London CIV

Responsible Investment and Stewardship Outcomes Report 2024

For the reporting year ending 31st December 2023

About London CIV: Who We Are

London CIV manages the investment of pension assets for the 32 Local Government Pension Scheme (LGPS) Funds in London. We are one of eight LGPS pools, bringing together c.£30.6 billion investments of 32 Partner Funds across 20+ public and private market investment solutions.

Our Partner Funds are also our shareholders and we work collaboratively to deliver our agreed purpose, which is: *Working together to deliver sustainable prosperity for the communities that count on us all*. Our statement of Investment Beliefs sets out how we work in collaboration with Partner Funds to improve investment returns and manage risk. It articulates how we set out to achieve our commitment to be responsible investors and good stewards.

Our Partner Funds retain responsibility for their asset allocation and investment strategy, and thus exposure to environmental, social and governance (ESG) risks. We see our role as helping them implement their strategy and to understand and manage the associated risks, whilst also addressing global issues and working to drive progress.

Contents

Our purpose

Working together to deliver sustainable prosperity for the communities that count on us all

Our values

Collaboration

We work together to build and sustain strong partnerships both internally and externally

Responsibility

We are committed to deliver on our promises, meet the needs of our stakeholders and go the extra mile

Diversity

We respect and celebrate our differences and create an inclusive environment where everyone feels welcome

Integrity

We act with honesty, ethics, and respect in everything we do

Key Facts

£30.6bn

of total assets deemed pooled by our Partner Funds[1]

£14.3bn

Assets Under Management (AUM) in our ACS and **£2.7bn** in Private Market

75%

AUM in our ACS funds covered in Climate Risk analysis

Net Zero

by **2040** and operationally by **2025**

28%

of our infrastructure investments are committed towards renewable energy and we have a standalone **renewable energy fund**

35%

London CIV listed corporate equity and corporate fixed income portfolio assets have **35% lower carbon intensity** than the MSCI World[2]

2.5%

Total **Fossil Fuel** Exposure for London CIV funds is **68% lower** than the MSCI World at **2.5%** in total

2,426

EOS actively engaged with **490 companies** across **2,426 ESG topics** on behalf of London CIV

21,681

votes cast on management proposals in 2023

1,007

votes cast on shareholder proposals in 2023

22,688

votes in total

2832

engagement meetings held in 2023 by our investment managers

17

Engagement Initiatives and Membership Groups were supported by London CIV in 2023

56%

We supported 56% of shareholder proposals in 2023

100%

investment managers committed to cost transparency

100%

of investment managers are signatories of **PRI**

18 out of 21

of our funds managed by signatories of TCFD[1]

£250bn

Asset owners with a collective AUM of over £250bn co-signed the London CIV pass-through voting advocacy letter

3

Public Policy Consultations responded to by London CIV

1 Source: Northern Trust, as of 31st December 2023
2 Covers consolidated LCIV pool Listed Equity and Corporate Fixed Income Exposure, as per 31.12.23. Figures are based on Direct + First Tier Indirect emissions data from S&P Global Trucost, and calculated on a carbon to value basis.

"Working together to deliver sustainable prosperity for the communities that count on us all".

Letter from our CEO

I am delighted to present our fourth Stewardship Outcomes Report, and my second as CEO of London CIV. I am proud of the progress we have made over the past year, while at the same time noting the increased stewardship challenges we, as institutional investors, all now face.

2023 vividly underscored the critical importance of (ESG) considerations. The devastating impacts of climate change made frequent headlines, prompting new and renewed Net Zero commitments from countries and corporations alike. Global developments – including the launch of the TNFD framework and the focus on natural capital at COP28 – highlighted the urgent need to protect our planet's precious ecosystems.

We have responded to these challenges with a sharpened focus. In 2023 we published the second edition of our Voting guidelines which set out our **key stewardship priority themes**. We also continued to deliver the Climate Analytics Service, empowering Partner Funds to meet their TCFD reporting requirements
and more importantly understand their carbon footprint and advance their own net zero ambitions. We believe so strongly in the potential impact of this service that we made it available on a no-cost basis. In light of the events of the past year, we are also developing a specific policy in respect to conflict zones, recognising the importance of this topic for our client funds from both an investment and human rights perspective.

This year's report showcases our commitment to responsible investment, featuring expanded case study examples from our investment managers, our stewardship partner EOS at Federated Hermes, and, importantly, our team at London CIV. These examples highlight the positive impact that our investments can have on society.

As active asset owners, we understand the power of our investments to shape the world. We are committed to working closely with our Partner Funds and stakeholders to address the complex challenges represented by our priority themes and achieve positive change.

I would like to take this opportunity to thank our Partner Funds, our staff, investment managers, and other partners for their hard work and dedication to responsible investment. We could not have achieved these outcomes without their contributions.

Thank you for your ongoing support.

Dean Bowden , CEO, London CIV

Approved May 2024

Message from our Chief Sustainability Officer

Throughout the year the global energy crisis sparked by Russia's invasion of Ukraine continued to force asset owners and managers alike to grapple with complex questions about energy security, climate goals, and portfolio resilience[3].

This tension was further amplified by a surge in legal challenges against fossil fuel projects, as evidenced by the ClientEarth lawsuit against Shell's Board of Directors for failing to manage climate risk adequately[4]. This was coupled with concerning actions from oil majors like Shell attempting to sue Greenpeace[5] for protests against Arctic drilling, and ExxonMobil actively opposing shareholder resolutions aimed at improving climate disclosures[6]. Despite these complexities, we remained committed to our stewardship efforts and 2023 has been a transformative year for us, as we continue to make great strides towards our responsible investment and sustainability objectives.

We were delighted to have been approved as an asset owner signatory of the Stewardship Code again, as we continued to improve the quality of our case studies to demonstrate the stewardship work we have undertaken throughout the year. Most notably, we have added our own direct engagement and work beyond what our investment managers and EOS have conducted on our behalf. As active owners, we believe that stewardship is a powerful tool for achieving our net zero ambitions, mitigating risk, maximising returns, and driving positive social and environmental impact. We recognise that divestment alone would leave us with no voice or opportunity to encourage responsible corporate behaviour or add value for our Partner Funds.

In this era of rapid technological advancement, we are acutely aware of the dynamic interplay between artificial intelligence (AI) and sustainability. While AI's growing carbon footprint is a concern, its potential to revolutionise sectors like energy management and climate modelling presents an equally compelling narrative. As responsible investors, we are beginning to consider how to harness the transformative power of AI, while mitigating its environmental impact.

This year's Stewardship and Engagement Report showcases our ongoing efforts to promote responsible investment practices and provide sustainable investment opportunities for our Partner Funds. We remain committed to our policy and governance framework, which underpins our stewardship and engagement work.

At London CIV, we are proud to be leading the way towards a more sustainable future, navigating the complex challenges of our time with innovation and resilience. We look forward to continuing our journey with you.

Jacqueline Amy Jackson, CSO, London CIV

This Stewardship Report was approved in May 2024.

Signed Dean Bowden Chief Executive

3 Russia's War on Ukraine – Topics- IEA
4 Exxon accused of 'bullying' tactics in legal pursuit of climate activist investors (ft.com)
5 Shell sues Greenpeace for $2.1m in damages over fossil fuel protest in North Sea | Shell | The Guardian
6 Exxon, Chevron shareholders soundly reject climate-related petitions | Reuters

Our Responsible Investment Milestones

2015

- London CIV is authorised and regulated by the Financial Conduct Authority (FCA)

2018

- Joined UN PRI
- London CIV's LCIV Global Bond Fund goes tobacco-free
- London CIV's first RI Policy is approved by the Board

2019

- LCIV Infrastructure Fund launches, with a focus on renewable energy
- ESG review is presented to the Board, with six priority areas for action agreed

2020

- London CIV launches the LCIV Sustainable Equity Exclusion Fund, managed by RBC Global Asset Management
- London CIV submits its first UN PRI report
- Responsible Investment Reference Group (RIRG) established
- London CIV appoints first Head of Responsible Investment
- London CIV joins Pensions for Purpose
- Signatory to the Task Force for Climate-Related Disclosures (TCFD)
- London CIV joins ClimateAction100+
- RI Team expands with new hire to deliver enhanced climate risk analysis
- London CIV develops climate change risk analytics capabilities with S&P Global
- The London Fund is launched

2021

- The LCIV Renewable Infrastructure Fund is launched
- London CIV builds on its stewardship capabilities with Hermes EOS
- RI Team expands with new hire to deliver better stewardship outcomes
- London CIV commits to short and long-term net zero targets: 2025 for operational net zero; 2030 for 60% decarbonisation, and 2040 for net zero
- London CIV appoints EOS at Federated Hermes (EOS) as its stewardship partner for listed equities and corporate fixed income. London CIV joins Investors for Human Rights
- London CIV becomes a member of Asset Owner Diversity Charter Working Group
- London CIV launches the LCIV Passive Equity Progressive Paris Aligned (PEPPA) Fund

2022

- RI Policy second edition
- Publishes first Voting Guideline
- London CIV Climate Analytics service launched
- London CIV signs Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation

2023

- The LCIV UK Housing Fund is launched
- The LCIV Buy and Maintain Credit funds (Long and Short Durations) are launched
- The Responsible Investment Reference Group (RIRG) re-launched as the Sustainability Working Group (SWG), with an emphasis on working collaboratively with Partner Funds to achieve improved outcomes
- RI Team expands with new hire and strengthens its climate risk reporting capability
- Transition of voting responsibility on WS Thames Absolute Return Fund from investment manager Ruffer to London CIV
- London CIV's Climate Analytics becomes a nil-charge service for all Partner Funds
- London CIV becomes an early adopter of the TNFD Framework
- Head of Responsible Investment becomes Chief Sustainability Officer, reporting directly to CEO, reflecting the strategic importance of sustainability

Responsible Investment and Sustainability at London CIV

We believe responsible investment and sustainable business practices are not only a moral imperative, but an economic necessity. An efficient, sustainable and resilient global financial system is essential for long-term value creation. Whilst our primary purpose is to help our Partner Funds pay pensions to current and future beneficiaries, this will only prove sustainable by managing ESG risks and opportunities for our funds and supporting a financial system fit for the future. Systemic risks pose financially material threats, but they also present an opportunity. By encouraging long-term responsible investment, we can create a financial system that benefits the environment and society. This aligns with our fiduciary duty to maximise the long-term economic health of our portfolio companies and the overall market. Our funds have long-term investment horizons and allocate capital across a wide range of asset classes and sectors. We outsource 100% of our AUM and specialise in portfolio construction and risk management through the selection, appointment and monitoring of investment managers. We actively collaborate with other investors, policymakers and regulators to build the collective capacity needed to manage these risks and realise potential opportunities.

Working together to create a sustainable future

Our stewardship priorities are assessed on an annual basis within the World Economic Forum (WEF) framework of People, Planet, Principles of Governance and Prosperity to highlight the systemic risks and sustainability challenges faced across our investment universe. Here's how the World Economic Forum (WEF) Pillars guide our actions:

Figure 1: People, Planet, Principles of Governance and Prosperity as defined by the World Economic Forum and how this relates to London CIV.

Environmental, social, and governance: Stakeholder capitalism: aligning value creation with protection of values to achieve prosperity

People

"To end poverty and hunger, in all their forms and dimensions, and ensure that all human beings can fulfil their potential in dignity and equality in a healthy environment"

What it means for LCIV: recognising that assets are dependent on human capital, and human capital itself as an asset that can positively or detrimentally impact society.

Planet

"To protect the planet from degradation, including through sustainable consumption and production, sustainably managing its natural resources and taking urgent action on climate change, so that it can support the needs of the present and future generations."

What it means for LCIV: environmental issues pose critical financial and economic risks to long-term investment returns, impacting not just markets but also people and communities.

Principles of Governance

"The definition of governance evolves as organisations are increasingly expected to define and embed their purpose at the centre of their business. But principles of agency, accountability, and stewardship are vital."

What it means for LCIV: Well managed companies and assets are poised for better returns due to effective resource management, increased employee productivity and enhanced reputation.

Prosperity

"To ensure that all human beings can enjoy prosperous and fulfilling lives and that economic, social, and technological progress occurs in harmony with nature."

What it means for LCIV: our primary goal is to pay pensions, ensuring that people are not vulnerable to financial and technological challenges that could harm the ability to prosper.

Investment Beliefs

Our Investment Beliefs are the foundation of our investment strategy. Aligned with our purpose, these beliefs guide our collaboration with Partner Funds. Our Beliefs help us define how we create value for Partner Funds in the context of future uncertainty, risk and opportunity. They also help us make practical decisions around the suitability of investment strategies, the selection and monitoring of investment managers and pooled funds, as well as performance objectives and the integration of best practice in sustainable investment and active ownership. We work together to achieve their pooling requirements and deliver long-term value through sustainable investment strategies. A summary of our beliefs is highlighted below and a more detailed statement is available on our website.

1. **Long-term investors earn better returns net of costs.**
2. **Careful calibration of risk against objectives, together with robust risk management, leads to better risk-adjusted returns.**
3. **Responsible Investment improves outcomes, mitigates risks and creates opportunities through:**

a. **Good corporate governance**

b. **Active stewardship and collective engagement**

c. **Effective management of climate change risk**

d. **Promoting diversity and inclusion**

4. **Providing value for money is critical and it is essential to manage fees and costs.**
5. **Collaboration, clear objectives, robust research and evidence-based decision-making adds value.**
6. **Targeting opportunities across the public and private asset markets is aligned to the needs of Partner Funds.**

Responsible Investment Strategy and Policy

Our Responsible Investment Policy is supported by our more detailed Climate and Stewardship Policies and Voting Guidelines. Our SWG provides an important sounding board for our Responsible Investment activity and the Shareholder Committee is also consulted when there are significant revisions to our policies and priority themes. These are kept under review on an annual basis.

The three priority themes set out in the current policy are: climate change; human rights and human capital; and natural capital. For 2024, we will add two further themes to the framework to expand the scope of our stewardship concerns: technology and cyber and health, safety and wellbeing.

Our Stewardship Policy governs our approach on the use of active ownership to drive real-world outcomes at scale. It details how we integrate ESG considerations throughout the investment process and outlines the strategy with measurable objectives. We use robust data sources to measure ESG risk exposure across all investments and have detailed targeted methods to approach engagement by asset class, geography and fund structure.

Figure 2: London CIV's Responsible Investment and Engagement Strategy

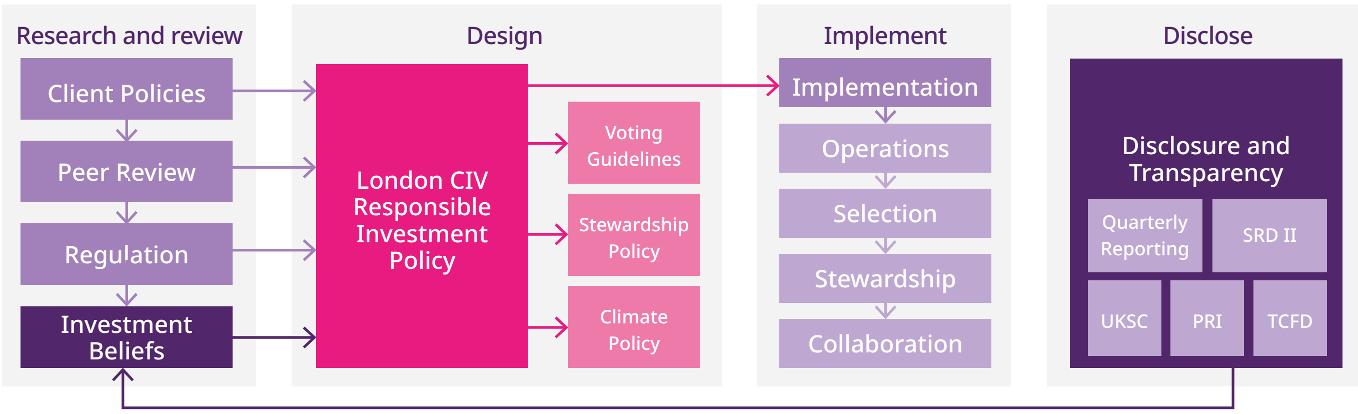


Figure 2: Source: London CIV

Policy updates and development begin with **research and review**. The Responsible Investment (RI) Team works with the Client Relations Team (CRT) to understand Partner Fund policies and priorities; the LGPS RI Cross Pool Working Group to leverage best practice; and the Compliance and Risk Team to monitor and advise on regulatory requirements and potential risks. Our Investment Beliefs serve to contextualise this research.

We have policies in place to integrate guidance from the RI team into all operations and decision-making processes. The RI team reports into the chief executive officer (CEO) of the business, whilst working closely with the investment team to support the selection of investment managers and monitoring of investments. Collaborative initiatives also help us to drive outcomes at scale with other financial institutions and industry bodies.

We currently disclose the outcomes of our RI activities by reporting on voting, engagement and investment manager monitoring to Partner Funds on a quarterly basis and commit to disclosing our climate risk exposure and ESG factors at least annually. Our reports and regulatory disclosures are illustrated below. We also include summary information in the London CIV Annual Report, which is published together with the statutory financial statements.

ESG Reporting and Disclosures	Frequency
Quarterly Investment Reports ("QIRs")[7] - ESG commentaries, voting and climate metrics at fund level	Quarterly
Stewardship Outcomes Report (this report)	Annually
Task Force for Climate-Related Disclosures (TCFD) Report	Annually
Shareholder Rights Directive (SRD) II Report	Annually
UN Principles for Responsible Investment (PRI) Report	Annually
Publication of Voting and Engagement Highlights on our website	Quarterly

7 Report is only available to investors of each fund

Fund Ranges and Assets under Management

We develop and operate a variety of managed investments across a range of asset classes in both public and private markets

Given that we manage pension assets from a long-term view, a sustainable future is a guiding principle evident throughout our purpose, culture and investment belief statements. Our funds are designed, and our investment managers selected, to reflect our long-term investment time horizon and strategy. Our product range includes public equity, fixed income, multi-asset and private market funds.

The below illustrates how we operate to provide a variety of funds through internal and external expertise.

Figure 3: Fund Tree

LONDON CIV

	Authorised Contractual Scheme (ACS) (Public Markets) **Total £14.3bn**									Exempt Unauthorised Unit Trust (EUUT) (Private Markets) **Total £2.4bn*/ £1.3bn****		Scottish Limited Partnership (SLP) (Private Markets) **Total £250m*/£93m****
	Global Equities									Infrastructure		Real Estate / Infrastructure
Fund	LCIV Global Alpha Growth Fund	LCIV Global Alpha Growth Paris Aligned Fund	LCIV Global Equity Fund	LCIV Global Equity Quality Fund	LCIV Global Equity Focus Fund	LCIV Emerging Market Equity Fund	LCIV Sustainable Equity Fund	LCIV Global Sustainable Equity Exclusion Fund	LCIV Passive Equity Progressive Paris Aligned Fund	LCIV Infrastructure Fund	LCIV Renewable Infrastructure Fund	The London Fund
AUM	**£1,403m**	**£2,212m**	**£561m**	**£524m**	**£1,164m**	**£555m**	**£1,271m**	**£679m**	**£851m**	**£399m*/£260m****	**£984m*/£382m****	**£250m*/£93m****
Launch Date	11/04/16	13/04/21	22/05/17	21/08/20	17/07/17	11/01/18	18/04/18	11/03/20	01/12/21	31/10/19	29/03/21	15/12/20
Manager	Baillie Gifford	Baillie Gifford	Newton	MSIM	Longview	JP Morgan	RBC	RBC	State Street	Stepstone	London CIV	LPPI
No. of Investors	5	11	3	2	6	8	8	5	4	6	14	2

	Multi Asset				Fixed Income					Private Debt	Property	
Fund	LCIV Global Total Return Fund	LCIV Diversified Growth Fund	LCIV Absolute Return Fund	LCIV Real Return Fund	LCIV Global Bond Fund	LCIV Short Duration Buy and Maintain Credit Fund	LCIV Long Duration Buy and Maintain Credit Fund	LCIV MAC Fund	LCIV Alternative Credit Fund	LCIV Private Debt Fund	LCIV Real Estate Long Income Fund	LCIV UK Housing Fund
AUM	**£100m**	**£675m**	**£1,001m**	**£178m**	**£952m**	**£84M**	**£165m**	**£1,549m**	**£396m**	**£625m*/£420m****	**£213m*/£213m****	**£195m*/£2m****
Launch Date	17/06/16	15/02/16	21/06/16	16/12/16	30/11/18	06/12/23	06/12/23	31/05/18	31/01/22	29/03/21	11/06/20	31/03/23
Manager	Pyrford	Baillie Gifford	Ruffer	Newton	PIMCO	Insight	Insight	CQS & PIMCO	PIMCO	London CIV	Aviva	London CIV
No. of Investors	1	6	10	2	10	2	3	14	3	8	3	3

Figure 3: Source: London CIV, As of 31 December 2023 *Denotes committed amount ** Denotes drawn amount

ACS and PM Funds data is at 31 December 2023

Breakdown of our Assets Under Management

As of 31 December 2023, the total assets deemed pooled Partner Funds stood at £30.6 billion. Assets under management in our ACS stood at £14.3 billion and amounts drawn from our private market funds since their respective first close stood at £1.4 billion (committed of £2.7 billion). The value of 'pooled' passive assets was £13.6 billion, with £9.8 billion managed by Legal and General Investment Management and £3.8 billion managed by BlackRock.

Figure 4: AUM by Asset Class

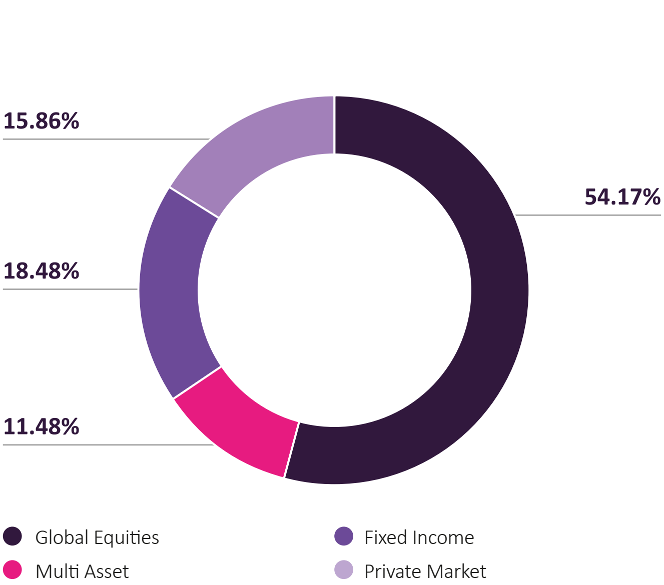


Figure 4: Source London CIV, as of 31 December 2023

Figure 5: AUM by Region (ACS Funds)

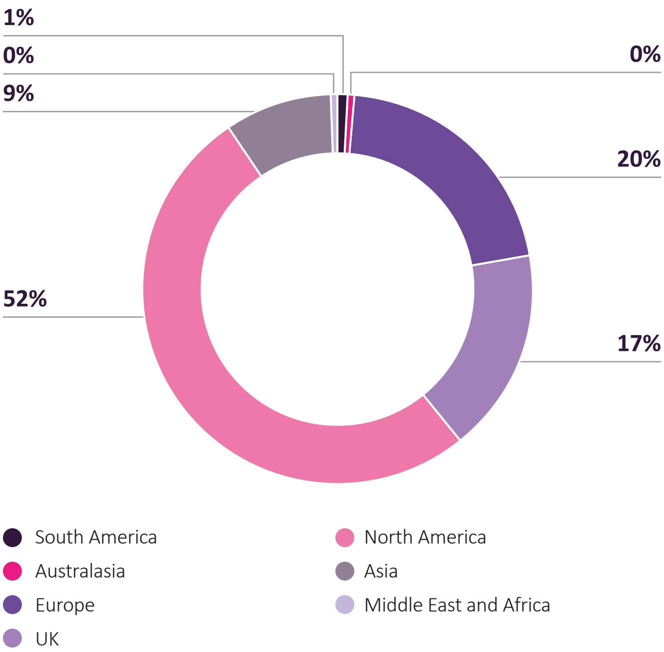


Figure 5: Source London CIV, as of 31 December 2022

Partner Funds

How we evaluate our effectiveness in serving the best interests of our Partner Funds

Our Annual Report sets out a s172 (of the Companies Act) statement, which provides an overview of how we engage with key stakeholder groups throughout the year. We work collaboratively to deliver our agreed purpose: *"Working together to deliver sustainable prosperity for the communities that count on us all"*. We engage with our Partner Funds through four key workstreams. These communication channels help us to capture their views, which then guides us on how we develop our investment solutions, provide additional investment services, assess whether our current arrangements remain fit for purpose, and reflect on the effectiveness of our stewardship and engagement operating model.

