to reduce emissions by 50% in a decade, this will create huge opportunities in the green economy which the Fund should be actively seeking out by regular reviews/calls for proposals". Has the Fund considered a more proactive policy, for example, for the equities part of the portfolio, running a simple test using something like the Green Revenue Data Model? And does the Fund know how many of the companies that it owns that meet the Green Energy Mark?

Fund Response

The Fund proactively manages climate-related risks and opportunities, being one of the first LGPS pension funds to publish a Climate Strategy, which included support for the aims of the Paris Agreement, and the Fund's first decarbonisation targets. Significant investments have subsequently been made into Global Sustainable Equities and renewable energy assets over the last three years, with these two asset classes now accounting for around 30% of the Fund's total investments.

There are a number of different climate-related models available to investors, including those developed by the index providers. The carbon risk metrics analysis in the Fund's Climate Risk Report is based on a dataset provided by MSCI ESG Research LLC and includes a measure of exposure to clean technology by revenue.

Only companies listed, or planning to list, on the London Stock Exchange are able to apply for the Green Economy Mark. The climate related analysis considered by the Fund covers a meaningful proportion of the Fund's investment universe and is considered in tandem with all the other factors which have the potential to impact on investment returns.

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