- **Appropriate Governance Oversight:** There are formal shareholder arrangements and informal forums in which we engage and collaborate with our Partner Funds. The Cost Transparency Working Group (CTWG), and (SWG) are the two main informal forums, which complement the two Shareholder General Meetings and Shareholder Committee.

- **Product Development:** Our Seed Investor Group (SIG) meetings serve as a collaborative platform for our Partner Funds to voice their needs, ensuring our products meet their investment strategies. For example, the launches of the LCIV UK Housing Fund and LCIV Buy and Maintain Credit funds, as well as our current activity in respect of our sustainable fund range.

- **Group Engagement:** A monthly **Business Update** meeting serves as a platform for our Partner Funds to stay informed about their investments and relevant developments at London CIV, providing the opportunity for clarifying their understanding of the content discussed. To supplement these, **Regular Investor Update** meetings offer Partner Funds the opportunity to understand and question the conclusions drawn from monitoring conducted on each of our managers. These meetings promote open dialogue and transparency between Partner Funds and London CIV, ensuring clarity regarding the results of thorough due diligence. **Meet The Manager** is another forum that provides Partner Funds with access to the underlying investment manager, who are responsible for the performance for the mandate to which they have been appointed.

- **The London CIV Annual Conference** is the largest event held for all our Partner Funds. Conducted over two consecutive days, it provides a broad forum for education, exchanges of thoughts and opinion, and for attendees to meet those we entrust to manage assets. We actively encourage an open dialogue in each of these group discussions.

- **Reporting –** We provide transparency for our Partner Funds via regular reporting on fund performance and monitoring status, based on London CIV's Investment Due Diligence process. We continue to make improvements to our quarterly investment reports to further illustrate the climate risk analytics and enhanced stewardship commentary. This provides Partner Funds with a fuller snapshot of our consistent progress across these key areas.

Climate change risk management remains a critical area of focus for our Partner Funds. 30[8] of the London Local Authority Councils have declared a climate emergency, joining over 570[9] local governing bodies across the UK. As of 2023, 11 of our Partner Funds have announced net zero targets averaging 2040. To further assist our Partner Funds to interpret the footprint of their portfolio and meet their future reporting obligations, we have launched a Climate Analytics Service, of which 17 of our Partner Funds are active users. This service is provided at no additional charge and covers the entire public equities and fixed income universe of our Partner Funds, not just their investments pooled with London CIV. The service also includes additional time for our dedicated climate data specialist to share and discuss their analysis with Partner Funds.

Natural capital is an increasingly important priority for our Partner Funds, in particular the focus on impacts, risks and investment opportunities. Recognising the importance of this, our 2023 annual conference included a key segment for natural capital and the launch of the Taskforce for Nature-Related Disclosures (TNFD). Additionally, we committed to launching a Nature-based Solutions fund in 2024, which will seek to invest in strategies which protect, sustainably manage or restore natural ecosystems, and address challenges related to climate change, human well-being and biodiversity.

8 According to London CIV 2024 research, 11 client funds have set net zero targets, which when averaged in terms of AUM, reach mid-2040.
9 https://climateemergencydeclaration.org/climate-emergency-declarations-cover-15-million-citizens/

Below are the number of events held to engage with our Partner Funds collectively during the year:

Group Engagement	Total: 54
Business Update (BU)	9
Independent Advisors Update	4
Investment Consultant Update	11
London CIV Annual Conference	1
Meet the Manager (MTM)	8
Seed Investment Group (SIG)	17
Pooling Progression Strategy (PPS)	2
Shareholder General Meeting (Budget /AGM)	2

Case Study:
Partner Fund capital allocation advisory

3 GOOD HEALTH AND WELL-BEING | 7 AFFORDABLE AND CLEAN ENERGY | 8 DECENT WORK AND ECONOMIC GROWTH | 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE | 10 REDUCED INEQUALITIES | 13 CLIMATE ACTION

Background: The London CIV Climate Analytics Service is an integral part of London CIV's broader stewardship approach to responsible investment, whether by identifying top contributors to negative environmental impacts for targeted engagement, supporting engagement with investment managers, or informing Partner Funds' capital allocation decisions.

During their triennial valuation period, both the London Borough of Sutton and the Royal Borough of used our Climate Analytics Service to review their respective investment strategies. As a first step, the boroughs reviewed their respective investment strategies and applied three objective criteria:

1. De-risking by reducing its overweight to equities;
2. Focusing on income generating strategies, and;
3. Contributing to the achievement of their respective net zero targets through responsible investment outcomes.

Sutton and Kingston also wanted to address the Sustainable Development Goals (SDGs) that closely aligned with their investment strategy. These were identified as:

- 3 Good Health and Wellbeing;
- 7 Affordable and Clean Energy;
- 8 Decent Work and Economic Growth;
- 9 Industry, Innovation and Infrastructure;
- 10 Reduced Inequalities;
- 13 Climate Action.

Action: Our Climate Analytics Service played a vital role in helping both Sutton and Kingston in presenting key investment portfolio adjustment recommendations to their respective Pension Committees. These recommendations involved a vertical investment strategy aimed at incorporating intentionality, additionality, measurability, and financial return. The following funds were identified as among the most compelling asset types contributing to the transition towards a more equitable and green economy:

- The LCIV Renewable Infrastructure Fund and LCIV Passive Equity Progressive Paris Aligned (PEPPA) Fund, aligned to SDGs 3, 7, 9, 10, and 13.
- The London Fund and the LCIV UK Housing Fund, aligned to SDGs 3, 7, 8, and 10.
- The LCIV Renewable Infrastructure Fund, aligned to SDGs 7, 19 and 13.

Outcome: Following the delivery of our Climate Risk Analysis report, compiled with asset liability modelling undertaken by Sutton and Kingston's actuaries, the following London CIV impact funds were determined by all parties to meet their investment objectives:

Fund	Asset Class	Stewardship Outcome Met
LCIV Renewable Infrastructure Fund	Infrastructure	Net Zero Alignment
LCIV Passive Equity Progressive Paris Aligned Fund	Public Equities	Net Zero Alignment
The London Fund	Real Estate	Levelling Up (Place-Based Social and Environmental Impacts)
LCIV UK Housing Fund	Real Estate	Levelling Up (Place-Based Social and Environmental Impacts)

Stewardship

As signatories of the UK Stewardship Code 2020, we support the FRC's definition of stewardship:

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

Our role

We strongly believe that stewardship is the most powerful tool investors have at their disposal to align our economy and society with the interests of beneficiaries and wider stakeholders.

We are committed to protecting the interests of our Partner Funds and members by acknowledging that climate-related risks and ESG factors are a source of financial risk and opportunity. Due to our Partner Funds' future liabilities and long-term investment strategies, we must consider the financial implications of natural resource constraints and social inequalities whilst understanding how well-equipped our portfolio companies are to manage risk. The industry influence of London CIV and our Partner Funds means we have a responsibility to drive change. We are committed to using our expertise to drive leadership.

Our approach

Collaborative stewardship is at the heart of our approach. We engage with a diverse range of stakeholders—investment managers, companies, regulators, peers, and others—to tackle systemic issues and achieve collective goals. We believe in active ownership as a key driver for managing risk and maximising positive outcomes across financial, social, and environmental dimensions.

Recognising the evolving nature of ESG risks and opportunities, we continuously review and refine our stewardship approach. Through research and collaboration, we identify annual engagement themes and update our policies and guidelines to ensure they remain effective in driving real-world impact.

1. **Define priorities:** Focus efforts.
2. **Implement voting and engagement:** Drive outcomes.
3. **Collaborate:** Deliver outcomes at scale.

Each stage of our approach is underpinned by **disclosure**: Transparent reporting to track outcomes at scale and appropriate governance and oversight.

How we work with Investment Managers

Our Responsible Investment Policy sets out our measures and expectations that company directors and investment managers will adopt to promote stewardship and long-term decision making. We recognise that investment managers play a crucial role in enhancing the performance of invested businesses through active engagement. Responsible investment practices are integrated into our investment manager selection process through robust criteria evaluated at each stage. Once selected, our expectations for incorporating ESG factors into their investment strategy and reporting are formalised in Investment Management Agreements or Side Letters. We rigorously monitor investment managers on a quarterly basis to ensure they meet our standards. This approach aims to ensure that the assets we oversee achieve appropriate risk-adjusted financial returns, generate savings, and support a fair transition to a sustainable world for our Partner Funds' and their members.

Manager Monitoring and Reporting

Public Markets

How we monitor: We continuously strive to improve our stewardship reporting. In 2022, we implemented a comprehensive Investment Due Diligence (IDD) process, enhancing our monitoring and reporting framework for all public market managers. We require quarterly reports on stewardship activities that include examples of active engagements, ESG-influenced investment decisions and updates on responsible investment resources and policies. The questionnaire below illustrates the information we gather.

We conduct individual meetings with each manager throughout the reporting period to discuss investment performance and address any questions stemming from the completed questionnaire. This activity is reported back to our Partner Funds in our Quarterly Investment Report (QIR), including summarised voting and climate risk analytics. This process is supported by monthly IDD reviews, which include updates on responsible investment performance. The Investment Committee reviews the RAG (red, amber, green) status of each fund and its respective investment manager to address any risks, breaches and/or concerns. Highlighted issues are reported upwards to the Executive Committee.

Our Expectations: In our monthly RAG status review, we set criteria of our expectations of fund and manager performance across eight key categories. Our monitoring status is set as Normal, Enhanced and Watch List. The eight criteria are illustrated below:

1) Performance
2) Resourcing
3) Process/Strategy
4) Responsible Investment and Engagement
5) Business Risk
6) Risk Management and Compliance
7) Cost Transparency and Value for Money
8) Best Execution/Liquidity/Deployment

An example of the questionnaire is below:

Questions:
Have there been any changes to your ESG integration process over the reporting period (e.g. additional resources, information sources)? If so, what were these and why?
What are some specific examples of how ESG factors have impacted investment decisions?
What are some specific examples of major ESG risks that you identified in the holdings or assets in the portfolio over the reporting period, and what have you done to mitigate them?
Please provide one engagement example in our fund
Please provide another engagement example in our fund
Please provide a third engagement example in our fund
Optional additional engagement example
Do you have a dedicated Responsible Investment Team in your organisation? Please highlight existing team structure and roles.
Have you changed any policies or procedures recently to address ESG risks or opportunities within your own organisation?
Please highlight which initiatives you are currently a member of
Please provide your Net Zero target date
Do you have a Responsible Investment and Engagement Policy? If so, please share a link here:
Do you have a specific Climate Change Risk Policy? If so, please share a link here:
Do you have a Diversity and Inclusion Policy? If so, please share a link here:
Do you have a policy on biodiversity risk or deforestation risk? If so, please share a link here.

An example of how this functions in practice is if an investment manager fails to meet our expectations for "Responsible Investment and Engagement" criteria and fails a key metric. For example, if they are no longer a signatory to the FRC Stewardship Code we will take that into account in their overall monitoring status, at both the fund and investment manager level, as well as their rating for that specific category. The RAG update will be presented and communicated to the Investment Committee, who will agree an action plan. We will then engage directly with the investment manager to understand their reasons and request action is taken to achieve improvement. We also report fund RAG statuses to our Partner Funds in our Business Update meetings, which take place on a monthly basis.

Private Markets

Investors in private markets, especially those with direct exposure to private equity or real assets, are in a unique position when it comes to stewardship practices. This is due to their degree of influence and control, often holding controlling interests in portfolio companies or investments, and serving on their boards. Unlike public markets, investors are not subject to the short-term results pressures of capital markets[10]. Conversely, responsible investment in private markets can also present specific challenges for investors to navigate. Unlike publicly traded securities with readily available information and frequent reporting cycles, portfolio companies require a more tailored approach to ESG monitoring. Therefore, we factor this into our quarterly calls with General Partners, where we perform a deep dive into the ESG practices of the underlying portfolio companies alongside investment performance. This allows us to gain a more comprehensive understanding of their commitment to responsible investment. We continuously strive to refine our responsible investing practices and actively seek new and innovative ways to enhance our monitoring and engagement within the private markets space.

How we work with our stewardship partner

In April 2021, London CIV appointed EOS at Federated Hermes (EOS) as our stewardship provider for voting and engagement on listed equities and corporate fixed income. Their expertise strengthens our ability to engage with companies and investment managers on critical ESG issues.

Partnering with EOS enhances our reach across the portfolio and strengthens our ability to engage companies on critical ESG issues through constructive dialogue. The team's connections, language skills and cultural understanding strengthens our ability to create and maintain constructive relationships with company boards, helping to drive incremental change over time. EOS' four-stage milestone system measuring progress over the long-term brings continuity to our engagement plan. This system tracks engagement progress against the objectives set for each company. Progress is then regularly assessed and evaluated against the original engagement proposal to ensure the objectives are met. Please see pg.31 for milestones progress by EOS.

How we monitor: We conduct monthly reviews of EOS's quality of service using RAG (rating systems as part of our service provider due diligence process, to make sure they continue to meet our performance expectations. This combined approach – proactive monitoring, regular reviews, and the expertise of EOS – demonstrates our firm commitment to responsible investing.

Voting oversight: Our RI team performs monthly reviews to ensure votes have been executed in line with our Voting Guidelines. The RI team is also responsible for reviewing daily voting alerts for each vote that EOS casts on its behalf. In some cases, we decide to override EOS' recommendations when we believe their recommendation is not aligned with our stewardship priorities and policies. Where we believe votes have not been executed appropriately, the RI team will escalate the issue to the Investment Committee and EOS. Additionally, the RI team also hold quarterly meetings with EOS to oversee their stewardship services. Twice a year, London CIV participates in EOS's Client Advisory Council meetings to collaborate with their other clients and offer direct feedback to EOS on their engagement, voting and other services.

10 https://www.unpri.org/download?ac=12686

Case study:
Keeping our stewardship partner accountable

Background: In October 2023, London CIV received a voting alert issued by PIRC for BHP ahead of the company's November AGM. Over the last four years, PIRC has consistently raised significant concerns about BHP's environmental, social, and governance (ESG) practices, particularly regarding issues relating to climate change and community relations. PIRC highlighted BHP's unsatisfactory response to the Samarco tailings dam collapse as a critical concern.

Engagement: We reviewed PIRC's voting recommendations, backed by comprehensive analysis, and compared them against EOS' suggestions. We sought EOS' rationale for supporting three directors that PIRC recommended opposing. EOS stated they had no immediate concerns justifying opposition to these directors, citing satisfactory board diversity and independence. Despite acknowledging issues related to BHP's performance on climate change, EOS recommended a vote for the re-election of the Board chair. EOS emphasised they had received satisfactory assurance from the board Chair and suggested that PIRC may not have had the requisite level of access.

Outcome: As a result of the engagement, we decided to align our votes with PIRC's recommendations and instructed EOS to change the votes to oppose the re-election of the three directors.

How we work with portfolio companies

We engage with companies primarily through our investment managers, EOS and industry collaboration. We require UK companies to adhere to the UK Corporate Governance Code on a comply or explain basis and expect other companies to follow international corporate governance principles, while acknowledging local application and development.

Whilst most of our engagement takes place via collaboration, we've established clear guidance outlining what we expect from companies and what companies can expect from us. This ensures that our investment managers, General Partners (GPs) and stewardship partners are evaluated against consistent standards. We have published our Voting Guidelines which set out our specific expectations and thresholds for certain issues. For further details, please refer to our Guidelines.

In 2023, we escalated our engagement directly with companies we believe pose high material risks. Please see pg.36 and pg.62 to read our escalation.

Figure 6: Fund monitoring schematic

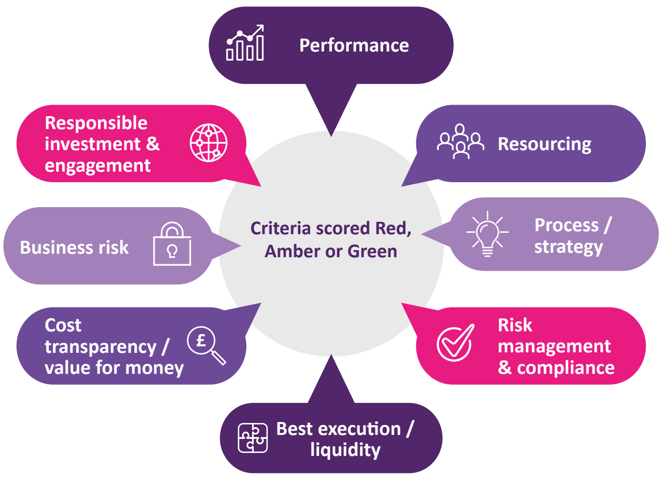


Figure 6: Source, London CIV, fund monitoring schematic

Step one:
Defining our priorities

Stewardship Priorities

Our current engagement priorities and broader ESG issues that we seek to address are illustrated below. Our current engagement priorities and broader ESG issues that we seek to address are illustrated below. In 2023, we intensified our focus on nature-related risks and incorporated AI into our priorities.

Key priorities

People Categories

- Human rights and labour standards
- Human capital management
- Reduced inequalities: including education, poverty alleviation
- Digitalisation: including digital rights, social media, gaming
- Health and wellbeing: including antimicrobial resistance (AMR), public health, nutrition
- Levelling Up

Planet Categories

- Climate Change: including physical risk and adaptation
- Biodiversity loss
- Deforestation and land use change
- Water risk
- Resource efficiency
- Pollution: Air, Water, Soil, Plastics

Principles of Governance

- Board composition and effectiveness
- Diversity, equity and inclusion
- Executive remuneration
- Technology: including AI, cyber security, data protection
- Tax and cost transparency
- Investor protection and rights
- Anti-bribery and corruption
- Geopolitical risks

Prosperity

- Economic returns
- Paying pensions
- No poverty
- Innovation: products and services

"We aim to identify market-wide and systemic risks at least annually and respond to them on an ongoing basis to promote a well-functioning financial system."

Risk identification methodology

Our risk identification methodology is developed to address the complex interconnectivity of a myriad of issues prior to determining our ESG priorities. At the macro-level we are affected by top-down global risks and client priorities. From a bottom-up perspective, we recognise micro-risks to our assets and specific areas where we can have influence.

This ever-evolving system of prioritisation is nuanced by a **values** versus **value-based** approach that sees risk as greater in terms of magnitude and likelihood when financial and social materiality combine. This approach also influences what is viewed as best practice by the industry and other stakeholders, and thus what policy and regulation will soon unfold. The next section discusses the most pressing market-wide and systemic risk that we have identified using this methodology.

Figure 7: London CIV ESG risk identification methodology

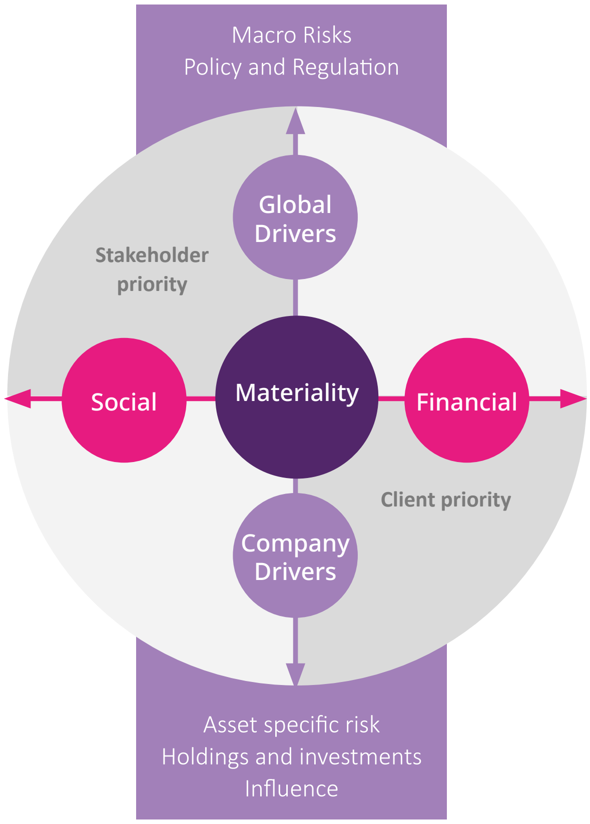


Figure 7: Source, London CIV, fund monitoring schematic

Risk assessment process

We perform monthly stress tests, which show a set of scenarios that have been modelled on previous world events and simulate the effects on the portfolio and benchmark values should that scenario occur again. See example below:

Sample monthly stress testing results

	Scenario	Portfolio Value Change	Benchmark Value Change	Active Value Change
Sample London CIV Portfolio 1	No Scenario			
Sample London CIV Portfolio 2	2008 Financial Crisis	-31%	-26%	-5%
Sample London CIV Portfolio 3	2010 Euro Sovereign Crisis	-11%	-10%	-2%
Sample London CIV Portfolio 4	2011 Japan Earthquake	-5%	-5%	1%
Sample London CIV Portfolio 5	9-11 2001	-23%	-20%	-3%
Sample London CIV Portfolio 6	Asian Crisis 1997	-17%	-15%	-2%
Sample London CIV Portfolio 7	LTCM Collapse	-18%	-12%	-5%
Sample London CIV Portfolio 8	Mortgage Crisis 2007	-8%	-8%	0%
Sample London CIV Portfolio 9	Russian Default 1998	-25%	-21%	-4%
Sample London CIV Portfolio 10	Sovereign Downgrade Crisis 2011	-19%	-17%	-2%
Sample London CIV Portfolio 11	WorldCom 2002	-27%	-24%	-3%

For example, if the 2008 Financial crisis were to reoccur, Sample LCIV Portfolio 2 will decrease by 31% and the benchmark will fall 26%, resulting in underperformance of the benchmark by 5%. Other adverse scenarios tend to see small underperformance of the portfolio versus the benchmark and a small outperformance if the Japanese earthquake or the US mortgage crisis were to reoccur, for example. Overall, this analysis shows that the portfolio will follow the index reasonably, but is likely to underperform in bad scenarios.

When risks are identified in the monthly stress-testing, issues are reported to the Investment Committee. The model used for scenario/stress testing is Bloomberg Port Enterprise. The system is flexible and allows for both historical and hypothetical scenarios. The model can highlight ESG risks that have already happened as a historical scenario (e.g. 2011 Japan Earthquake) and also allows for modelling of hypothetical scenarios. This can be in terms of shocking future curves and volatility for three categories: Agriculture and livestock (e.g. corn or soybean), Energy and environment (e.g. emissions or crude oil) and Metals and Industrials (e.g. precious metals or industrial metals).

The RI Team has integrated forward-looking physical risk and transition analysis into TCFD reporting as a basis for engagement.

We delegate the investment management function to third-party investment managers.. We conduct quarterly meetings and annual deep-dive reviews as part of our manager oversight. During these meetings, the Investment Committee discusses the risk management of the portfolio. Every month, the Investment Committee reviews the RAG status of each fund and fund manager to ensure any risks and breaches are addressed, with concerns escalated to the Executive Committee. The next section details the key risks for London CIV in 2023 and how we have managed them.

Promoting and improving well-functioning markets

London has established itself as a prominent global hub for sustainable finance, with a significant contribution to the establishment of carbon trading, green bond underwriting, and a high concentration of responsible investment assets and expertise. In 2023, London retained its number one place in the Global Green Finance Index[11], which assesses the green finance offerings of 84 major financial centres worldwide. This index provides valuable insights into the development of green finance policies and opportunities in cities.

With access to the largest pool of capital, London's deep and broad markets hold a significant responsibility in creating a financial system that supports a sustainable future. As a global long-term investor and steward of capital, we're committed to taking positive action, promoting collaboration, and demonstrating leadership that will have an impact not only in the UK, but worldwide. We believe that incorporating ESG considerations into our investment strategy is crucial for our role as responsible investors, which can lead to improved economic performance and significant environmental and social benefits.

10 https://www.longfinance.net/publications/long-finance-reports/the-global-green-finance-index-13-supplement-h2-go-the-hydrogen-economy-pipedream-or-panacea/

Market-wide and systemic risk

Climate change

Climate change poses an existential threat to both people and the planet[11]. It presents immediate systemic risks to the ecological, societal, and financial stability of every economy, country, asset type and sector[12]. It will result in substantial physical and economic impacts across most aspects of human activity[13], leading to multiple implications for our Partner Funds and their beneficiaries. In recent history, the Earth's temperature has continued to rise faster than ever before, as evidenced by the increasing frequency and severity of weather events, rising sea levels, and warming marine temperatures[14]. Agriculture and food supply, infrastructure, and water availability are already being affected, leading to increased migration and conflict. Human activities are responsible for approximately 1.0°C of global temperature increase above pre-industrial levels, with current emission patterns indicating that this could reach 1.5°C by 2040. If carbon dioxide emissions continue their current path, the temperature is projected to increase by 3-5°C by the end of the century[15].

We are committed to becoming a net zero entity by 2040 in line with the Paris Agreement objectives to limit global temperature rise below 1.5°C. We are also committed to becoming a net zero company across operational and supply chain emissions by 2025. Alongside our main commitment, we have set interim targets for investments. This includes a 35% carbon intensity reduction by 2025 (relative to 2020), and 60% by 2030 across the London CIV fund range.

We plan to achieve our goals by decarbonising existing funds through targeted engagement, contributing to avoided emissions, launching new net-zero funds and eventually contributing to negative emissions. In 2023, we calculated the impact of our passive funds included in the London CIV pool worth £14.6bn. We expect to release a detailed roadmap to demonstrate a credible course of action to achieve a pathway to net-zero during our reporting year 2024.

Please refer to the Deep Dive: Climate Change section on pg.33 for our collaborative actions in addressing climate change risks with our investment managers, EOS, external initiatives and through policy advocacy .

Lessons from COP28

While the commitments from the first global stock-take of climate action under the Paris Agreement at the 2023 UN Climate Change Conference (COP 28) set a political precedent in terms of ambition, collective action to remain on track to limit global warming needs to rapidly accelerate if we are to reach the 1.5 degrees Celsius target by 2050. At COP28, it was clear that urgent and significant progress needs to be made on the crucial question of how the world finances a global transition, for which we need to harness US$5-to-$7 trillion of investment per year[16]. The outcomes of 2023's 28th Conference of the Parties (COP28) on climate change elicited mixed opinions. COP28's focus on transitioning away from fossil fuels underscores the importance of our commitment to achieving net-zero emissions by 2040. We were pleased to see the call-to-action to transform the financial system, so as to ensure all financial flows support progress towards the goals in the Paris Agreement - particularly the call on countries to strengthen their regulatory, policy and incentive frameworks in order to unlock private finance in support of the transition and to work together to reform the international financial architecture.

Here are some key takeaways that will directly impact our responsible investment strategy and our diverse fund range:

- **Rigorous Net-Zero Scrutiny:** We'll intensify our assessment of investee companies' net-zero pledges, ensuring they have science-based targets and credible transition plans in line with our own net-zero commitment. This increased scrutiny aligns with our own efforts to update our Climate Policy in 2024 to become the climate change risk policy and net zero strategy, which will provide targeted objectives in line with net-zero.
- **Accelerating Investment in Clean Solutions:** COP28's emphasis on renewables and emerging technologies opens exciting opportunities within our portfolio. We'll carefully evaluate companies providing energy efficiency, sustainable infrastructure, and related innovations that support the global energy transition.
- **Commitment to Climate Justice:** The establishment of the Loss and Damage Fund in 2022 reinforces the need to invest responsibly with a focus on social impact. This aligns with many of our funds and initiatives that support affordable housing and sustainable communities, especially in regions most vulnerable to climate change.

COP28 strengthens London CIV's resolve to be a leader in responsible investing. Our commitment to a sustainable future ensures that we not only meet our ambitious net-zero goals, but also generate long-term value for our Partner Funds, beneficiaries, and the communities we serve.

11 Why do some people call climate change an "existential threat"? | MIT Climate Portal
12 Systemic Climate Risk (europa.eu)
13 What are the impacts of climate change? | Grantham Institute – Climate Change and the Environment | Imperial College London
14 Evidence & Causes of Climate Change | Royal Society
15 Global Warming of 1.5 ºC — (ipcc.ch)
16 https://www.cop28.com/en/climate_finance_framework

Lessons from COP15

COP 28 also saw the release of a Joint Statement on Climate, Nature and People[17] which underscored the criticality of integrated efforts on climate, biodiversity, land and ocean health for resilience and securing sustainable livelihoods. This furthered the goals of the Kunming-Montreal Global Biodiversity Framework[18] from COP15 in 2022.

Our top 3 takeaways from COP15 were:

- **Ambition Meets Implementation:** The Kunming-Montreal Global Biodiversity Framework includes the ambitious "30x30" target (protecting 30% of land and oceans by 2030).
- **Financing and Equity:** Developed countries pledged to increase funding for biodiversity conservation in developing nations. While progress was made, reaching a consensus on financial flows and closing the funding gap remains crucial to achieve the agreed-upon targets. Issues of equity and ensuring benefits reach local communities and Indigenous peoples are also vital for success.
- **The Role of Business:** COP15 highlighted the growing recognition of the private sector's role in addressing biodiversity loss. Companies are increasingly expected to measure, disclose, and reduce their impact on nature. Collaboration with the private sector will be essential for driving change at the scale required by the biodiversity crisis.

Identification of transition and physical risk

Climate change-related financial risks result from a complex interplay between company-specific characteristics, as well as transition and physical risks under a range of different climate change scenarios. Strong action to reduce emissions and limit climate change may avoid the worst physical impacts of climate change, but present significant market, technology, and regulatory transition risks for market participants. Conversely, failure to adequately reduce greenhouse gas emissions may limit transition risks, but will result in increasing climate change and associated physical risks. Since 2021, we've proactively conducted climate risk analysis based on the guidelines provided by the TCFD. The risks associated with climate change are extensive and can be divided into two major categories: those related to the transition towards a lower-carbon economy and those related to the physical impacts of climate change. The TCFD guidelines clearly underscore the significance of incorporating climate scenario analysis models into risk management practices. This is crucial because the interplay between transition and physical risks can have profound implications for fund performance in the short, medium, and long term. By conducting scenario analysis, we can develop climate-resilient strategies that ensure defined benefits are delivered over an extended period.

Please see our 2023 TCFD report for our physical risk analysis.

Actions in 2023:

- Contacted our managers and EOS about deforestation and biodiversity engagement based on exposure
- Continued to work on the Deforestation-free Pension Working Group established by Global Canopy, SYSTEMIQ, and Make My Money Matter. The working group has produced practical guidance for pension funds to manage deforestation risks through effective engagement
- Became an early adopter of the TNFD reporting framework.
- Continued to provide our Partner Funds with a nil-of-charge Climate Risk Analytics Services to help our Partner Funds to understand climate risks in their investment portfolios and set a meaningful net zero ambitions
- Committed to launching a Nature Based Solutions (NBS) Fund in 2024 which seeks to provide real world impact on the health of ecosystems, biodiversity, and the well-being of communities, offering multiple benefits for the environment and nature conservation

17 https://www.cop28.com/en/joint-statement-on-climate-nature
18 https://lordslibrary.parliament.uk/cop15-global-biodiversity-framework/#heading-3

Geopolitical tension and market risk

The complexity of assessing and mitigating geopolitical risk was highlighted in 2022-2023 by the ripple effects of Russia's invasion of Ukraine and the resulting sanctions, as well as the escalation of the Israel-Hamas war, stemming from longstanding geopolitical tensions and human rights concerns in the region.

The unpredictable nature of such events underscores the challenges of relying solely on rational analysis for risk prediction. This reinforces the need for a reactionary approach, continuous monitoring of human rights risks, and investment diversification to mitigate these risks. We uphold the principle of diversification and actively track our exposures to geopolitical issues.

Russia | Ukraine

For example, we have worked to limit the direct impact of Russian and Ukrainian holdings on our funds in achieving their objectives over the long-term and in 2022, reported those actions to our Partner Funds and on our website.

To ensure compliance with sanctions regimes, we conduct operational due diligence and triennial reviews to verify that investment managers have appropriate policies and controls in place. Additionally, we remain vigilant of material events and collaborate with managers to implement changes to sanctions regimes immediately. Our custodian and depositary provide regular updates on sanctions and alert us to potential issues.

Recognising the interlocking risks associated with Russia and Ukraine, we conducted a comprehensive exposure analysis for all holdings linked to these countries. Our investment team conducted a bottom-up risk assessment, while monitoring news flows and manager activities closely. By taking these measures, we can ensure that our investments remain robust and resilient, and our defined members' benefits are protected.

In 2023, we maintained close monitoring of investment activities in Russia and Ukraine amidst ongoing geopolitical tensions.

Israel | Hamas

London CIV has reported its exposure to the companies accused of facilitating human rights abuses in the OPT since 2021, following the Human Rights Watch report[19] and we're committed to engaging with investee companies flagged by United Nations Human Rights Office of the High Commissioner's ("OHCHR") A/HRC/37/39 Report, the WhoProfits Online Database and Information Centre[20], as well as the AFSC | Investigate flagged list[21], with demands for timely responses to our questions.

In 2023, we updated this list and continue to engage with companies, investment managers, EOS and other relevant stakeholders to consider how we will support Partner Funds concerned about exposure to the issue.

Our Actions in 2023:

- Provided evidence on the impact of the Economic Activity of Public Bodies (Overseas Matters) Bill on stewardship activities[22]
- Recalculated our exposure to Israel and companies accused of being complicit with human rights abuses as of 31st December 2023
- Contacted all of our investment managers and engagement partner EOS to understand their responses to the war
- Reached out to Investor Alliance for Human Rights to ask for advice on human rights matters and stewardship. Followed up with ongoing engagements and informed our Partner Funds

19 A Threshold Crossed: Israeli Authorities and the Crimes of Apartheid and Persecution, 27th April 2021.
20 Who Profits- The Israeli Occupation Industry
21 Palestine | AFSC Investigate
22 Economic Activity of Public Bodies (Overseas Matters) Bill (6th September 2023) (parliament.uk)

Step two:
Implementing Voting and Engagement

Optimising our voting procedures and using our voting rights

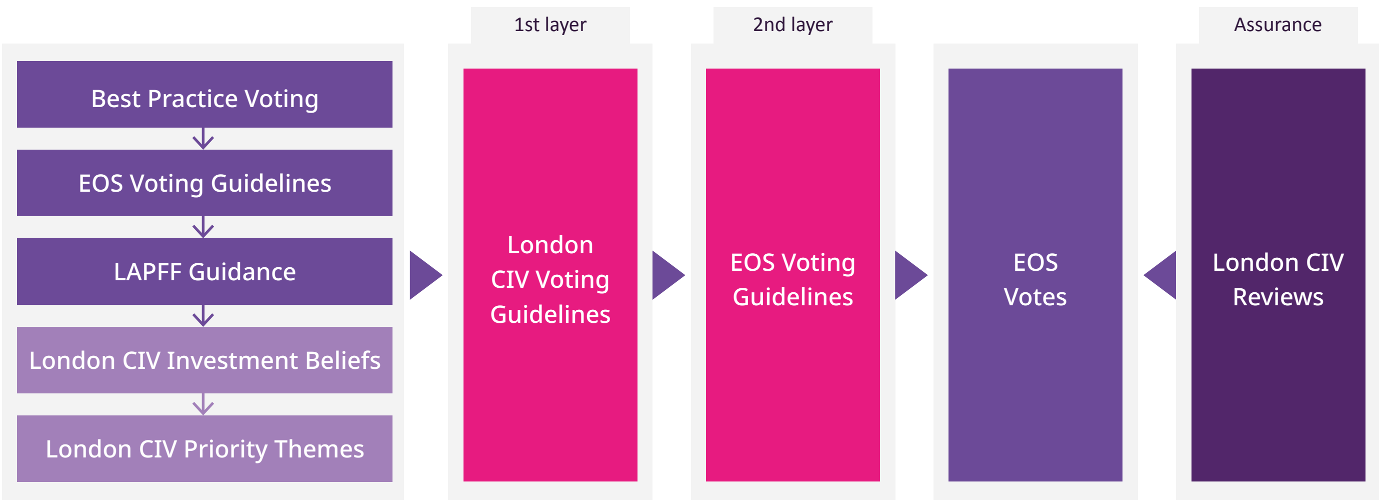
As stewards of capital, exercising voting rights is a vital part of our duty of care. We believe that voting on shareholder resolutions is a powerful part of our stewardship strategy as it helps communicate our views to companies. Being transparent about disclosing our voting records further supports this aim.

EOS makes voting recommendations for our segregated listed equities funds and provides engagement services to our segregated public market funds (listed equities and fixed income funds). We believe we can drive positive outcomes that are tailored to our priority themes by consolidating our votes, rather than outsourcing voting activities to our investment managers. Our Voting Guidelines are reviewed and updated by the RI team on an annual basis.

For our passive and pooled funds, votes are cast by their fund managers. Additionally, we actively seek opportunities to split voting rights and assume control of a vote over critical issues. In 2023, we successfully assumed voting rights for the LCIV Absolute Return Fund, which invests in a pooled vehicle managed by Ruffer LLP. This strategy enabled us to blend the advantages of pooled and passive funds with our dedication to responsible investing and active stewardship. In 2024, we will continue to explore options with our other investment managers regarding taking on the active ownership for voting across our investments.

The Voting Guidelines (the Guidelines) outline London CIV's voting approach, detailing how and why we make our voting decisions, as well as the execution of our voting process. The Guidelines also explain how voting decisions are assessed and implemented, allowing for flexibility to adapt to market, company, and meeting specifics. Our Voting Guidelines can be accessed here.

Figure 8: Our new way of voting:



Voting record

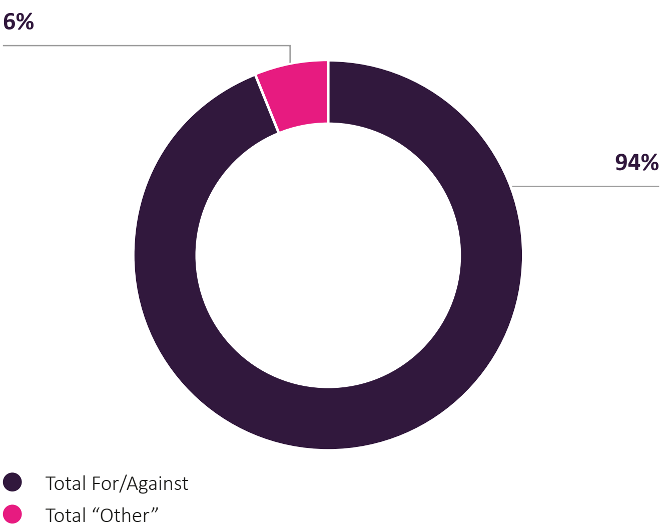
We publish our voting records on a quarterly basis and managers are required to provide a rationale for all voting activity on a "comply or explain" basis. In 2023, our investment managers and EOS voted on 22,688 proposals compared with 23,411 proposals in 2022. This represents a 97% voting execution in 2023 compared to 96% in the previous year (Figure 9). Investment managers and EOS voted against management propositions on 2,488 occasions. Director-related and non-salary compensation remain the areas of highest dissent (Figure 10).

Our investment managers and EOS also voted on 1,007 shareholder proposals in 2023 compared to 1,108 shareholder proposals in the previous year, supporting 56% (compared to 59% in 2022) of the proposals. Shareholder proposals may be submitted to encourage greater transparency in sustainability practices, changes in governance, or support improvements in corporate social responsibility. However, it's important to note that shareholder proposals vary in quality and are not necessarily aligned with EOS and/or London CIV's views as to changes that would be effective or appropriate. For example, we reviewed 637 shareholder proposals on the topic of Social/Human Rights. This topic includes instructions for companies to report on diversity and inclusion and assess human rights impacts. Of these 637 proposals, 63% of our voting instructions were in favour of these proposals.

We have also voted on 49 shareholder proposals regarding Health and the Environment, this topic includes instructions for companies to have more robust reporting on climate change and environmental impacts, set targets for Greenhouse Gas ("GHG") emissions in alignment with the Paris Agreement, or improve disclosure and policies on health, safety and wellbeing at work. 24% of our voting execution was in favour of these 49 proposals. We have included some examples of how we and our managers exercise our voting rights in the following case studies available in this report:

- **Case Study:** Goldman Sachs: Climate resolutions advocating for time bound policy of fossil fuels phase out tabled (pg.29)
- **Case Study:** Amazon Inc. (pg.62)
- **Case Study:** Meta (pg.49)

Figure 9: 2023 Total Voting Execution



2022 Total Voting Execution

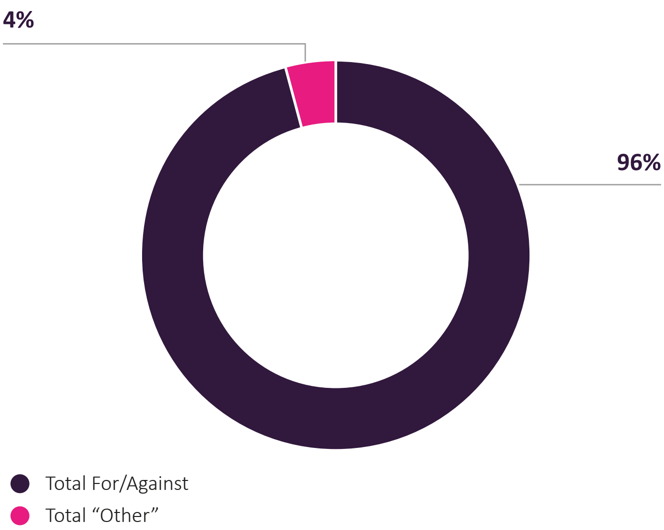
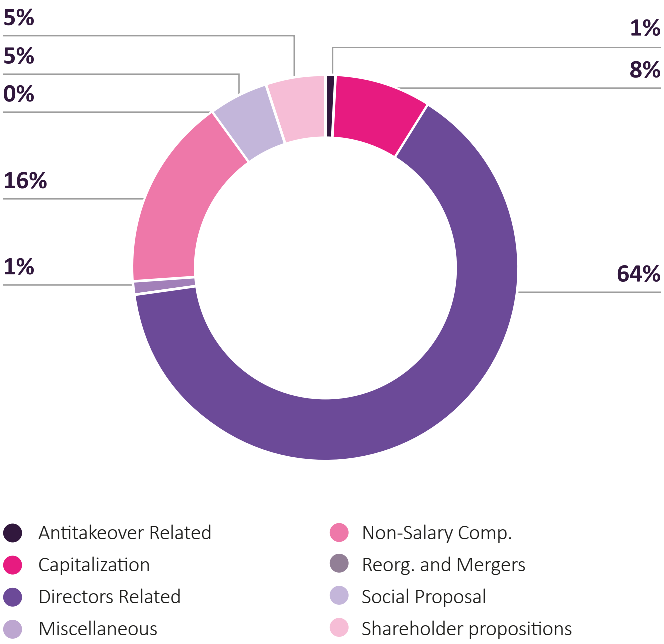


Figure 9: 2022 vs 2023 Total Voting Execution, Source: Investment managers, EOS, As of 31 December 2023

Step two: Implementing Voting and Engagement continued

Figure 10: 2023 Proposals breakdown



2022 Proposals breakdown

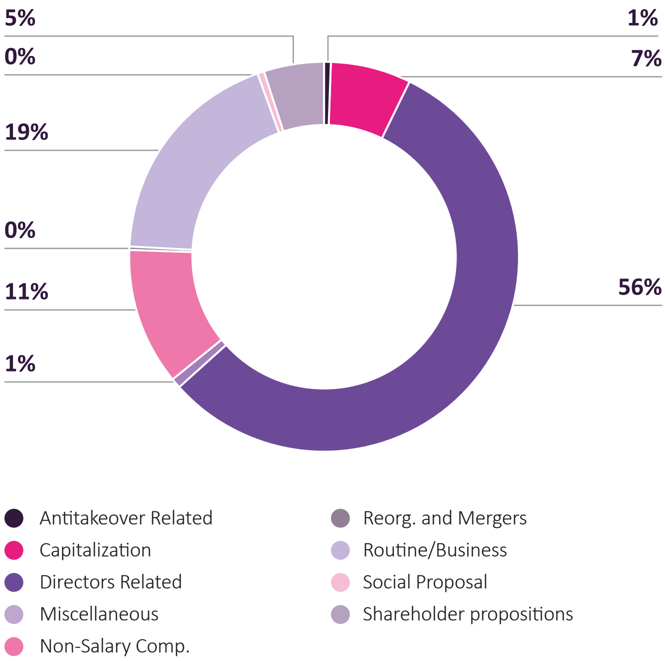
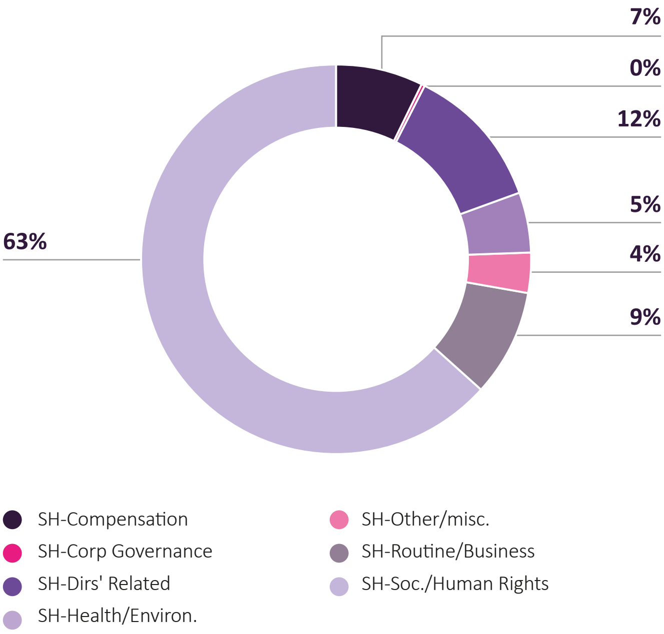


Figure 10: 2022 vs 2023 Proposal Breakdown, Source: Investment managers, EOS, As of 31 December 2023

Figure 11: 2023 Shareholder Proposals



2022 Shareholder Proposals

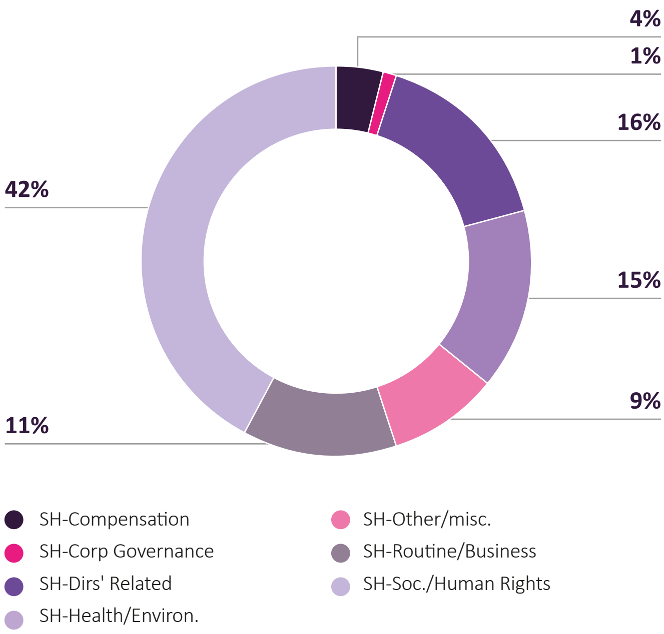
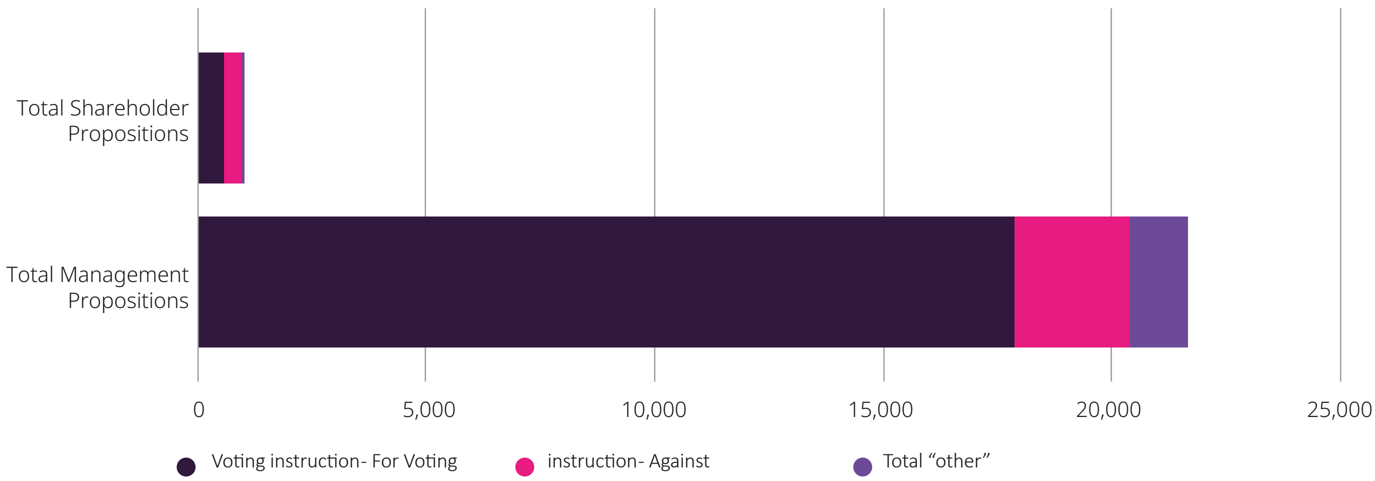


Figure 11: 2022 vs 2023 Shareholder Proposals, Source: Investment managers, EOS, As of 31 December 2023

Step two: Implementing Voting and Engagement continued

Figure 12: Shareholder Propositions vs. Management Propositions 2023



Shareholder Propositions vs. Management Propositions 2022

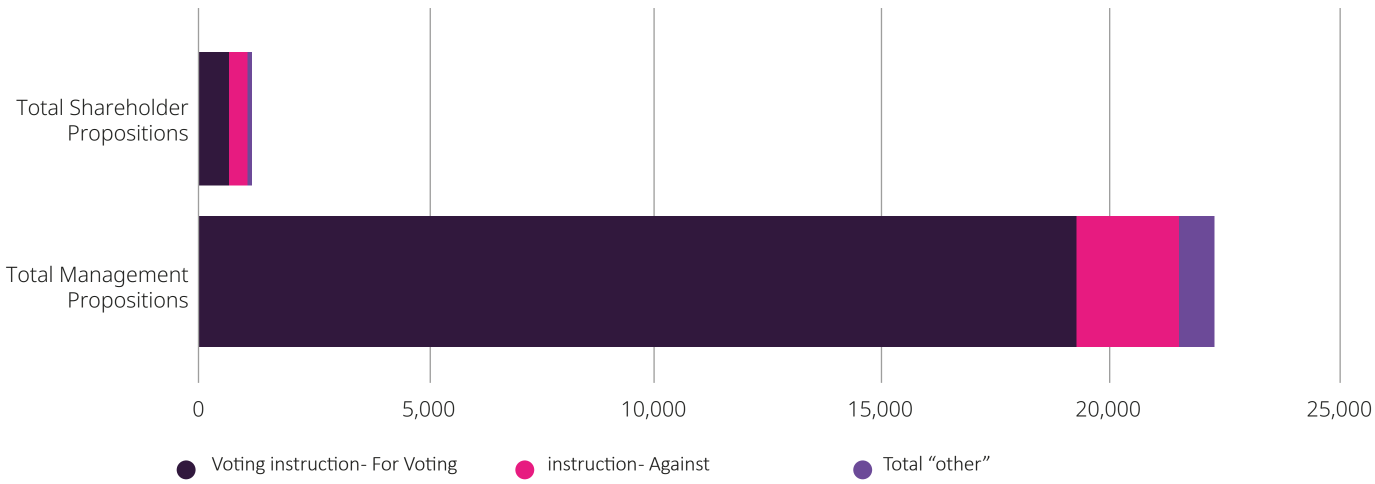
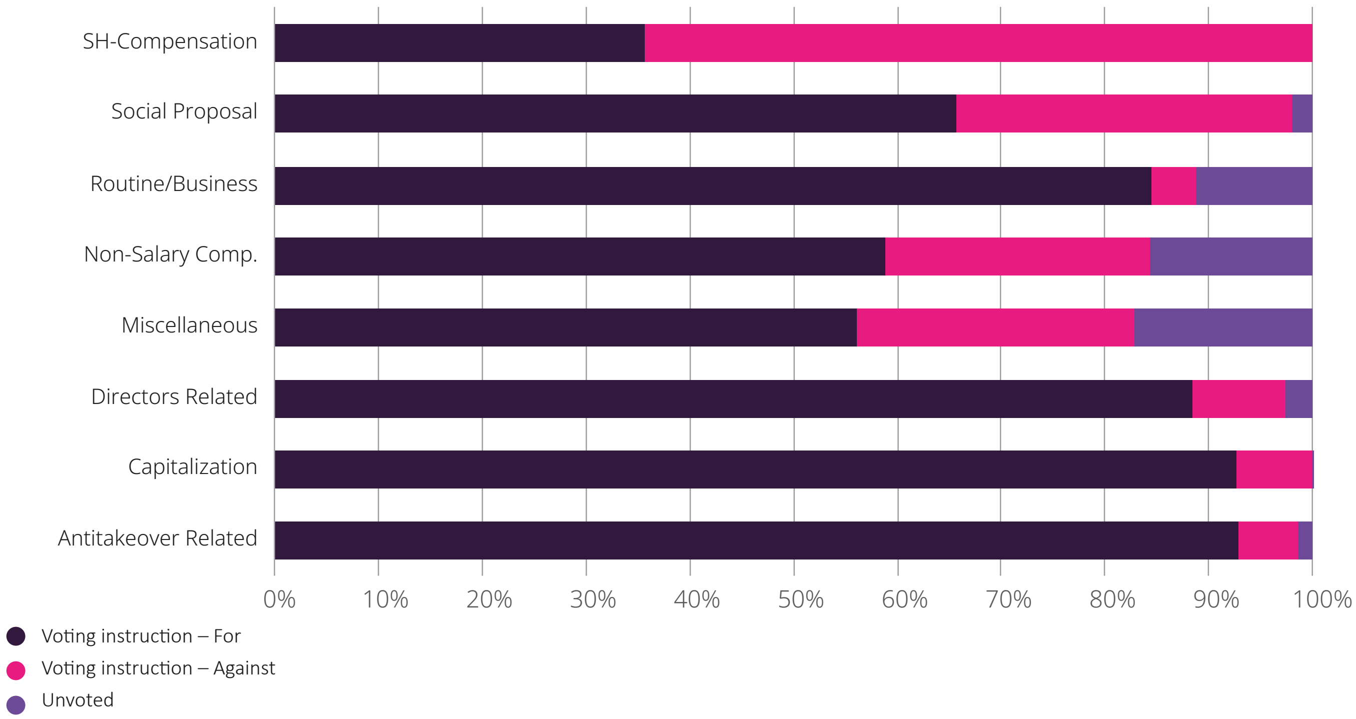


Figure 13: 2023 Voting Instruction Breakdown



2022 Voting Instruction Breakdown

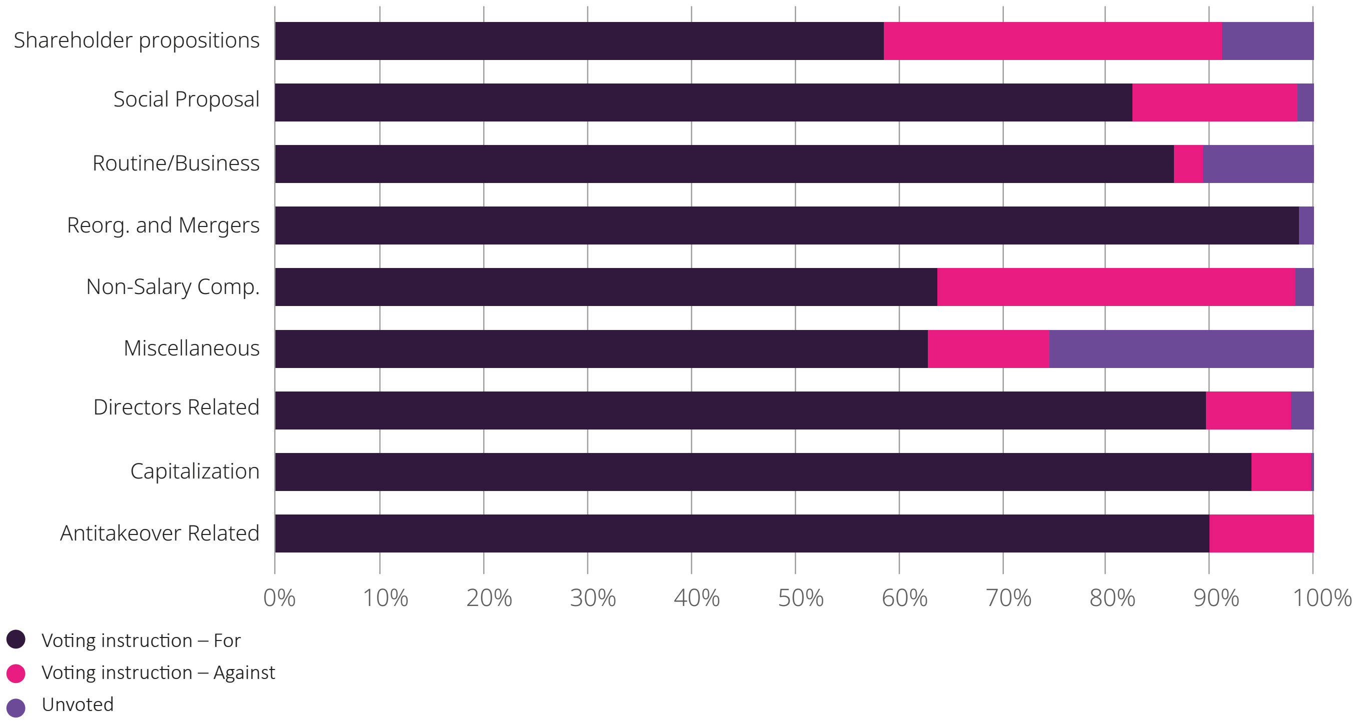


Figure 13: 2022 vs 2023 Voting Instruction, Source: Investment managers, EOS, As of 31 December 2023

Case Study:
The Goldman Sachs Group [Accepted shareholder proposals against management recommendation]

Background and Action: Unfortunately, none of the shareholder proposals we supported were accepted. This was especially disappointing given the lack of shareholder support for a time-bound phase-out policy for new fossil fuel financing. However, two proposals received at least 30%, including support for a Climate Transition Plan aligned to GHG targets, which demonstrates positive momentum for better ESG practices from investors.

Outcome: Unfortunately, none of the shareholder proposals we supported were accepted. This was especially disappointing given the lack of shareholder support for a time-bound phase-out policy for new fossil fuel financing. However, two proposals received at least 30%, including support for a Climate Transition Plan aligned to GHG targets, which demonstrates positive momentum for better ESG practices from investors.

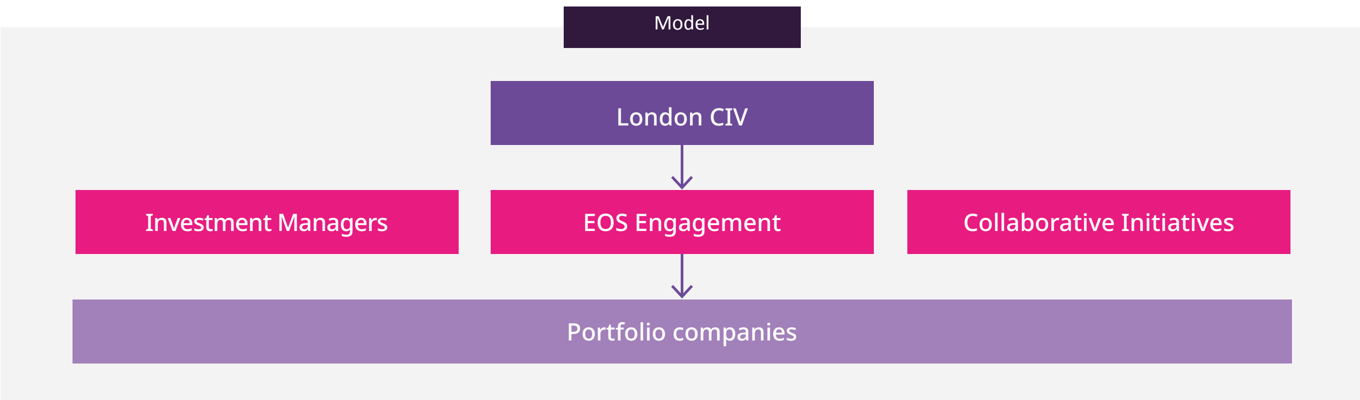
Outcome	Proposal	Management Recommendation	London CIV Vote	% For
Rejected	Report on Lobbying Payments and Policy	Against	For	35.37
Rejected	Require Independent Board Chair	Against	For	16.19
Rejected	Oversee and Report a Racial Equity Audit	Against	For	11.77
Rejected	Adopt Time-Bound Policy to Phase Out Underwriting and Lending for New Fossil Fuel Development	Against	For	6.81
Rejected	Disclose 2030 Absolute GHG Reduction Targets Associated with Lending and Underwriting	Against	For	12.48
Rejected	Report on Climate Transition Plan Describing Efforts to Align Financing Activities with GHG Targets	Against	For	29.72
Rejected	Report on Median Gender/Racial Pay Gap	Against	For	30.09

Source: ProxyExchange, ISS Governance

Integrating engagement

Following effective voting, we believe that a strong engagement strategy is critical to help deliver real-world outcomes at scale and, in turn, improve the performance of our funds. We also believe that collaborating with other like-minded institutional investors and service providers is an effective way to pool knowledge and information, as well as share both costs and risks to influence corporate management.

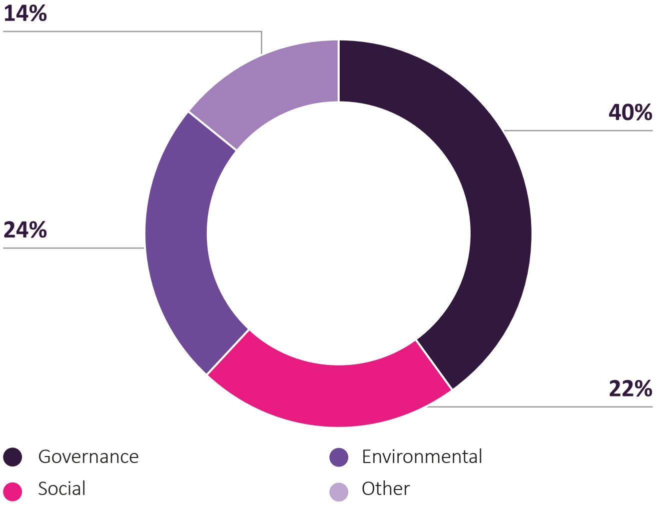
We advance our stewardship objectives through the following channels:



Investment manager engagement breakdown

In 2023, our investment managers held 2,832 engagement meetings with portfolio companies compared to 1,274 in the last reporting period. Specific areas of interest were climate change (discussed in 41% of the 573 meetings) and human rights and human capital concerns (raised with issuers on 641 separate occasions (45%)) (Figure 10).

Figure 14: 2023 Issues discussed: ESG coverage.



2022 Issues discussed: ESG coverage.

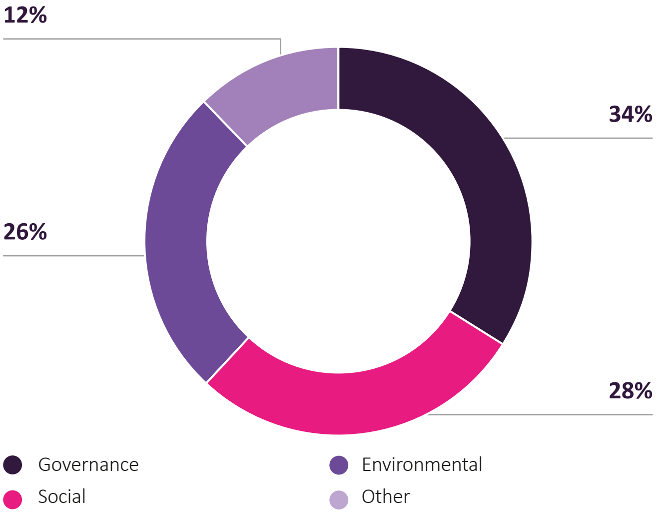
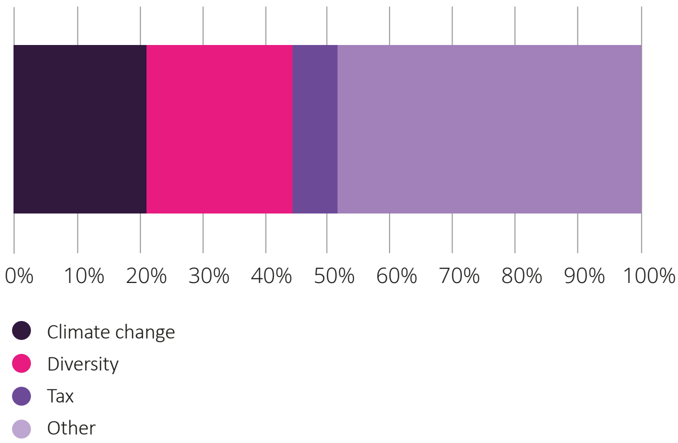


Figure 14: 2023 vs 2022 Issues Discussed, Source: Investment managers, As of 31 December 2022

Figure 15: 2023 Detailed engagement activity breakdown



2022 Detailed engagement activity breakdown

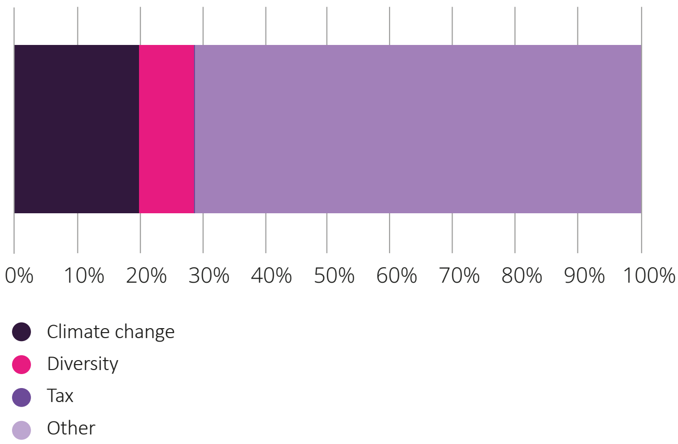
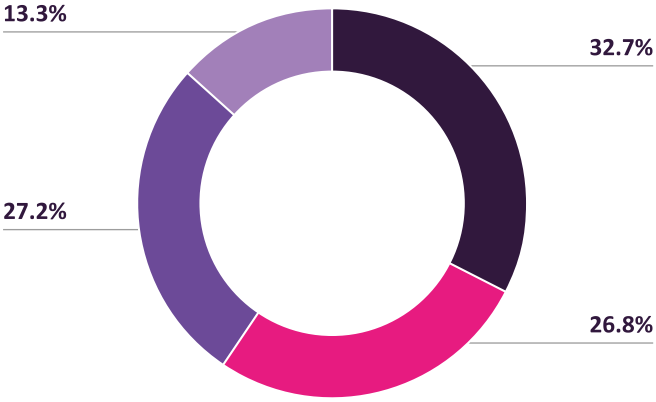


Figure 15: 2023 Detailed Engagement Activity Breakdown, Source: Investment managers, As of 31 December, 2023

EOS engagement breakdown

EOS engaged with 490 companies across 2,426 ESG topics on behalf of London CIV in addition to the engagements carried out by our investment managers.

Figure 16: EOS Engagement Breakdown



We engaged with 418 companies over the last year.

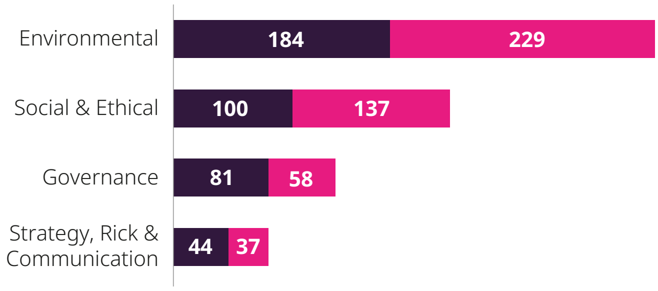
- Environmental
- Social and Ethical
- Governance
- Strategy, Risk and Communication

Figure 16 Source: EOS 2023

Engagement progress (2023)

The below chart demonstrates how much progress has been made in achieving milestones set for each engagement. During 2023, 53% of objectives moved forward for at least one milestone compared with 56% in 2022.

Figure 17: Engagement progress (2022)



- No change
- Positive progress (engagement moved forward at least one milestone during the year to date)

Figure 17 Source: EOS

Engagement milestones

EOS use a proprietary milestone system that tracks engagement progress against their objectives set with the company. They categorise these milestones as illustrated below:

- **Milestone 1** Concern raised with the company at the appropriate level
- **Milestone 2** The company acknowledges the issue as a serious investor concern
- **Milestone 3** Development of a credible strategy/stretching targets set to address the concern
- **Milestone 4** Implementation of a strategy or measures to address the concern

		Engagement objective status (last milestone completed)			Closed engagement objectives	
Theme	**Total Engagement Objectives**	**Milestone 1**	**Milestone 2**	**Milestone 3**	**Completed**	**Discontinued**
Environmental	413	82	199	93	30	9
Social	237	54	106	44	26	4
Governance	139	26	54	28	23	8
Strategy, Risk & Communication	81	9	36	18	15	3
Total engagements	**870**	**171**	**395**	**183**	**94**	**24**

Source: EOS

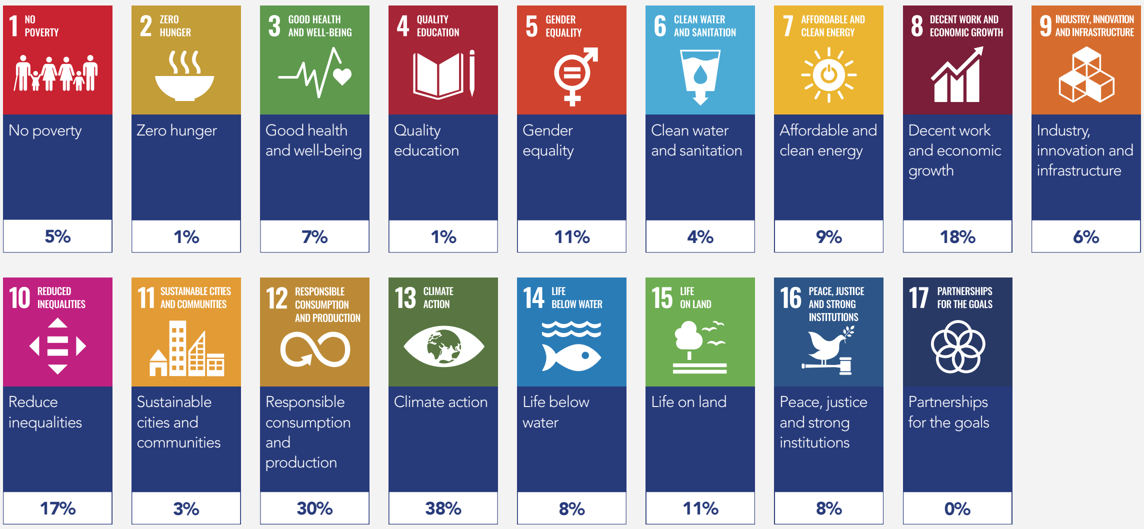
Linking Engagement to Sustainable Development Goals ("SDGs")

London CIV supports the delivery of the UN SDGs. We believe in creating positive outcomes for society through investments and engagement, as the goals recognise the role of the private sector in financing sustainable development.

The SDGs provide a common framework and language for investors and companies to work towards the achievement of the shared goals, with measurable indicators of progress. We believe EOS' and our own engagement with companies encourages them to act responsibly and reduce their negative impacts on society throughout their value chains. EOS' engagement methodology links each engagement objectives to a specific SDG target across our portfolio.

Supporting the UN Sustainable Development Goals

The chart below illustrates the proportion of **1,605** engagement objectives and issues on which we have engaged in 2023, which we believe are directly linked to an SDG (noting that one objective or issue may directly link to more than one SDG).



Source: EOS 2023

Figure 18: EOS Milestone Progress of SDG-linked Engagements Bar Chart

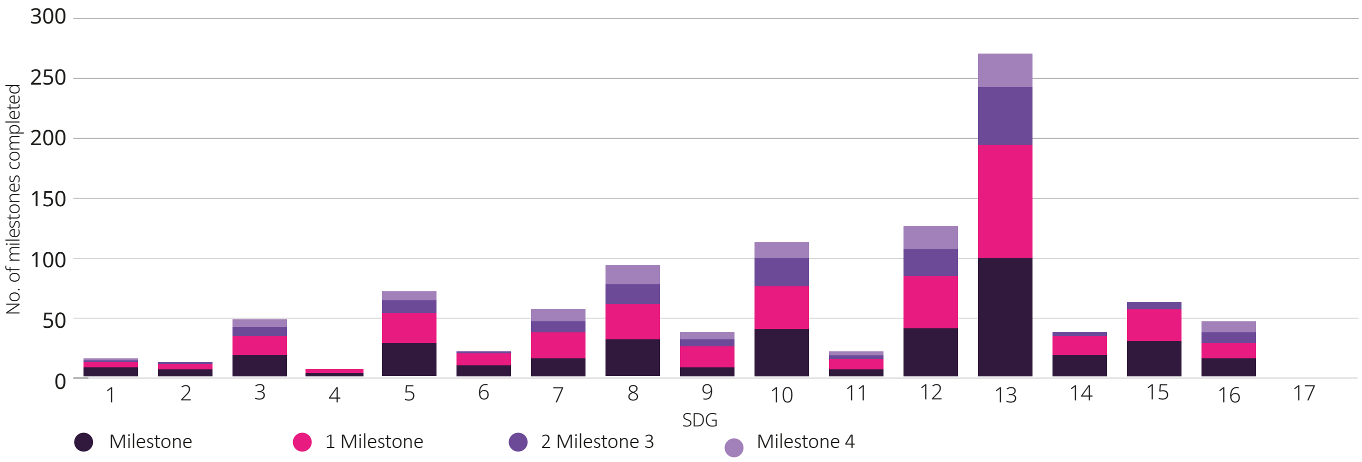


Figure 18: Source: EOS data for 2023

Deep Dive:
Climate Change

The Earth's temperature continues to rise faster than at any time in recent history, as evidenced by more numerous and volatile weather events in 2023, rising sea levels and warming marine temperatures. These changes are impacting agriculture and food supply, infrastructure and water availability, which in turn lead to increased migration and conflict. Climate change presents an immediate systemic risk to the ecological, societal and financial stability of every economy, country, asset type and sector on the planet. It will have significant and substantive physical and economic impacts on most aspects of human activity and, as a result, multiple implications for our Partner Funds and their pension fund beneficiaries. As significant asset owners, we have a key role to play in accelerating the transition to a net-zero economy. Addressing climate change is therefore part of our fiduciary duty and a strategic investment priority for London CIV.

Economic and geopolitical instability continued throughout 2023. Higher interest rates hindered the growth of renewables, which are typically financed with significant levels of debt, resulting in major offshore wind projects being scrapped across several regions. However, the International Energy Agency's (IEA's) updated net-zero emissions (NZE) by 2050 Scenario depicted economies transitioning away from all fossil fuels faster than previously expected, to remain aligned with 1.5°C[23].

We have continued with our engagement themes on climate change since 2020 and focused on the following outcomes:

- Improving the market quality of climate-related financial disclosure
- Reducing our Partner Funds' financial risk exposure from stranded assets

This year, our outreach continued to focus on escalating engagement with oil and gas companies and other high-emission sectors, which collectively account for ~65% of our portfolio's emissions. This targeted approach aligns with our net zero strategy to reduce our overall carbon footprint and mitigate climate-related financial risks.

Improving Disclosure

Accurate and timely disclosure of climate-related financial information is central to the effective implementation of the commitments set out in the climate policy. We work with investee companies to encourage better disclosure practices and improve data quality, thereby to strengthening its ability to assess climate-related risks. The chart below shows the underlying sources of corporate scope 1 and scope 2 emissions disclosure across London CIV's ACS portfolio by AUM. This has been assessed by calculating the value-of-holdings: The sum of the weights of each holding within each of the four disclosure data source categories.

The graph below shows the underlying sources of the scope 1 and 2 emissions data for our ACS portfolio by AUM. 66% of coverage is based on emissions or energy-use data directly reported to CDP or in a company's annual / CSR report (PCAF data quality score 2). A further ~9% of AUM is modelled based on revenue or other financial indicators and sector averages (PCAF data quality score 4).

This leaves approximately 25% of AUM not currently covered in our analysis – this may be due to the asset class (e.g. sovereign exposure, derivatives), missing data, our inability to match the ISIN to the issuer, or other data quality issues.

Figure 19: Scope 1 & 2 emissions for LCIV ACS portfolio

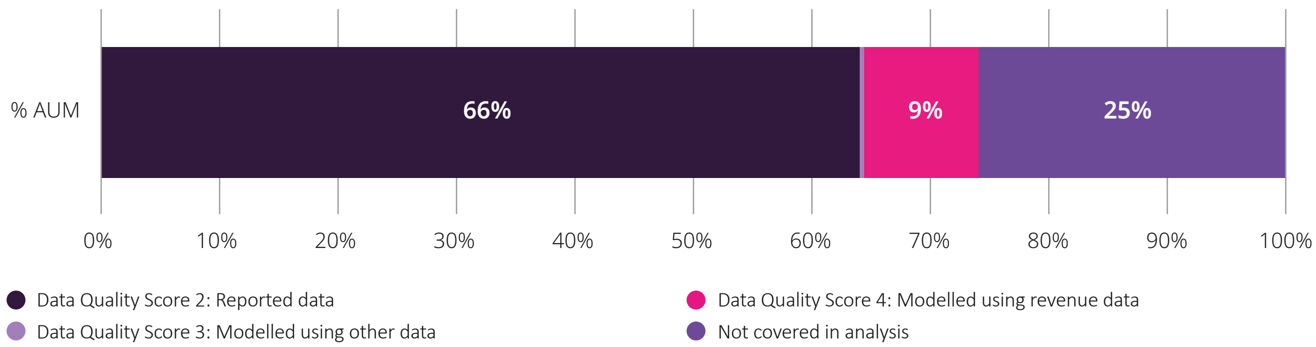


Figure 19: Scope 1 and Scope 2 Emissions Data Sources, Source: S&P Global Trucost

Note: Data quality scores are assigned on a scale of 1-5, 1 being best quality, following methodology from PCAF (Partnership for Carbon Accounting Financials).

23 London CIV Public 2023 Voting and Engagement Report, EOS

Case Study:
London CIV- helping our Partner Funds improve climate-related disclosures

Background and Action: In 2022, we launched the London CIV Climate Analytics service ("the Service") for our Partner Funds. The service consists of a detailed report covering the carbon footprint, fossil fuel exposure and net-zero alignment (i.e. implicit portfolio temperature ^{0}C in line with the Paris Agreement) of all listed equity and corporate fixed income instruments held in an entire Pension Fund investment portfolio. Our Service provides an analysis at the bottom-up level, calculating the carbon footprint metrics against an emissions scope 1, 2 and 3, which are based on specific climate data associated to the specific companies and/or issuers at fund level and in aggregate, regardless of investments deemed pooled or not. Our service includes a presentation to explain the aggregated results, which is delivered by our specialist who also discusses climate metrics at the fund level. This exercise aims at facilitating the considerations pension committee members will make, alongside their respective investment consultants, to set targets to reduce the carbon emission of their overall investment portfolios. Our climate reports help inform how pension committees will set such climate target ambitions.

Progress and Outcome: By the close of 2023 we had successfully delivered seven reports to our Partner Funds, with 17 signed up to the service in total. We also expanded the RI team, adding a skilled responsible investment analyst and an experienced climate change risk manager to build capacity and expertise that will better service our Partner Funds and meet our own ambitions on net-zero alignment.

Case Study:
CRH (Listed Equity)

Background: CRH is a diversified building materials company specialising in producing and distributing cement and other aggregates. Due to its significant contribution to the carbon footprint of the LCIV Global Alpha Growth Fund, Baillie Gifford has conducted rigorous analysis concerning its climate-related risks and mitigation efforts. Baillie Gifford's long-term objective for CRH is for the company to become an influential example of good practice in an emissions-intensive sector.

Action and Engagement: Baillie Gifford has been engaging with CRH since 2008, with discussions centred on the company's initiatives to reduce carbon emissions. Our investment manager informed us that this has involved advocating for increased transparency in CRH's Sustainability Reporting and Accounts, particularly regarding Board and auditor oversight of climate-related issues. These efforts also included urging CRH to disclose assumptions about future costs, potential policy shifts, accounting considerations, and its analysis of climate scenarios. In 2023, Baillie Gifford met with the company as part of a collaborative engagement coordinated by Climate Action 100+. As a result of the engagement, they reported that CRH has strengthened its decarbonisation targets, demonstrating leadership within the construction materials industry, a "hard to decarbonise" sector. The company announced new targets to support its net zero emissions by 2050 ambition, including a 30% absolute reduction in scope 1 and 2 emissions by 2030 compared to 2021 levels. These targets have been validated by the Science-Based Targets initiative (SBTi) in line with a 1.5 degree pathway. Recent discussions with CRH centred on the potential impacts of meeting these long-term objectives on the company's financial accounts and auditors' reports, in order for shareholders to make informed investment decisions.

Outcomes and Next Steps:
Our investment manager reported the following outcomes were achieved:

- Increased confidence in CRH's sustainability commitment, particularly regarding carbon pricing and their group-wide carbon intensity reduction target, which has been fully integrated into all business decisions.
- The 2022 annual report, released in March 2023, demonstrated a significant improvement in the disclosure of how climate-related issues are factored into strategy discussions and financial assessments.
- The company has quantified the incremental capex required to meet its 2030 decarbonisation goals.

Overall, our investment manager considers CRH to be a leader in its sector and will maintain constructive dialogue with the company on its climate transition plan, particularly around oversight of climate risks and climate scenario analysis.

Case Study: Company A (Fixed Income)

Background: Company A, an Italian multinational manufacturer and distributor of electricity and gas, stands as a flagship issuer of Sustainability Linked Bonds (SLBs). Company A has committed to a near-term core greenhouse gas emission reduction target, which includes reducing exposure to coal within its SLB framework. Our investment manager PIMCO played a key role in shaping Company A's sustainability-linked bond framework. PIMCO advised us that the company maintains a strong market position due to its best-in-class climate strategy and credentials. However, PIMCO emphasised that despite its ambitious goals, Company A faced challenges meeting its SLB Principles target due to various external factors hampering progress. These included adverse weather conditions, and, to a lesser extent, energy upply disruptions stemming from the Russia-Ukraine war.

Action: PIMCO has a long-standing engagement with the issuer regarding the implementation of Company A's climate strategy and identification of key performance indicators (KPIs) relevant to the coupon trigger mechanism associated with its Sustainability Linked Bonds (SLBs). In early 2023, discussions underscored the potential for Company A to fall short of its SLB target, thereby triggering a step-up provision. This assessment hinges on the comparison between the Carbon Emissions value and the target associated with the SLB, expected to be announced in April 2024, determining whether the target is missed or achieved. PIMCO informed us that the target for renewables installed capacity, also linked to the SLBs, remains firmly on track. Further, PIMCO recommended that Company A expand the SLB framework to encompass scope 3 and taxonomy metrics, and suggested enhancements for the issuer's sustainability-linked bonds progress reporting. Additionally, our investment manager reported they encouraged Company A to highlight drivers of carbon emissions compared to the set targets, to aid investors in understanding the influence of external and internal factors.

Progress and Outcome: In February 2023, Company A became the largest utilities issuer to update their Sustainability Linked Bond (SLB) framework to include the additional targets on scope 3 and taxonomy-aligned CAPEX, considered by PIMCO to be a best-in-class approach for all SLB issuers. This effort by Company A demonstrates the issuer is committed to the direct measurement and transparent reporting of its SLB targets. The investment manager confirmed Company A will publish an update on the carbon target linked to the issuer's SLBs in its 2023 sustainability report.

Looking Forward: We anticipate the release of the issuer's 2023 sustainability report. Our manager has also announced plans to engage with the issuer for an understanding of recently reported human rights controversies and their potential implications for compliance with international norms.

Reducing risk exposure from fossil fuels

Future emissions from fossil fuel reserves far outweigh the allowable carbon budget that will limit global warming to 2 degrees Celsius above pre-industrial levels. Industry experts refer to assets that may suffer from unanticipated or premature write-downs, devaluations or conversion to liabilities as stranded assets.

London CIV assesses exposure to such assets by monitoring revenue-weighed exposure to fossil fuels across our public markets funds, associated with business activities in either fossil fuel extraction or fossil fuel energy generation industries. This helps us to identify potentially stranded assets that may become more apparent as economies move towards a low-carbon economy. Since 2021, fossil fuel revenues have consistently made up <1% of our AUM. We are consistently outperforming both of our passive pooled funds held with BlackRock and LGIM, as well as the MSCI World index.

Based on this analysis, we work to identify the companies that contribute the most to the consolidated pool apportioned embedded emissions to engage with them and understand their strategies for mitigating the exposure of their stranded assets.

Figure 20: Apportioned Future Emissions by Reserve Type

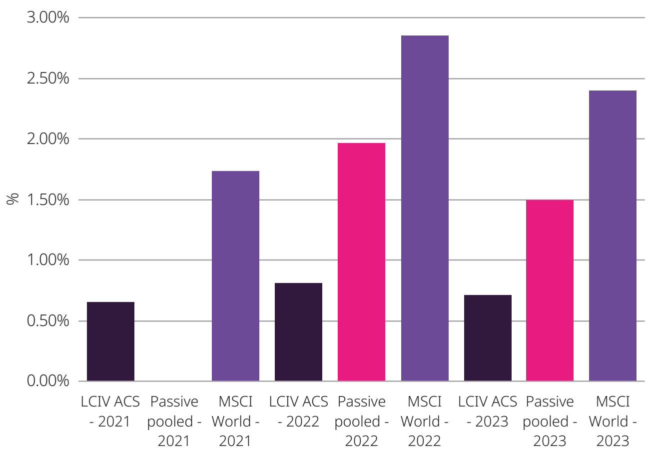


Figure 20: London CIV and S&P Trucost 2023

Case Study:
EOG Resources (Listed Equity)

Background: EOG Resources (EOG) is a US company engaged in hydrocarbon exploration. Their aim is to be the most cost-effective, low-emission, and high-return producers of oil, shaping the long-term future of the market. The company continues to prioritise producing the lowest carbon barrel of oil, as long as there continues to be demand for fossil fuels. The company cited a lack of financial incentives and expertise required to transition to renewable energy. The company has announced an ambition to reach net zero operational emissions by 2040.

Engagement Action: RBC's engagement with EOG began in 2021 and centred on its climate strategy, which is organised into three categories: reduce, capture and offset. RBC reported that while EOG has made significant strides in direct methane capture, achieving a 99.8% wellhead gas capture rate in 2021 and 2022, improvements to its emissions reporting were necessary, specifically the disclosure of scope 3 emissions. These concerns were flagged to the company in Q4 2022 and as part of ongoing engagement meetings. RBC decided to escalate their concerns at EOG's Annual General Meeting (AGM) by opposing one of the directors' re-election on the grounds of EOG's insufficient climate mitigation strategy. In a June meeting with the CEO, RBC confirmed that the company was researching scope 3 reporting standards and industry benchmarks. A second focus of engagement was on the expansion of a Carbon Capture and Storage (CCS) pilot project initiated in 2022, connected to EOG's natural gas facilities in the Permian region. RBC expressed confidence in the company's expertise, anticipating its leadership role in Carbon Capture and Storage (CCS) and its contribution to emissions reduction efforts.

Outcomes and Next Steps: In 2023, the company initiated reporting on its scope 3 emissions. Presently, management is focusing on disclosing category 11 data, with RBC expressing its intent to expand coverage where material and to enhance transparency.

Our investment manager will continue to monitor the company's progress in implementing their CCS project and achieving their carbon emissions reporting goals.

Case Study:
Royal Dutch Shell (Listed Equity), London CIV's Climate Change Escalation

Background: Royal Dutch Shell Plc engages in the oil and natural gas production, operating in the following segments: Integrated Gas, Upstream, Downstream, and Corporate. We have been engaging with Shell since 2021, as reflected by the fact that this has been an ongoing case study for the past two years. At Shell's 2022 AGM, we voted 'Against' Shell's Energy Transition resolution due to concerns about inadequate key disclosures and misalignment with a 1.5°C target. We also voted in favour of a resolution[24] demanding that Shell set Paris-aligned targets for all emissions. We later wrote to the company inquiring whether the Board intended to change course to reduce its impact on the climate. Regrettably, no response was received.

Action and Engagement:

- In 2023, we escalated our concerns by publicly endorsing ClientEarth's groundbreaking lawsuit against Shell's board of directors for their mishandling of climate-related risks, emphasising our shared concerns regarding Shell's Energy Transition Strategy and the Board's responsibility to address climate change risks.
- At Shell's 2023 AGM in June, we We voted 'Against' the reappointment of the Chair alongside its six directors, due to Shell's failure to manage climate-related risks. We opposed Shell's Energy Transition resolution due to continued misalignment with a 1.5°C target. Instead, we supported a shareholder proposal introduced by Follow This[25], advocating for the introduction of a 2030 emissions reduction target which includes scope 3 GHG emissions, particularly around the use of its energy products.
- In November 2023, we issued a press statement in response to Shell's recent lawsuit against Greenpeace, highlighting the multifaceted risks posed by climate change and the need for companies to address climate risks adequately.
- In December 2023, we joined a group of investors in co-filing a further resolution led by Follow This at Shell aimed at addressing the climate crisis holistically in 2024.

24 https://www.follow-this.org/wp-content/uploads/2021/12/Follow-This-Shell-Climate-Resolution-2022.pdf
25 https://www.follow-this.org/wp-content/uploads/2023/02/Follow-This-Shell-Climate-Resolution-2023.pdf

Category	Proposal	Management Recommendation	London CIV Votes	% For
Board Related	Re-elect Dick Boer as Director	For	Against	99.6%
Board Related	Re-elect Neil Carson as Director	For	Against	99.4%
Board Related	Re-elect Ann Godbehere as Director	For	Against	98.8%
Board Related	Re-elect Jane Lute as Director	For	Against	99.8/%
Board Related	Re-elect Catherine Hughes as Director	For	Against	98.3%
Board Related	Re-elect Sir Andrew Mackenzie as Director	For	Against	93.1%
Board Related	Re-elect Abraham Schot as Director	For	Against	99.8%
Climate	Approve the Shell Energy Transition Progress	For	Against	80%
Climate	Request Shell to Align its Existing 2030 Reduction Target Covering the Greenhouse Gas (GHG) Emissions of the Use of its Energy Products (Scope 3) with the Goal of the Paris Climate Agreement	Against	For	20%

Outcomes:

- In February 2023, the case was filed against Shell's Board of Directors for failing to move away from fossil fuels fast enough: the first ever case of its kind seeking to hold corporate directors personally liable. In May 2023, the UK High Court of England and Wales (Chancery Division) dismissed the case, and ClientEarth appealed the decision.
- 20% of shareholders supported the shareholder proposal requesting Shell to align its existing 2030 reduction target covering the greenhouse gas (GHG) emissions of the use of its energy products (scope 3) with the goal of the Paris Agreement, and voted 'Against' their Energy Transition plan
- In November 2023, The Court of Appeal refused permission to appeal, primarily citing procedural grounds (including that ClientEarth's status as a minor small shareholder), and a general reluctance to intervene in the duties of a directors.
- In December 2023, we divested Shell from our Global Equity portfolio. The position was liquidated in part because London CIV and the investment manager had lost confidence in the company's green energy operations' growth trajectory. We still retain a position in Shell within our Real Return portfolio.

Next Steps:

- We will continue to engage with Shell as part of the collaborative engagement efforts with other investors, alongside our investment manager and EOS.
- We will support and publicly advocate for the revised Follow This resolution, which has been confirmed by Shell to be tabled at its 2024 AGM, to be passed by shareholders.


ClientEarth

London CIV

London, 27 January 2023

Dear ClientEarth,

ClientEarth's anticipated derivative claim against the Board of Directors of Shell plc regarding climate risk mismanagement

Over the next few years one billion lives[1] and trillions of pounds will be at risk due to a single issue: climate change.

Recognising the dual materiality of this global emergency and the associated financial opportunities associated with the green transition, London LGPS CIV Limited ('London CIV') has a fiduciary duty to its 672,000 beneficiaries[2] to understand climate risk, maximize associated opportunities and reduce its carbon footprint.

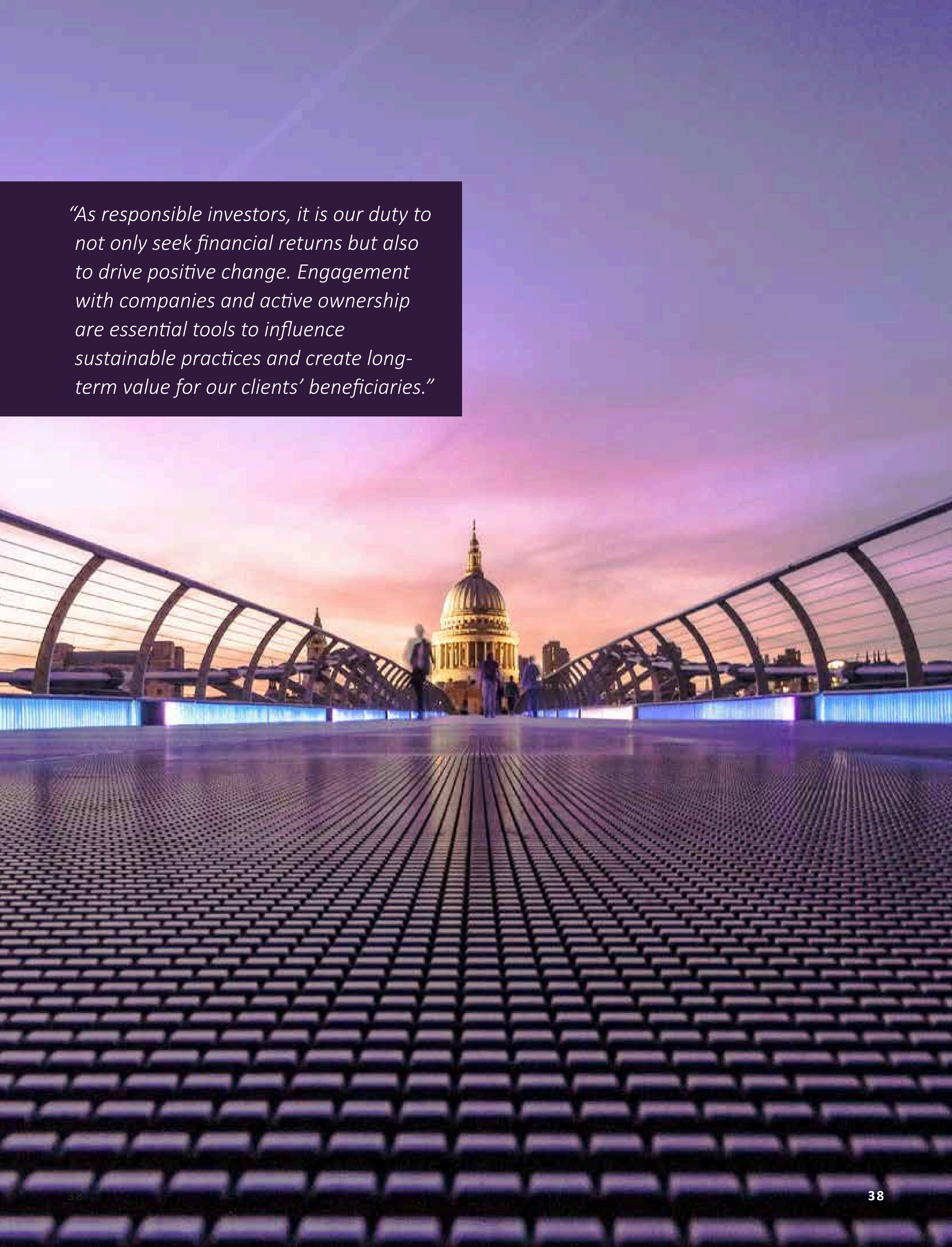
Due to our future liabilities and long-term investment strategy, we support the Paris Agreement and must consider the financial implications of global warming, encouraging emissions reductions now, rather than later. Furthermore, recognizing that funding the transition is likely to mobilise over £240tn[3] in capital by 2050, more investment in renewables would be a significant competitive advantage.

In light of this, we are writing both to express our support for your anticipated shareholder claim and to set out our shared concerns with Shell's Energy Transition Strategy in light of the Board's responsibility of managing climate change risk.

1. **London CIV**

London CIV, established in 2015 by London Local Authorities manages London Local Government Pension Scheme ('LGPS') assets. London CIV is one of eight UK LGPS asset pooling companies. The London Boroughs and City of London who are the 32 shareholders, are also our clients ('client funds').

"As responsible investors, it is our duty to not only seek financial returns but also to drive positive change. Engagement with companies and active ownership are essential tools to influence sustainable practices and create long-term value for our clients' beneficiaries."



Deep Dive: Natural Capital

Biodiversity and Deforestation

In 2023, we continued to prioritise biodiversity and deforestation as key topics in our stewardship evaluation to address the urgent need to protect forests and their link to climate, biodiversity, and human rights. Since 2021, London CIV has been one of the early pension fund group members of the deforestation-free pensions guidance working group, set up by Global Canopy, Systemiq and Make My Money Matter. In 2022, the group released guidance[26] on how pension funds can reduce and make best efforts to eliminate deforestation exposure.

Our actions in 2023:

- Requested EOS to escalate engagement on biodiversity and deforestation with exposed companies.
- Engaged with investment managers regarding exposed companies.
- Incorporated deforestation and biodiversity risks in our updated voting and engagement policies and guidelines.
- Continued to vote in favour of proposals asking companies to abstain from operating in, or using materials extracted from, areas deemed at risk of deforestation; as well as against the relevant Director for firms deemed as not adequately managing deforestation-related risks.
- Continued to request and review managers' deforestation policies where available.
- Engaged on policy and collaborated with external groupsto support an enabling environment for businesses to avoid deforestation risks and impacts, as a member of the Investor Policy Dialogue on Deforestation (IPDD) working group.

Natural resource stewardship also continues to be an engagement focus for EOS. Their engagement on this issue with companies in our portfolio has centred on the protection, preservation and restoration of natural resources and biodiversity through systemic solutions such as transitioning to sustainable food systems, avoiding antimicrobial resistance and managing water stress to enable more affordable access to food and clean water16[27].

26 https://guidance.globalcanopy.org/further-guidance/pension-funds/
27 Source: EOS 2023-2025 Public Engagement Plan, 2023

Case Study: The Yakult Honsha Company, Deforestation (Listed Equity)

Background: Yakult Honsha, a prominent Japanese manufacturer of food, beverage, pharmaceutical, and cosmetic products, utilises commodities such as palm oil, soy, pulp, and paper, which are often associated with deforestation. EOS identified these deforestation risks within Yakult's supply chain.

Engagement Action: In 2021, concerns were raised with Yakult, urging the company to establish clear targets for mitigating deforestation risks and implement transparent policies for its suppliers to ensure a deforestation-free supply chain. Yakult acknowledged these concerns and committed to addressing them in its environmental initiatives. However, due to the lack of concrete action, engagement was escalated, leading to opposition to the re-election of the president at Yakult's 2021 AGM over concerns about insufficient management of deforestation risks and biodiversity impact. In 2022, further discussions were held at the company's headquarters in Tokyo, emphasising the importance of evaluating biodiversity risks throughout its operations and supply chain.

Outcomes and Next Steps: In 2023, in response to the engagement, Yakult implemented a "Deforestation and Conversion Free (DCF) Commitment to Responsible Sourcing" policy. This policy outlines specific actions and key performance indicators (KPIs) for pulp and paper, palm oil, soy, and dairy products, aiming to eradicate deforestation from its supply chain. London CIV will continue to engage with Yakult via EOS on the effective implementation of this policy, ensuring alignment with the TNFD recommendations and sustainable agriculture practices.

Case Study:
Ørsted, Biodiversity (Listed Equity)

Background: Ørsted A/S is the largest energy company in Denmark. In 2021, Ørsted set out its 2030 ambition for all new projects to have a net positive impact on biodiversity. To deliver on this, Ørsted set up regional biodiversity teams with biodiversity specialists, who work with local business units to advance the net-positive agenda.

Engagement Action: Our investment manager Baillie Gifford, engaged with Ørsted's UK biodiversity specialist at a Scottish blue economy event to discuss the use of standardized biodiversity metrics and potential approaches for Ørsted. They learned that Ørsted's current focus is on establishing a standardised unit of measurement. This will enable the aggregation of progress from business units to the corporate level and facilitate clear communication of progress with external stakeholders. Baillie Gifford reported that Ørsted is committed to publishing a methodology by 2024, which will introduce new metrics for key habitats and species, going beyond DEFRA's[28] Biodiversity Net-Gain (BNG) approach focused on habitats. Ørsted ultimately aims to share their methodology with the industry and strive to outperform competitors. A second objective is testing the implementation process. Baillie Gifford stated that while onshore renewables are part of the target, most pilot projects have focused on marine ecosystems due to their complexity in achieving 'net gain'. Challenges include the dynamic nature, expanse, and depth of these ecosystems, necessitating collaboration with various stakeholders to collect data, coordinate actions, measure outcomes, and provide compensation. Additionally, lessons learned in one habitat or region may not necessarily be transferable elsewhere, leading to additional costs and resource needs.

Outcomes and Next Steps:

- A biodiversity ambition and measurement framework was piloted, with the final framework still under development.
- While the precise business case for this work is still developing within Ørsted, the company's strong environmental practices, evidenced by consistent dialogue with the Crown Estate Scotland, Scottish Government, and Scottish Environment Protection Agency (SEPA), contribute to a significant amount of goodwill. This intangible asset, in turn, positively influences Ørsted's financial performance. Additionally, the rapid pace of regulatory changes and growing public awareness further incentivise Ørsted to maintain its leadership position in this area.

Baillie Gifford will continue to engage with Ørsted on their progress as a provider in the renewable transition.

13 CLIMATE ACTION

28 Department for Environment, Food and Rural Affairs

Deep Dive:
Human Capital

Diversity, equity and inclusion (DEI) remained a priority sub-theme for London CIV this year. As more corporations carry on pledging to improve racial and gender diversity, we believe better data and greater transparency is key to improve progress on racial gender and socioeconomic equality. This data can be used to evaluate companies on key social issues such as pay parity, employee discrimination and other diversity and inclusion policies. These risks, if not effectively managed, can lead to reputational harm, an inability to attract and retain a quality workforce and even legal action.

We're committed to engage with companies to improve disclosure across key DEI metrics and actions to achieve equality in the workplace. Regarding our engagements, **45%** of EOS' engagements conducted on our behalf were on human capital. **43%** of engagements were on the topic of human rights.

Figure 21 summarises the overall level of disclosure on female representation at the corporate level across the London CIV consolidated asset pool. The coverage rates were calculated as the sum of weights in each holding within each of the two disclosure categories. We continue to use such results as the basis for our engagement with companies.

Based on corporate disclosures by companies within the London CIV pool, we were able to calculate gender diversity at board level as well as workforce female diversity. Figure 22 indicates the weighted average female board representation at London CIV consolidated pool-level.

We remain increasingly concerned about progress on diversity in corporate companies and the investment management industry. The analysis shows only 7% representation of women on company boards and 5% of ethnic minorities in the management position.

Further, we believe our assessment of managers' DEI practices at the operational level are a valuable indicator of whether the investment team have the right cultural diversity internally to contextualise engagements.

Regarding voting, our guidelines relating to DEI advocate for increased representation of women and ethnic minorities on boards and in leadership teams. In 2023, we opposed **3,118** responsible Director proposals due to concerns about insufficient diversity.

Figure 21: Female representation Corporate disclosure (AUM)

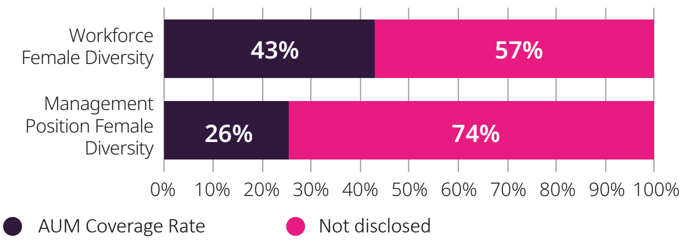


Figure 21: Source London CIV Research

Figure 22: Management position female Diversity

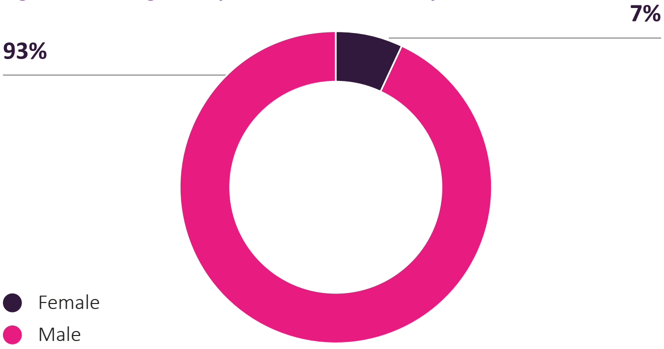


Figure 22: London CIV Research based on Bloomberg Data

Figure 23: Workforce female Diversity

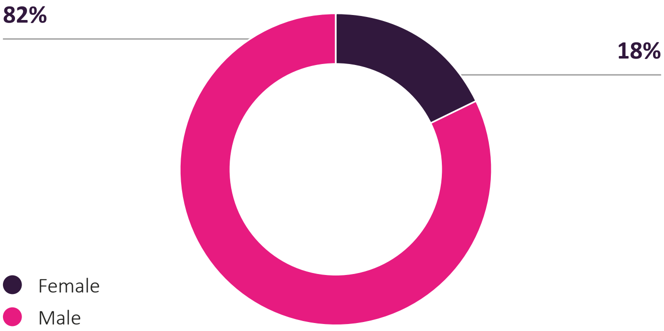


Figure 23: Workforce Female Diversity, Source: London CIV Research based on Bloomberg Data, 2022

Figure 24: Minority representation Corporate disclosure (AUM)

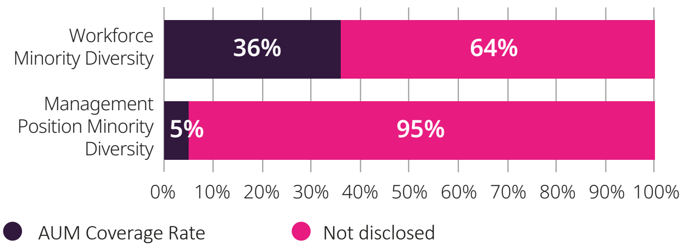


Figure 24: Minority Representation Corporate Disclosure, Source: London CIV Research based on Bloomberg Data

Case Study:
London CIV Asset Owner Diversity Charter

Background: Since 2022, London CIV has engaged with all underlying investment managers to disclose their diversity data by using the Asset Owner Diversity Charter (AODC) Questionnaire. The charter has two key components: the asset manager diversity and inclusion questionnaire and the asset owner charter toolkit. The questionnaire aims to standardise diversity metrics to enhance disclosures, with results informing a progress report to support engagement and improve DEI efforts. The the toolkit supports the charter's implementation and covers essential topics such as manager selection and monitoring.

As a signatory and active working group member, we request our managers to compile DEI data on an annual basis. The questionnaire contains both qualitative and quantitative questions across five key areas.

The lack of harmonisation of metrics in DEI adds extra burdens for asset managers, as their clients and stakeholders may request workforce data in various metric categories. The AODC quantitative questionnaire aims to resolve this issue, as we seek to provide a comprehensive template for asset managers containing metrics that are important to asset owners and consultants.

Progress and Outcomes: In 2023, our chief aim was to increase the disclosure rate across our investment manager universe. We successfully achieved this goal, with 100% of our managers responding to our questionnaire. However, the quality of responses varied, with 26% of managers leaving the quantitative section of the questionnaire blank. Despite this, there was a notable increase in engagement from our investment managers, with 48% completing the questionnaire for the first time this year. Managers across both public and private markets acknowledged the importance of this disclosure, with many noting that the activity also served as a valuable learning process for their firms.

We recognise that the data collection process requires time from our investment managers, but one of the ambitions of this initiative is to enable managers to respond to standardised requests for information.

Key achievements in 2023:

- We partnered with CAMRADATA to conduct detailed analysis on key qualitative and quantitative metrics, which informed our ongoing assessment of our managers.
- Our active involvement on Asset Owner Diversity Charter (AODC) Working Group continued this year, in partnership with other asset owners committed to industry transformation on DEI. Our expertise assisted the group in furthering its objectives.
- We maintained our commitment to integrating DEI principles into manager selection and monitoring procedures. In the tender process for our Nature Based Solutions fund, we mandated consultants and managers under consideration to address diversity-focused screening questions.
- We responded to the (FCA's) Diversity and Inclusion Public Policy consultation. We provided an asset owner perspective feedback and advocated for our questionnaire's adoption as an industry best practice.

Focus for 2024: Our main goal for 2024 is to boost the quality of quantitative data responses and expand beyond gender to include ethnicity and socioeconomic status metrics. Socioeconomic factors will be based on the City of London's Socioeconomic Taskforce's recommendations[29]. Additionally, we will continue our involvement with the AODC working group, with plans for the charter to launch the next phase of its growth strategy at its 2024 annual conference.

Board	Who has responsibility and oversight for the diversity strategy and targets? If there are no targets, explain why?
Promotion	How do you ensure you operate an equal opportunity development and promotion process?
Culture	How are you fostering inclusivity? Do you undertake staff surveys, ensure polices are accessible? Is take up measured?
Recruitment	Often sighted as a barrier. How are barriers being broken and how are firms ensuring the process in inclusive and bias is removed?
Industry	How are firms improving representation and perception of the industry? How can they be involved and supporting collaborative initiatives?

29 https://www.gov.uk/government/publications/socio-economic-diversity-taskforce-in-financial-and-professional-services

Case Study:
Huntington Bancshares, Inc., Diversity, Equity and Inclusion

5 GENDER EQUALITY
8 DECENT WORK AND ECONOMIC GROWTH
10 REDUCED INEQUALITIES

Background: Huntington Bancshares, Inc. operates as a bank holding company. It provides a range of financial products and services including commercial and consumer banking services, mortgages, vehicle financing, investment management, and insurance.

Engagement: In 2022, EOS urged Huntington Bancshares to establish a clear workforce diversity strategy with time-bound targets to increase representation from under-represented groups, including gender, ethnicity, LGBTQ+, and disability. In 2023, EOS met with the bank to discuss DEI and its employee talent pipeline and informed us that Huntington Bancshares emphasised its successful internship programme. Additionally, EOS advocated for more detailed disclosure on promotion retention rates by demographic, and LGBTQ+ representation on the board. In response, the bank highlighted that although it does not explicitly incorporate ESG metrics into compensation, various aspects related to DEI are considered in annual awards.

Outcomes and Next Steps: In 2023, the bank set comprehensive diversity targets encompassing racial and ethnic diversity, as well as diversity in hiring and promotions. Furthermore, EOS urged continued transparency regarding progress and diversity programmes, highlighting the company's commitment to diversity even in the face of regulatory changes.

Case Study:
Multinational Software Company, Diversity, Equity and Inclusion

5 GENDER EQUALITY
8 DECENT WORK AND ECONOMIC GROWTH
10 REDUCED INEQUALITIES

Research shows that gender-diverse executive teams tend to have higher profitability, foster innovation, and strengthen governance. Boards with greater gender diversity also face fewer governance-related controversies.

Background: In 2023, our investment manager, Morgan Stanley Investment Management (MSIM), met with a German multinational software company to discuss its failure to meet the target of 30% women in management positions within 2022. MSIM believe a strong DEI strategy is critical for attracting top talent, creating a positive culture, and improving overall financial performance.

Action: The company has been embedding DEI in its business for two decades through various initiatives and policies. MSIM reported that the company attributed its shortfall in meeting its women in management target to the hiring limitations imposed by the COVID-19 pandemic. The company confirmed it prioritises promoting from within, investing in internal development programs and is on track to meet its target by year-end. The company’s goal, set in 2020, to double the representation of Black and African American employees in the U.S., excluding leadership teams. Currently, representation stands at 3.7%, as the company recognises the original target was overly ambitious, it has now shifted its focus to increase self-disclosure and set more accurate diversity targets.

Outcomes and Next Steps:

- The company is on track to meet its gender diversity target within 2023.
- The company published its inaugural DEI report, providing stakeholders with progress against set targets and objectives.
- The Chief Diversity & Inclusion officer of the company has exhibited effective leadership through the establishing a credible DEI strategy and building an inclusive culture from within.

Confident in the company's ability to effectively deliver and implement its DEI strategy, MSIM will continue to engage with the company on improving gender parity and greater racial and ethnic diversity, supported by realistic, time-bound milestones.

Deep Dive:
Human and Labour Rights

Heightened awareness and urgency surrounding human rights issues, along with a deeper understanding of our influence in achieving real-world outcomes through our investments, has raised the bar for human rights protection. As institutional investors, London CIV has a duty to uphold human rights, as codified by the UN and the OECA in 2011. This issue has been a top priority for us since 2021, as detailed in our Stewardship Policy.

In 2023, 38% of EOS' engagements on Social and Ethics focused on Human Rights.

Our public statements:

In 2023, we published statements disclosing our exposures to exposures to Israeli-related investments:

Our public statement on our response to the Israel-Hamas War

Our public statement and exposure on the Uyghurs in the Xinjiang region of China.

Case Study:
Thermo Fisher Scientific Inc. (Listed Equity)

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Background: EOS has been engaging with Thermo Fisher since 2019, and in the previous year we reported on their engagement with the company regarding allegations over its DNA kits being used for genetic surveillance over consecutive years of the Uyghur minority in the Xinjiang region of China. EOS informed us that they will continue to engage with the company to enhance its human rights policy to align with the UN Guiding Principles framework, and disclose a comprehensive due diligence process that includes digital rights and facial recognition, access to remedy, and external human rights expertise on the board.

Action: In 2023, EOS asked Thermo Fisher to explain how it is managing risks associated with human rights violations, considering allegations that its DNA kits are being used to discriminate against subsets of populations in Xinjiang and Tibet. The company explained that its products do not have the capability inbuilt for end-users to identify the source of origin for DNA samples, because it may facilitate product misuse, for example to discriminate against population subsets. EOS also reported that they do not believe that the company itself has access to the underlying sample data and results produced through customer use of its DNA profiling kits, ensuring greater confidentiality.

Outcomes:

- In 2023, the company aligned its Human Rights policy with the UN Guiding Principles (UNGP's) framework.
- A bioethics committee was established following the identification of misuse, implementing new controls and participating in all product design decisions. EOS advised that the committee reports to the board and provides oversight of emerging risks including diversity in clinical trials and artificial intelligence.

Enhanced due diligence processes were implemented for high-risk regions, providing impacted parties with access to remedy.

Case Study: Hon Hai Technology Group (Listed Equity), Labour Rights

Labour rights violations, including forced labour, long working hours, and poor working conditions, pose significant risks in global supply chains, particularly in complex and labour-intensive industries. Poor transparency in large-scale supply chains can also lead to companies unknowingly violating labour rights laws.

Background: Hon Hai is a Taiwanese multinational electronics contract manufacturer. Since 2010, EOS has pressed Hon Hai to improve its labour practices, resulting in progress on long-term sustainability initiatives. In 2017, EOS specifically addressed labour standard concerns and the high turnover rate among Hon Hai's workforce, which exceeds one million globally. This followed reports of underage workers and inadequate working conditions. Due to EOS's involvement, Hon Hai terminated its student worker program and increased the minimum working age to 18, aligning to international standards.

Engagement and Action: In 2022, EOS re-engaged with the company following fresh media reports sparked by protests at Hon Hai's Indian iPhone plant in December 2021 on working conditions[30]. EOS' efforts included advocating for addressing working conditions, increasing disclosure of audit findings and remedial actions to address labour issues identified. Despite the company's commitment to disclose ESG information outside of Chinese operations, it was still gathering data for reporting. In November 2022, Hon Hai assured that it was addressing the issues flagged over protests at its Zhengzhou factory concerning highly stringent Covid-19 rules and plans to delay bonus payments. In April 2023, EOS visited the company's Zhengzhou production campus to witness first-hand the implementation of a sufficient human capital management strategy. This involved assessments of living and working conditions, and interactions with senior management. Notably, the company allowed EOS unfettered access to its dormitories.

Outcomes and Next Steps:

- In 2020, the company introduced a board-approved labour strategy prohibiting student workers under 18 from production roles.
- In 2021, the chair affirmed the commitment to respecting workers' rights and communicated the company's new code of conduct.
- In May 2022, a new ESG strategy was announced, featuring ten social goals with milestones and associated metrics surpassing 2025, including, human rights, labour standards, employee feedback mechanisms, and inclusion and diversity.
- In April 2023, the company updated its value chain code of conduct and reported on how it had addressed labour issues reported in December 2022, confirming 100% of its production plants are internally audited before undergoing independent third-party audits.
- The company committed to including disclosure outside of China in its upcoming ESG report, to be released in 2024.

Overall, this shows that Hon Hai have made significant strides towards a robust human capital management strategy. EOS will continue to engage with the company, alongside other critical long-term sustainability drivers such as climate change risk mitigation.

30 https://www.reuters.com/world/india/foxconn-indias-iphone-plant-restarts-production-after-dec-protests-2022-01-12/

Case Study:
Compass Group, EOS, Human Rights (Modern Slavery)

Background: Compass Group Plc is a UK-based business focused on providing outsourced food and targeted support services around the world, with key markets in North America, Europe, and rest of World. In October 2020, Compass Group Plc faced criticism over alleged human rights abuses relating to modern slavery in its supply chain and so engagement took place regarding the lack of effectiveness of its policies and processes designed to uncover modern slavery in its operations.

Engagement and Action: In 2020, EOS encouraged Compass Group to adopt a human rights policy and conduct an impact assessment. While the subsequent policy and commitment to combatting modern slavery were positive steps, EOS questioned the effectiveness of Compass's efforts to uncover such practices within its operations.

The following year, EOS inquired about the company's migrant worker recruitment practices and recommended an independent review of worker experiences. Compass confirmed it was considering additional actions, like employee training, and welcomed further input.

EOS continued to engage with Compass in 2022, focusing on revisions to its Code of Business Conduct. In 2023, progress was assessed, with EOS noting efforts to measure compliance and track high-risk areas but calling for greater transparency through public reporting. In response, Compass announced the launch of a group-wide Third-Party Integrity Due Diligence Policy and Migrant Labour Working Group.

Outcomes and Next Steps:

- In 2021, the company announced it was commissioning an independent review to assess recruitment practices and worker treatment in seven countries, whilst bolstering its human resources function.
- In 2022, Compass confirmed an independent review had been conducted and found the company to be compliant with the International Labour Organisation's (ILO) forced labourstandards .
- In 2023, the company created a new Group Supply Chain Risk Management (SCRM) Committee, to further develop and embed a strategic framework and integrated approach to mitigating human rights risks in its supply chain.
- It also launched a new Group-wide Third-Party Integrity Due Diligence Policy (TPIDD) and Migrant Labour Working Group (MLWG).
- The company also published an integrated Business Integrity Policy and updated Code of Business Conduct to enhance risk reduction and compliance.

EOS will continue engaging with the company on modern slavery and human capital management. It is making progress and committed to further embedding its Supply Chain Risk Management (SCRM) strategy,, advocacy of ethical recruitment practices, and amplifying collaborations with external experts on human rights and modern slavery.

Deep Dive: Technology and Cyber

Based upon our proprietary prioritisation methodology, described in our Stewardship Policy, technology and cyber rose up the agenda of London CIV's priorities this year.

Responsible investment necessitates active engagement with technology's impact. From artificial intelligence (AI) shaping industries to cybersecurity threats evolving, navigating this dynamic landscape requires collaboration. We promote responsible development and adoption of AI, encouraging ethical considerations and potential risks. We advocate for robust cybersecurity measures and proactive threat mitigation strategies. By engaging with investee companies, we strive to ensure technology empowers a sustainable and secure future, contributing to long-term value creation for our Partner Funds' beneficiaries.

Our action in 2023:

- Using our voting rights for privacy and digital rights. Please see pg.49 for case study on Meta and pg.62 for case study on Amazon.
- Engaged with our Stewardship provider to enhance technology and cyber engagements.

Case Study:
Tencent | EOS | Digital Rights, Data Privacy and Ethical AI

Background: Tencent Holdings Ltd. is a Chinese multinational technology company engaging in the provision of value-added services and online advertising services. Its stated mission is to "improve the quality of life through internet value-added services"[31]. Since 2019, EOS have been engaging with the company on our behalf.

Action and Engagement: EOS pressed Tencent to implement robust strategies for safeguarding consumers and upholding ethical AI use. This included disclosing its code of business ethics, incorporating AI ethics, in its ESG reporting and adopting its own ethical AI guidelines, given the company's extensive use of machine learning.

In 2020, the focus shifted to data privacy concerns. EOS asked Tencent to publish its security and privacy practices, in response to reports of WeChat surveillance[32]. EOS sought clarification on legal compliance in offshore jurisdictions and requested transparency reporting on government and third-party data requests. Tencent affirmed its commitment to complying with China's Personal Information Protection Law.

By 2022, EOS had communicated its Digital Rights Principles to Tencent, outlining further expectations for AI and data privacy. They included transparency of algorithmic systems, user control, bias mitigation, and adherence to data privacy best practices. In 2023, EOS addressed Tencent's reported UN Global Compact breach and its low Ranking Digital Rights score, urging a commitment to user consent to its privacy policies.

Engagement Outcomes:

- In 2021, the company released its first Explainable AI Report, highlighting its "AI for Good" vision centred on improving people's quality of life and possibilities for social development. The report, a first for a Chinese company, outlined Tencent's regulatory policies, development principles, and industry practices for explainable AI.
- Tencent also pioneered industry standards in the Shenzhen AI Industry Association covering minors' cybersecurity and facial recognition technology and outlined its ethical use of AI.
- The company issued a WeChat Governmental Request Policy detailing it's response to government data requests and emphasising user data privacy protection.
- In 2023, Tencent implemented an AI Data Security Management Policy mandating key principles for AI data handling.
- The company established a Personal Information Protection and Data Compliance Management Taskforce, governing privacy assessment of its products and services. EOS were subsequently notified that Tencent's Sustainalytics score had been upgraded to "Low Risk".

31 Source: https://www.weforum.org/organizations/tencent-holdings/
32 We Chat, They Watch: How International Users Unwittingly Build up WeChat's Chinese Censorship Apparatus- The Citizen Lab

Case Study:
Meta Platforms Inc. [Exercising our Voting Rights]

Background: Meta Platforms, Inc., formerly named Facebook, Inc., is an American multinational technology conglomerate based in California. As a leading technology provider, risks such as content governance, data privacy, cybersecurity, artificial intelligence, human and digital rights remain key investor concerns.

Action: As a material holding for London CIV, we are committed to actively engaging with the company on priority ESG issues. Ahead of the company's 2023 AGM, we received voting recommendations from PIRC and the Investor Alliance for Human Rights regarding several social shareholder proposals being tabled. After careful consideration and consultation with EOS, we aligned our votes with PIRC and EOS for 10 out of 11 resolutions. We voted 'Against' a proposal calling for Meta to calibrate pay to externalised costs due to concerns with the proponent's wording and their interpretation of fiduciary duty. Instead, we voted Against the re-election of two directors to highlight our concerns over board compensation. Additionally, we supported PIRC's recommendation on a proposal regarding reproductive rights and data privacy, against EOS' advice.

Outcome: Shareholder proposals regarding dual-class capital structure, a human rights impact assessment of targeted advertising, lobbying activities, and child safety and harm prevention received the highest level of support from investors, however none were passed. Despite not receiving a majority vote, we believe they signify increasing concern among shareholders regarding human and digital rights risks impacting the company's reputation and financial performance.

Category	Proposal	Management Recommendation	London CIV Votes	% For
Digital Rights	Report on Government Takedown Requests	Against	Against	0.42%
Board Related	Approve Recapitalization Plan for all Stock to Have One-vote per Share	Against	For	27.97%
Digital Rights	Report on Human Rights Impact Assessment of Targeted Advertising	Against	For	17.02%
Political Spending	Report on Lobbying Payments and Policy	Against	For	14.56%
Digital Rights	Report on Allegations of Political Entanglement and Content Management Biases in India	Against	For	4.6%
Political Spending	Report on Framework to Assess Company Lobbying Alignment with Climate Goals	Against	For	9.8%
Digital Rights	Report on Reproductive Rights and Data Privacy	Against	For	9.6%
Digital Rights	Report on Enforcement of Community Standards and User Content	Against	For	7.16%
Health & Safety	Report on Child Safety and Harm Reduction	Against	For	16.27%
Board Related	Report on Executive Pay Calibration to Externalized Costs	Against	Against	7.16%
Board Related	Commission Independent Review of Audit & Risk Oversight Committee	Against	For	6.65%

Source: ProxyExchange, ISS Governance

Deep Dive:
Health, Safety and Wellbeing

Health, safety and wellbeing intensified as a key sub-theme for London CIV in 2023. We believe a focus on health, safety, and wellbeing isn't just a moral imperative but also a strategic investment.

Proactive health initiatives and safety protocols reduce risks and create a positive work environment, boosting employee engagement and productivity. We encourage investee companies to prioritise employee wellbeing through comprehensive healthcare options, mental health support, and safe working conditions. By fostering a healthy and safe work environment, we contribute to a more resilient and productive workforce, ultimately enhancing long-term value. Ultimately, investing in a healthy and thriving workforce is paramount to financial performance and moral obligations.

Integration by asset class, funds and geographies

London CIV prioritises robust stewardship across all asset classes as a core fiduciary duty. This is reflected in our fund design, selection, appointment, and monitoring of investment managers.

Our investment mandate's asset class, geographic focus, and risk objectives determine which responsible investment and ESG factors we prioritise. We only select external managers with consistently strong ESG integration and stewardship practices, with clear responsible investment criteria and standards defined in our agreements.

We hold managers accountable through ongoing monitoring and reporting to ensure they meet the ESG goals of their fund mandates. While this can be more challenging for pooled, multi-asset, or emerging market funds, we have established robust processes to ensure alignment with fund objectives.

Engaging on both equity and credit allows us to collaborate with other investors and maximise our influence, promoting sustainable investments that benefit all stakeholders. For real estate and infrastructure assets, we conduct due diligence on external managers and monitor environmental performance. For alternative investments, we ensure alignment with our ESG objectives and actively monitor ESG performance.

We expect all our investment managers to adhere to global best practices in engagement and stewardship. Our Stewardship Policy provides further details on our approach across different asset classes.

We recognise the challenges of integrating ESG factors into certain asset classes, particularly in emerging markets, where ESG practices and regulations may differ. However, we are committed to working closely with our investment managers to review leading responsible investment practices and continuously improve our processes to ensure positive ESG impact across our diversified portfolio.

We expect our managers to understand the local context and take the time to understand the local business environment, culture, and evolving regulations when engaging with companies. These differences serve to guide variations in stewardship and engagement activities.

Key Principles:

- **Robust stewardship** across all asset classes is a core fiduciary duty.
- We select managers with **strong ESG integration and stewardship practices.**
- We hold managers **accountable** for meeting ESG goals.
- We engage on both **equity and credit** to maximise influence.
- We recognise the **challenges of ESG integration** in certain asset classes and markets but remain committed to **continuous improvement**.
- We expect our managers to **understand the local context** and adapt their stewardship and engagement activities accordingly.

Case Study:
UnitedHealth Group Inc. (Listed Equity)

Background: Our investment manager RBC engaged with UnitedHealth Group Inc., a US multinational health insurance and services company, on our behalf. Material issues in healthcare include diversity and inclusion, equity and inequality, because they have significant impacts on the healthcare quality.

Engagement: UnitedHealth Group views healthcare equity as integral to its strategic purpose, considering it a vital social asset for the long-term well-being of its stakeholders. The company has a focus on HR and DEI, particularly in the US, where racial disparities markedly affect healthcare access, alongside gender considerations. RBC informed us that through long-term engagement, it has encouraged the company to enhance its diversity and inclusion programmes and commit more resources to initiatives. However, the board's female representation dropped below 30% in 2022, which is an issue our investment manager highlighted to the company.

Outcomes and next steps:

- In 2023, UnitedHealth Group's Board of Directors reported 33% female and 33% ethnically diverse representation.
- The company committed to improved sustainability reporting and achieved that goal in 2023, with further transparency planned for 2024.

RBC will continue engaging the company on the implementation of its strategy to build healthier communities, and underscored their belief in the importance of UnitedHealth Group acknowledging that its long-term investors consider these issues critical for long-term value creation.

Deep Dive: Listed Equity

We believe well-governed companies are critical to the creation of long-term value for shareholders, other stakeholders, society and the environment.

We expect companies to comply with regulation and company law in the countries in which they operate, as well as with any relevant regional or international requirements.

Our approach to voting, engagement, voting escalation for listed equities in segregated accounts is detailed in our Stewardship Policy. A segregated account is one in which the shares are held separately from other investors, and we can instruct votes directly at company meetings on behalf of our Partner Funds to support engagement.

Deep Dive: Fixed Income

The investment industry has witnessed a step change in the attention being paid to engagement by fixed income investors.

In 2023, The Institutional Investors Group on Climate Change (IIGCC) released new guidance[33] to support corporate bondholders with their climate stewardship and engagement activities. Bond investors possess a unique advantage as they are a recurring source of capital for companies. They can encourage companies during the fundraising phase to make strong sustainability commitments from the outset. This is in contrast to equities, which are issued indefinitely.

Moreover, holding a financial stake grants bondholders the right and the obligation to engage with the company.

We view engagement holistically and believe that our fixed income managers and EOS should apply best-in-class practices to engagements with our corporate fixed income holdings. In 2025, we plan to explore opportunities for effective stewardship of our sovereign bonds through more public policy advocacy.

We see fixed income engagement as an exciting opportunity for innovation and expect ESG factors to directly affect issuance. Examples of strategies we encourage include promoting issuance of well-designed 'purpose of use' or sustainability bonds and offering margin rachets to borrowers who score more highly on ESG criteria. We see all ESG factors as financially material to whether loan repayments can be made and thus believe it should affect creditworthiness.

Embracing short term differences for long term value creation

ESG factors can affect the investment performance of bonds, both negatively and positively, at the issuer, sector, geographic and system levels. We believe well-governed companies that implement robust ESG and climate impact practices are more likely to make their loan repayments and improve their creditworthiness over the long-term.

Ironing out the short-term differences, over time shareholder and bondholder interests will ultimately align. The table below highlights some examples of the key differences[34]:

Dividend pay-out
Short term impact • Increase in dividends reduces cashflows available for reinvestment in the business • Decrease in dividends has a positive impact on cashflow available for bondholders Over the long run, an increased dividend pay-out reflects a strong balance sheet and signals sustainable cash generation. On the other hand, for shareholders, a decreased dividend is positive if the new level of dividend payout is compatible with long-term growth.
Share Capital
Short term impact • An increase in share capital will dilute existing shareholders • However, it will strengthen the capital structure which could improve credit quality Over the long term, a balanced capital structure should help deliver long-term growth for shareholders. For bondholders, the proceeds of share issues can be used to reduce debt.
Merger and Acquisition
Short term impact • Could potentially have a positive impact on share prices • Compromising creditworthiness by increasing debt Over the long run if re-leveraging is temporary, a successful merger or acquisition will enhance growth potential and creditworthiness. It could also improve the management team by bringing in new talent and skills

33 https://www.iigcc.org/media-centre/iigcc-publishes-bondholder-climate-stewardship-guidance-1
34 Hermes EOS Research

Sovereign Credit

Until recently, this asset class remained largely unexamined from an ESG risk and reporting perspective due to the absence of reliable metrics and actionable intelligence. Our exposure to sovereign credit grew this year as we expanded our Fixed Income product offering to include two new LCIV Short and Long Duration Buy and Maintain Credit funds, managed by Insight.

One of the key risks for sovereign credit in 2023 was the onset of the Israel-Hamas war. In October, S&P Global Ratings revised the outlook on its 'AA-' long-term foreign and local currency ratings on Israel to negative from stable. At the same time, they affirmed the 'AA-/A-1+' long- and short-term foreign and local currency sovereign credit ratings[35].

The negative outlook reflected the risk that the Israel-Hamas war could spread more widely or affect Israel's credit metrics more negatively than expected. Further, consumer spending, imports and exports all reported declines.

We analysed direct and indirect exposure for all holdings related to Israel. Our investment team conducted a comprehensive bottom-up risk assessment while closely monitoring news flows and manager activities. Through these measures, we can ensure the robustness and resilience of our investments while safeguarding the defined members' benefits. We have developed the below control model to manage unpredicted market wide geopolitical risk events.

Our current control – multi-layer assurance

London CIV

By harnessing all information available from our custodian, investment managers and engagement partner, London CIV is monitoring each of our exposures to track changes in prices, liquidity and restrictions on trading. We are also monitoring controls on capital flows which could impact on the ability of foreign investors to receive dividends, principals and interest payments.

Our Investment Managers

Our investment managers use their in-house policies and controls to manage sanctions and breeches in their portfolio. We monitor developments and collaborate with our managers to ensure that any changes to sanctions regimes are implemented immediately.

Our Custodian

Our custodian tracks sanctions and notifies us of any potential breaches and issues daily.

Our Depositary

Our Depositary notifies us on any new sanctions as new announcements are made.

35 https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3075692

Our Green, Social and Sustainable Bond Exposures

As of December 2023, we have 14% (green, social, sustainability and sustainability-linked) bonds in our LCIV Global Bond Fund compared to the Global Aggregate Credit Index Benchmark at 9.5%.

Summary Statistics – as of 31.12.23	Account	Benchmark
Number of Corporate Issuers	470	3114
Average MSCI ESG Score (0-10; corporates only)	6.72	6.73
Average PIMCO ESG Score (0-5; corporates only)	3.24	3.18
Green Bond Exposure (% PMV)	9.6%	5.1%
Social Bond Exposure (% PMV)	0.7%	1.4%
Sustainability Bond Exposure (% PMV)	1.2%	2.2%
Sustainability-Linked Bond Exposure (% PMV)	2.5%	0.8%

Figure 21 As at 31 December 2023, Source PIMCO, MSCI

The chart below indicates our green, social and sustainability bond exposure over a 3-year period in our LCIV Global Bond Fund. We are pleased to include a greater selection of these sustainable instruments into our portfolio.

We believe there is still room for improvement in reporting on the use of proceeds and engagement for these bonds. We have challenged our investment managers to disclose more quantitative evidence of the impact of these investments. While some managers are building the necessary infrastructure to capture this data, they are currently only able to collect qualitative information. We will continue to engage on better disclosure during 2024.

Figure 25: LCIV Global Bond Fund

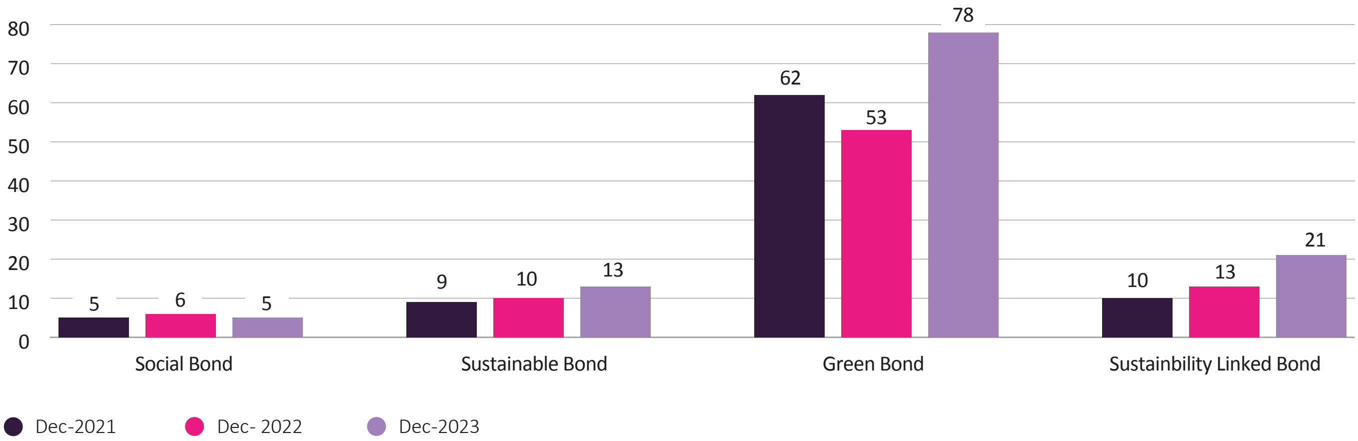


Figure 25: Source: PIMCO as at 31 December 2022

Deep Dive:
Private Markets – Private Debt

We see private markets as an attractive way to diversify our Partner Funds' investment portfolios and enhance long-term returns.

Active ownership can be challenging due to the lack of disclosure and use of general partners and investment managers which provide an additional communication barrier between London CIV, our managers and the underlying assets.

We have further developed our engagement with private debt managers regarding their stewardship activities, building on the foundations established in 2021. We require managers to complete quarterly ESG questionnaires to capture their activities and outcomes, an example of which is provided below:

Category	Description	Reporting Frequency
Pre-Investment	Please describe an investment opportunity where the identification of potentially material ESG risks impacted the decision, for example validating the decision, reducing the amount invested or resulting in declining the investment?	Quarterly
Pre-Investment	Please describe an investment opportunity where the ESG performance of the issuer favourably impacted the investment decision, for example validating the decision or increasing the amount invested?	Quarterly
Pre-Investment	Please describe your commitment to Responsible Investment and ESG at firm level and related RI policies.	Quarterly
Pre-Investment	Please outline the size and structure of your RI/ESG team	Quarterly
Pre-Investment	Please describe your RI/ESG framework and how it aligns with SDGs/global frameworks	Quarterly
Pre-Investment	Integration of RI within the investment process	Quarterly
Pre-Investment	How are key ESG risks are assessed and mitigated (supply chain, natural capital)?	Quarterly
Ongoing Monitoring	Have there been any changes to your firm's RI and ESG commitment, your framework, your team or your policies during the last quarter?	Quarterly
Ongoing Monitoring	Please share details of issuer compliance against ESG questionnaire at MDFIII fund level across each ESG activity categories (%issuers ; %AUM). (e.g. What is the % issuers in the MDFIII with an ESG Policy).	Quarterly
ESG Margin Ratchets	What is the percentage of issuers and %AUM at MDFIII fund level who have been granted ESG margin discounts.	Quarterly
ESG Margin Ratchets	Please share provide some examples of issuers that have been granted ESG margin discounts.	Quarterly
Positive Attributes	What is the percentage of issuers and %AUM at MDFIII fund level with demonstrated "Positive Attributes".	Quarterly
Controversial Activities	What is the percentage of issuers and %AUM at MDFIII fund level with exposure to "Controversial activities" such as (1) Thermal Coal; (2) Oil Sands; (3) Oil and Gas; (4) Controversial Weapons.	Quarterly

Improving disclosure and transparency of material risks to inform investment decisions

We have continued collaborating with private debt managers to improve their ESG practices. We recognise that private debt presents unique challenges, such as limited data availability and smaller borrower enterprises. As a result, we understand that our managers will need to adopt an innovative ESG approach distinct from asset classes with more established ESG practices, such as listed equities and corporate fixed income.

Case Study:
Adoption of the ESG Integrated Disclosure Project ("ESG IDP") Template across private credit transactions

Background: Currently, there is no mandatory sustainability reporting requirement for private mid-market companies, leading to incomplete, and sometimes non-existent, disclosure. This creates challenges for asset owners to ensure effective oversight of ESG factors and stewardship in private markets. The ESG Integrated Disclosure Project (ESG IDP) is an industry initiative formed by the Alternative Credit Council (ACC), the Loan Syndication and Trading Association (LSTA) and the UN PRI, together with alternative asset managers and credit investors[36]. Its goal is to promote greater harmonisation and consistency of ESG data for borrowers in private credit and syndicated loan transactions. This goal is primarily achieved through broad adoption of the ESG IDP Template, a reporting tool that represents a proportionate set of questions designed to solicit a global baseline of information from private companies. The ESG IDP template was last updated in July 2023.

Engagement Action: In 2021, Churchill participated in a UN PRI-led industry initiative that launched the Private Credit – Private Equity ESG Factor Map in 2022[37], designed to facilitate the collection and sharing of ESG information during the pre-investment phase. Later that year, Churchill joined the ESG IDP's Executive Committee to promote industry-wide adoption of the ESG Integrated Disclosure Project (ESG IDP) template, based on the ESG Factor Map.

Churchill actively participated in PRI, LSTA, and ACC meetings to drive implementation, expand the template's scope to infrastructure and private placements, and promote the initiative to peers and issuers. They also engaged their Private Equity sponsor relationships to encourage adoption of the template in middle market direct lending.

In 2023, Churchill contributed to template updates, including more detailed Principal Adverse Impacts (PAIs) data points, to improve data quality and facilitate broader adoption.

Outcomes and Next Steps:

- Our manager conducted due diligence and ongoing portfolio monitoring increasing the availability of ESG data during the pre and post investment stage and contributing to harmonisation of ESG data in private market transactions.
- Churchill believes their role as a key partner to the private equity community, including as an LP to some firms, has been instrumental in driving the template's adoption. They have received positive feedback from PE firms, who find the IDP valuable in streamlining data requests from multiple firms.

Our investment manager will continue to advocate for wider industry adoption to drive data standardisation across all private credit transactions.

36 https://www.esgidp.org/
37 https://www.unpri.org/news-and-events/pri-releases-esg-factor-map-to-support-collaboration-between-private-equity-and-private-credit-investors/10171.article

Active Engagement in Private Credit

By creating incentives for borrowers to report on key ESG metrics, we believe that our managers are leading the way to address the lack of ESG data (especially GHG data) in private markets, which cannot be ignored when addressing climate change and other ESG investment risks.

An important engagement tool in the Private Debt asset class to incentivise progress on sustainability performance are ESG-linked margin ratchets which reduces the loan interest rate if the borrower delivers against pre-defined ESG-related targets.

In our previous report, we highlighted Pemberton's innovative ESG Margin Ratchet, introduced in 2020. This year, they launched an enhanced version (v3.0) which has increased the potential margin reduction from 5 to 10-12.5 basis points per annum. The loan interest margin is now reduced by 0.1% to 0.125% annually for 12 months, following borrower certification and performance improvement against the defined ESG criteria:

a) Introduced a benchmark minimum 4.2% CO2 emissions reduction year-on-year, which is in line with the science-based target initiative-SBTi guidance for a Paris-aligned pathway for small and medium-sized enterprises-SMEs.

b) The setting of 1-2 sector-appropriate KPI targets, enabling companies to align their financing strategy to sustainability ambitions.

c) In line with Pemberton's net zero pathway commitment, there is an additional 'bonus' ratchet (2.5bps) for companies that align within the investment period. This is a novel approach that Pemberton has also communicated to collaborative industry bodies who are leading the development of the methodology for private credit portfolios to be managed in line with net zero. We consider this approach to be at the forefront of the market.

In total, Pemberton have negotiated margin rachets on 76 investments as of March 2024, since first launched in 2020.

Deep Dive: Real Assets and Infrastructure

We work with our real assets investment managers to incorporate ESG and climate considerations into investment due diligence and decision-making. Infrastructure has an essential role to play in mitigating and adapting to climate change as well as achieving the SDGs

We've worked to formalise its ESG integration processes across its real assets investments. This includes an assessment of all managers' responsible investment policies, the formulation of due diligence questionnaires directed to incumbent managers, and reviews of GP track records of ESG and climate assessments, leveraging SASB and GRESB where appropriate. In 2020, we also worked to calculate the environmental footprint of our energy infrastructure investments and their contribution to the SDGs.

Real Estate

The Local Pensions Partnership Investments ("LPPI") and London CIV have jointly set up "The London Fund" to help access investment opportunities in Greater London across real estate, infrastructure, and growth capital opportunities, including digital infrastructure, and clean energy. The London Fund has a secondary objective to invest in projects with sustainable outcomes that address social needs in Greater London such as job creation, area regeneration and a positive environmental impact. As of December 2023, the primary investment in DOOR16 continues to give the portfolio exposure to a mix of private rental sector, student accommodation and affordable housing. These assets are held within Get Living, a Real Estate Investment Trust which has achieved a 5-star GRESB rating in 2020 and was named first among UK build-to-rent sector peers (UK Residential Multi-Family).

Case Study:
DOOR SLP | The London Fund | Local Pensions Partnership Investments (LPPI) | SDG 11.1 and SDG 12.6

11 SUSTAINABLE CITIES AND COMMUNITIES

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Background: DOOR SLP is a 'build to rent' housing platform that supports the development of new quality PRS (Private Rented Sector) and affordable housing stock in London. LPPI identified that the investment advisor and asset operating partner for DOOR SLP could improve their Environmental, Social, and Governance (ESG) policies and processes. As part of a broader engagement initiative, a specialist external consultant was commissioned to assess their ESG credentials. The objective of the engagement was to ensure that the investment and operation of DOOR SLP align with ESG best practices to ensure that the fund meets its sustainable outcomes objectives.

Engagement and Action: LPPI informed us that the results of the ESG review provided them with a number of key areas for engagement with DOOR, focused on transparency, integration, and climate action. Regarding EU Marketing and Compliance, the action focused on ensuring DOOR's compliance with relevant EU SFDR regulations, should it be marketed in the EU. On integration, the aim was to assess how ESG factors are considered in DOOR's investment and risk committee decision-making. For reporting, LPPI advised requesting a consolidated ESG data report, including TCFD-aligned disclosures and a net-zero carbon pathway. Specifically on embodied carbon, the action was to agree on strategies with DOOR to minimise it in the development pipeline, including setting lifecycle targets for future projects. Through the Limited Partner Advisory Committee and alongside other sustainability-minded investors, the London Fund Team has engaged with the manager quarterly to seek improvements in RI reporting and net-zero commitments. LPPI also sought to understand the investment advisor's development of in-house ESG expertise and ensure accountability across the business.

Outcomes and Next Steps:

1. The investment advisor for DOOR appointed a Head of ESG, signifying DOOR's commitment to integrating ESG considerations into its investment decision-making.

2. The asset operating partner's continued 5-star GRESB rating demonstrates strong sustainability practices for the fourth consecutive year.

3. DOOR developed a set of core ESG objectives, reviewed by leadership, which will form the basis of a five-year ESG strategy (2024-2029) with annual targets for progress reporting. These are to be presented to the board within 2024.

4. DOOR is actively analysing the implications of aligning their portfolio with the Carbon Risk Real Estate Monitor (CRREM) decarbonisation pathway.

5. The company announced its intention to adopt Global Reporting Initiative (GRI) standards for comprehensive and aligned sustainability reporting, which also align to other the European Public Real Estate (EPRS) Sustainability Best Practices Recommendations (sBPR) Guidelines and the International Sustainability Standards Board (ISSB).

6. DOOR has completed scenario analysis and is working to integrate climate risk management into broader risk frameworks, improving climate disclosure quality and timeliness in line with the recommendation of the TCFD framework.

7. DOOR is piloting BREEAM In Use "Part 1" certification, potentially leading to further assessments with the onboarding of their ESG Data Platform.

LPPI will continue to monitor DOOR's progress towards its five-year ESG strategy and achievement of specific targets.

In 2023, London CIV jointly set up the LCIV UK Housing Fund to enable our Partner Funds to invest in affordable housing characteristics, including income that typically tracks inflation, high occupancy, low void rates, and low correlation compared to other real estate sectors. The fund has a secondary objective to invest in strategies that increase the supply of good quality, affordable UK housing. It was one of the first UK unlisted funds to bring institutional client capital into affordable housing to deliver social impact. It was established to invest in delivering sustainable, high quality and affordable homes for people unable to rent or buy on the open market in the UK.

In May 2023, the fund opened with a £100m investment into CBRE UK's Affordable Housing Fund (CBRE UK AHF). In November 2023, the LCIV UK Housing Fund closed its second investment in Octopus Affordable Housing Fund (Octopus AHF). Octopus AHF seeks to accelerate the UK's much-needed delivery of good quality, affordable homes, and will ensure that new homes are built with robust sustainability standards in mind. More energy-efficient homes not only help reduce carbon emissions, but also address fuel poverty at a time when many low-income households across the country are under severe financial strain due to the cost-of-living increases including energy price inflation. This aligns with our goal to increase the supply of social and affordable housing in the UK, particularly for the most vulnerable.

In January 2024, Octopus AHF made its first deployment through forward funding, committing to acquire 26 homes in Great Haddon, Peterborough, from Vistry Homes. The scheme comprises eight houses and 18 flats and will offer a mix of both affordable rent and shared ownership tenures. The properties will be suitable for both couples and families and will be Energy Performance Certificate B. The scheme will serve an area of high housing need, where the provision of new affordable housing over the past four years has been less than 50% of the required amount.

Vistry are one of the UK's largest housebuilders, with a strong track record of developing affordable homes. All units are expected to be delivered by April 2025.

As of December 2023, the fund is 100% exposed to commitments of £150m, £100m (67%) in CBRE UK Affordable Housing Fund ("UK AHF"), £50m (33%) in the Octopus Affordable Housing Fund ("AHF"), which gives the portfolio exposure to a mix of private rental sector, student accommodation and affordable housing.

Case Study:
Abbey Place, Greenwich | CBRE | Affordable Housing and Community Regeneration

Background: Abbey Place is the CBRE UK Affordable Housing (UK AH) Fund's largest standing asset by value and number of homes, to which the LCIV UK Housing Fund has made a c.£145m commitment. The property is situated in a residential area which is undergoing significant regeneration following the arrival of the Elizabeth Line. The Property is designed as 245 homes comprising 72 affordable market rent and 173 shared ownership homes, set in 2 adjacent apartment blocks.

Action and Engagement: In 2018, planning permission was originally granted providing only 10% exposure to affordable tenures. Following the CBRE UK AH Fund's acquisition in 2020, this was increased to 70% affordable tenure (via affordable ownership) and the remaining 30% a private rented tenure. Construction of the property began in 2021. In Q4 2022, the Fund reached completion of the west block of the Abbey Place development delivering 72 private rented units. At this point, the fund repositioned these private units to become local affordable rent units: homes let at a sustainable level when compared to net local median incomes. Across the scheme, this represented an average discount to the prevailing market rent of c.15 – 20%. Positioning the rent in this manner not only provides affordable access to quality homes but also ensures that the local population are not priced, displaced or uprooted from the area by well-meaning regeneration. Through this process, the entire development has been repositioned to deliver 100% affordable tenures. In Q1 2023, the fund completed on the east block of the Abbey development, which provided 173 shared ownership units.

Outcomes and Next Steps:

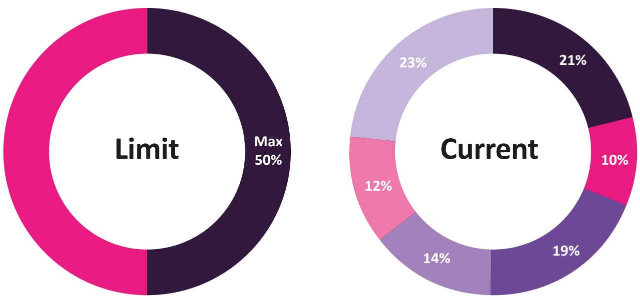
- Due to the homes affordability and specification the units have proved to be very popular. The residents are a mix of young couples, families and working professionals. The property manager holds quarterly resident meetings to gain resident feedback and discuss any issues they may be experiencing.
- In Q4 2022, the fund initially made 58 private rented units available in the west block, and all were occupied within an average 25-day void. The remaining rental units were made available upon completion of the shared ownership block, all of which were reserved to move in within two weeks of completion.
- In Q3 2023, CBRE IM were approaching renewals for the local affordable rent units in the West block. The fund decided to cap rent increases for renewals at 7% as opposed to increasing them by the full RPI increase: 14%. The investment manager confirmed the 7% is in line with the government cap imposed on regulated rent earlier in the year.
- As of March 2024, 90% of the shared ownership homes have been sold, reserved or exchanged.
- The connectivity to the city provided by the recently opened Abbey Wood Elizabeth Line station has played a significant role in attracting residents and building community. The nearest train station is a two-minute walk away and there are amenities nearby.

Infrastructure

Investing in renewable energy infrastructure allows us to both maximise our opportunities and support the low-carbon transition. Infrastructure has an essential role to play in mitigating and adapting to climate change as well as achieving the SDGs. Our fiduciary duty is a primary goal, but we also recognise our responsibility to our Partner Funds' beneficiaries and other stakeholders who demand a just transition. In 2021, we launched the LCIV Renewable Infrastructure Fund, which invests in renewable energy infrastructure assets, including generation, transmission, and distribution assets. The fund focuses on renewable energy sources such as wind, solar, biomass, biogas, hydroelectricity, and enablers, both in brownfield and greenfield investments. As of December 2023, the fund had a total commitment of £983.5m. The chart below displays the current commitment by market segment since its launch:

LCIV Renewable Infrastructure Fund

Figure 26 Fund Allocation of Commitments

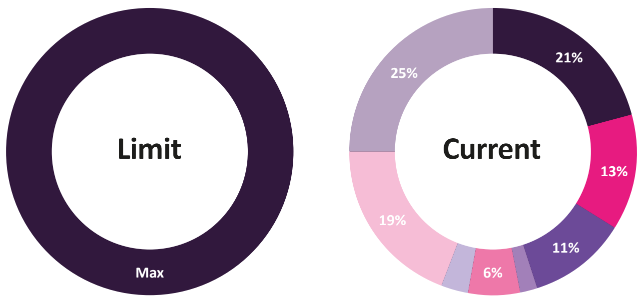


- No more than 50 percent. of the Net Asset Value may be invested with a single fund Sponsor (including Primary Investments and Secondary Investments managed by such Sponsor and co-investments made alongside such Sponsor).

- Blackrock
- Quinbrook Infrastructure Partners
- Stonepeak Global Renawables Associates (Lux) S.à.r.l
- Foresight Group
- Macquarie Asset Management
- Uncommitted reserves

Figure 26: Source London CIV as of 31 December 2023

Project Type by NAV

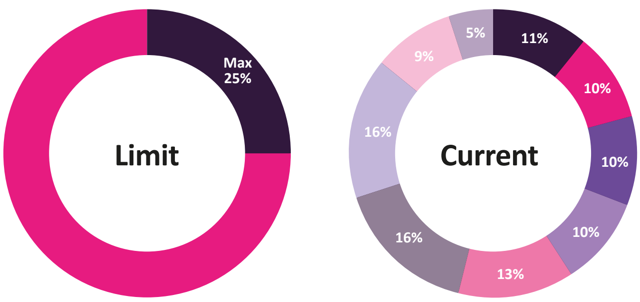


- The Fund will focus on investing in renewable energy infrastructure assets ('renewables').

- Onshore Wind
- Solar PV
- Offshore Wind
- Synchronous Condenser
- Battery Storage
- EV Charging
- Mixed Portfolio
- Other

LCIV Infrastructure Fund

Figure 27 Fund Allocation of Commitments

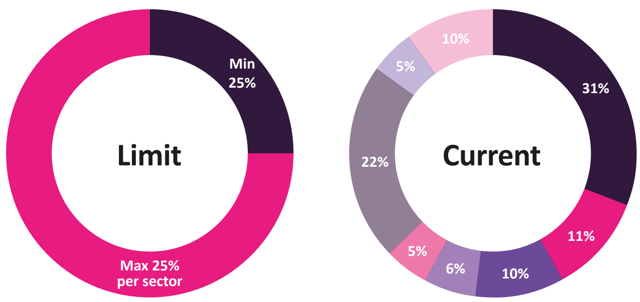


- Invested with a single fund Sponsor

- Arcus Infrastructure Partners
- Basalt Infrastructure Partners
- Brookfield
- Capital Dynamics Holding AG
- Equitix Investment Management
- Igneo Infrastructure Partners
- Macquarie Asset Management
- Meridiam Infrastructure Partners
- Uncommitted reserves

Figure 27: Source London CIV as of 31 December 2023

Sector breakdown by invested capital



- Renewable investments
- Other Sectors

- Renewables
- Transport
- Communications
- Utilities & Power
- Social
- Unallocated commitments
- Uncommitted reserves
- Other

Case Study:
Foresight Energy Infrastructure Partners Fund 2 – Skaftåsen

Background: Foresight Energy Infrastructure Partners ("FEIP") is Foresight Group's €851m flagship European energy transition strategy. London CIV invested into FEIP in April 2021 through the LCIV Renewable Infrastructure Fund. FEIP invested into Skaftåsen, a 231MW 35-turbine onshore windfarm in rural Sweden. The project is expected to generate 524GWh of green electricity a year, enough to offset 425,000 tonnes of CO2 emissions compared to fossil-fuel powered electricity generation. Community engagement was prioritised at the outset and the project was impacted by supply chains delays during Covid-19.

Action and Engagement: The investment in renewable generation projects such as Skaftåsen are the building blocks in the development of this wider green economy. The Swedish region holds an important place in Sweden's national transition strategy, representing a focal point for the build out of green hydrogen production, data centres and broader industry, such as green steel. Skaftasen aligns with SDG 13 (Climate Action) and SDG7 (affordable and clean energy) by promoting renewable energy and creating green jobs. Ultimately, by seeking to address renewable energy assets, Skaftasen showcases the transformative impact of large-scale, nationally strategic renewable energy projects, mobilising capital into rural regions to partner with local stakeholders. The municipality needed to extend the permit due to the change in the development plans. Working closely with local stakeholders ensured permit approval and fostered positive relationships.

Outcomes and Next Steps:

- In 2023, Skaftåsen had generated 340.7GWh of renewable energy and supplied 126,199 households across the region.
- The Skaftåsen Grand Opening Ceremony in October 2023 marked a community open day and celebrated the collaborative partnerships that have brought the project to take-over. Over 200 attendees, including municipal representatives, regional businesses, schools, and project stakeholders, witnessed speeches from Developers, Foresight, Rural funds association, and the Municipality.
- On community engagement, Foresight was invited and attended the local gymnasium to educate school children on wind farm construction and industry job opportunities, aiding a lasting, multi-generational impact from the investment.
- On job creation, the manager reported stakeholder feedback validating the positive impact the development had on the community and the town, such as job creation and more footfall for the local businesses.
- On income generation, the Rural Funds Association will receive 1% of the project's annual revenue, aimed at creating more jobs in the region and principles of circularity and social mobility will be further championed.

Escalation

We apply our escalation approach consistently across asset classes, geographies and funds, while recognising market-specific and non-listed equity asset class factors. One-on-one engagement is not always effective. However, we do not view see selling holdings as an immediate solution, as it results in losing influence and the opportunity for future dialogue. Therefore, escalation remains a key crucial tool in our engagement strategy. The below illustrate some channels related to listed equities. When necessary to trigger corporate reaction. We choose escalation in cases where prior engagement with companies has proved unsuccessful, or where we need to exercise our voting rights on a key issue. Actions may can include:

- **Voting:** voting against management on key resolutions, including voting against the chairs of relevant committees and the company chair.
- **Attending AGMs:** to trigger more dialogue with boards and executives.
- **Filing or co-filing shareholder resolutions:** supporting requests to improve company strategy, board accountability and ESG disclosures.
- **Divestment:** selling a holding. London CIV only use this as a last resort when previous persistent engagement activities were unsuccessful.

Please see pg.36 for our climate escalation for Shell in 2023.

Case Study:
Amazon Inc. [Escalation with voting and collaboration]

Background: Previously reported in our 2021 and 2022 Stewardship Outcomes reports, we engaged with Amazon on tax transparency, co-signing a statement to the SEC Chair and expressing our concerns with PIRC and EOS. We voted against management on 12 shareholder resolutions related to human rights due diligence, diversity data, and climate-conscious retirement plan options, but were in the minority on all.

Action: In 2023, we engaged with both PIRC and EOS once again regarding all shareholder proposals being tabled at the company's 2023 AGM. This year shareholders had submitted proposals for a range of social issues, including human rights and workers' rights, as well as climate. EOS engaged with the company and communicated that the proposals on alternative tax transparency and animal welfare standards offered Amazon opportunities to show leadership. They urged Amazon to demonstrate compliance with its own human rights and digital rights policy by improving reporting on grievance mechanisms and effectiveness of remedies, disclose, at minimum, summaries of human rights impact assessments, enforce its data privacy policies, obtainuser consent for data collection, and clarify compliance with government takedown requests. We voted against management recommendations for 14 of the shareholder proposals calling for better social, governance and environmental concerns. Two of these conflicted with PIRC's recommendations, concerning board-related matters.

Outcome: Five of the shareholder proposals have reached above 30%. Whilst they have not passed, we believe they signify positive momentum towards better ESG practices. PIRC and EOS also recommended a 'For' vote for the Tax shareholder proposal and all other social, governance and environmental proposals, against management. In 2024, EOS will continue engaging with the company on freedom of association and collective bargaining arrangements on the behalf of London CIV and other institutional investors.

Examples of votes against Amazon Inc. in 2023

Category	Proposal	Management Recommendation	London CIV Votes	% For
Climate	Report on Climate Risk in Retirement Plan Options	Against	For	7%
Climate	Report on Impact of Climate Change Consistent with Just Transition Guidelines	Against	For	27%
Digital Rights	Report on Customer Due Diligence	Against	For	34%
Digital Rights	Revise Transparency Report to Provide Greater Disclosure on Government Takedown Requests	Against	For	11%
Digital Rights	Report on Government Takedown Requests	Against	Against	2%
Board Related	Adopt a Policy to Include Non-Management Employees as Prospective Director Candidates	Against	For	18%
Pollution	Report on Efforts to Reduce Plastic Use	Against	For	32%
Diversity, Equity, & Inclusion	Report on Cost/Benefit Analysis Of Diversity, Equity, And Inclusion Programs	Against	Against	<1%
Diversity, Equity, & Inclusion	Consider Pay Disparity Between Executives and Other Employees	Against	For	25%
Cost Transparency	Publish a Tax Transparency Report	Against	For	18%
Board Related	Amend Bylaws To Require Shareholder Approval of Certain Provisions Related to Director Nominations by Shareholders	Against	Against	12%
Board Related	Establish a Public Policy Committee	Against	Against	6%
Human Rights	Commission Third Party Assessment on Company's Commitment to Freedom of Association and Collective Bargaining	Against	For	35%
Political Spending	Report on Climate Lobbying	Against	For	24%
Social	Report on Animal Welfare Standards	Against	For	6%
Health & Safety	Commission a Third Party Audit on Working Conditions	Against	For	35%
Diversity, Equity, & Inclusion	Report on Median Gender/Racial Pay Gap	Against	For	29%
Human Rights	Commission Third Party Study and Report on Risks Associated with Use of Rekognition	Against	For	37%

Source: ProxyExchange, ISS Governance

Step three: Collaboration

How we work collaboratively

We believe that our voice has greater influence and is more effective when we work together with stakeholders . We are committed to collaborating with peers and Partner Funds around initiatives covering a range of ESG issues. London CIV joined 1 new initiative in 2023, highlighted below:

Initiative	Description	London CIV's Role and Outcomes
Asset Owner Diversity Charter	An asset owner led initiative set up by Brunel, Cambridge, Camden, London CIV, Lothian and NEST pension funds to develop a formal set of actions the industry can commit to in order to improve diversity, in all forms, across the investment industry.	We've supported the initiative by contributing to the consultations with investment managers to date and development of the questionnaires. The initiative seeks to first assess the scale of the issue before setting targets.
ClimateAction100+	An investor initiative to drive corporate action on climate change. Over 700 investors responsible for $68 trillion in assets under management are engaging 170 systemically important emitters (accounting for two thirds of global emissions) on improving governance, curbing emissions and strengthening disclosures.	We're invested in 78 corporate issuers targeted by the initiative. These issuers represented 46% of Direct and First-Tier Indirect Corporate-level emissions within the London CIV pool.
Cost Transparency Initiative (CTI)	An independent group tasked by the Financial Conduct Authority FCA in 2018 with delivering a standardised template for the disclosure of costs and charges to institutional investors.	By 2020 we achieved agreement from 100% of our investment managers to disclose costs in line with CTI.
TCFD	A market-driven initiative, set up to develop a set of recommendations for voluntary and consistent climate-related financial risk disclosures in mainstream filings.	As a signatory, we'll continue to publish a climate risk analysis in line with TCFD guidelines covering listed equity, fixed income, infrastructure and sovereign debt.
LAPFF	LAPFF promotes the highest standards of corporate governance to protect the long-term value of local authority pension funds. The Forum leads the way on issues such as executive pay, reliable accounting and a just transition to a net zero economy.	We're a pool member of the Local Authority Pension Fund Forum (LAPFF) and track PIRC guidance on voting and engagement against our own voting where they cross over.
Marine Conservation Society: Microplastics Pollution	First State Investors and the Marine Conservation Society convene like-minded investors, to engage with the manufacturers of domestic and commercial washing machines to fit, (as standard), filters to their products to prevent plastic microfibres entering the world's precious marine ecosystems.	Outcomes of the engagement programme will continue to provide a significant contribution to Sustainable Development Goal 14, "Life under Water" specifically Target 14.1, "Reduce Marine Pollution".
Pensions for Purpose	A collaborative initiative of impact managers, pension funds, social enterprises and others involved in impact investment. Aimed at promoting understanding of impact investment.	As an affiliate of Pensions for Purpose, we participate in thought leadership discussions and publications to enhance and share our knowledge of impact investment.
ShareAction: The Good Work Coalition	An evolution of its existing Living Wage Coalition, The Good Work Coalition focusses on a broader range of international topics including: Living Wage, Insecure Work and Gender Equality for Low Paid Women.	We attend workshops to discuss these challenging issues and help contribute ideas to a way forward
ShareAction: Healthy Markets Coalition	A group of investors with over $1 trillion in AUM aimed at increasing accountability of food retailers and manufacturers for their role and impact on people's diets and the growing concerns surrounding increasing levels of obesity.	We've signed up to this initiative and have continued to include health and wellbeing as a sub-theme for all stewardship activity.
UN backed Principles for Responsible Investment (PRI)	The PRI is the world's leading proponent of responsible investment which encourages institutional investors to commit to and promote six guiding principles including incorporating ESG issues into investment decision making, active ownership, better disclosure, collaboration and reporting on progress.	In signing the Principles, we have publicly committed to adopting and implementing them, where consistent with our fiduciary responsibilities. We encourage other investors to implement the principles and do not work with Asset Managers who have not already adopted the Principles. In 2020 we achieved a median score of "A" against the modules on which we were assessed.

Step three: Collaboration continued

Initiative	Description	London CIV's Role and Outcomes
Investor Alliance for Human Rights	The alliance is a collective platform for responsible investment that is grounded in respect for people's fundamental rights. The initiative helps investors to navigate their responsibility to respect human rights. They utilise corporate engagements to drive positive business conducts and set human rights standards for businesses.	We are a signatory and joined two working groups addressing human rights issues in the technology sector and human rights concerns in conflict-affected and high risk areas. Through these working groups we are able to better understand the key human rights issues when engaging with our investment managers and EOS.
Deforestation Free Pensions Working Group	This working group was established by Global Canopy, Systemiq and Make My Money Matter to develop a practical guidance to enable pension funds to identify, address, and eliminate deforestation, conversion, and associated human rights abuses from their investments.	We are an active member of the Deforestation-free pensions guidance working group with the ambition to provide practical guidance and consultation for Global Canopy and partners.
UNPRI Tax Reference Group	The PRI established this working group to collaborate closely with investors and broader stakeholders on corporate tax responsibility and transparency. The lack of corporate disclosure on tax issues is a key impediment for investors that want to understand companies' positions on tax issues and assess tax risks in their portfolio.	We've been a member of the working group since 2022. The group meets regularly to discuss tax disclosures, engagements and tax escalations.
UNPRI Advance	The PRI launched Advance in 2022, focused on advancing human rights and social issues through investor stewardship. The initiative aims to drive change primarily by leveraging investors' influence with portfolio companies. The PRI will facilitate collaborative engagement between investors and companies, and support further escalation if necessary. Additionally, the PRI will assist investors in engaging with policymakers and other stakeholders to achieve the overarching objective.	We've been a member of Advance since 2022, which continues to support our key stewardship themes.
IPDD	The IPDD is an investor sovereign engagement initiative created in July 2020 to tackle deforestation by engaging with public agencies and industry associations in select countries. Its aim is to promote sustainable land use and forest management, respect for human rights, and ensure long-term financial sustainability of investments in tropical forests and natural vegetation. It works with stakeholders to encourage the adoption and implementation of regulatory frameworks that protect natural assets and human rights. The TFA provides secretariat support, and the PRI supports the IPDD.	We joined the IPDD in 2022 to support our commitment to deforestation and its associated human rights issues.
TNFD Forum	The TNFD Forum is a consultative group consisting of institutions from various disciplines across the globe. Membership is open to a diverse range of institutional types, such as corporates, financial institutions, public sector institutions (including regulators), pension funds, sovereign wealth funds, academic and research organizations, business associations, inter-governmental organizations, conservation groups, and civil society organizations.	We became a member of the TNFD Forum in 2023 to support our biodiversity stewardship theme and disclosures.

We continue to consider whether further formal partnerships are appropriate and collaborate in initiatives where issues align with our priority areas and/or where we feel we can have a positive impact. We are committed to tracking this involvement in terms of outcomes and will aim to further increase disclosure in 2024.

Disclosure and Transparency

We are committed to best practice disclosure and transparency. We take account of client and beneficiary needs and expect to communicate the activities and outcomes of stewardship and investment activities on a quarterly and annual basis.

The information in this report sets out how we have complied with the UK Stewardship Code 2020 during the 2023 calendar year.

Limitations of the data

Engagement, voting and outcomes data referred to in this report has been aggregated from the activities and reports of each of our investment managers and EOS in 2023. As a result, the way in which we categorise themes may be inconsistent and the quality of outcomes has relied on the quality of our managers' own engagement policies, which vary from manager to manager.

Assurance

All policies, public disclosures and reports published by London CIV are required to go through a formal review and internal assurance process. This is to ensure that our policies and any internal and external communications are in line with London CIV's objectives and that what is communicated is fair, clear and accurate. RI policies and reports are drafted by the RI Team and reviewed by the Governance Team, Compliance and Risk Team and Chief Investment Officer (CIO) and approved and reviewed in line with our governance arrangements including by the CEO, Executive Committee (ExCo) and the Board or governance committees. Compliance and Risk undertake periodic reviews of the RI framework to ensure we are compliant with our regulatory obligations and identify and assess any risks.

Looking ahead

The information in this report sets out how we have complied with the FRC's UK Stewardship Code (UKSC) as an asset owner. The UKSC sets high expectations for how investors, and those that support them, invest and manage money on behalf of UK savers and pensioners, and how this leads to sustainable benefits for the economy, the environment and society. We have used the FRC's 12 Principles coupled with guidance from the PRI to shape our approach to active ownership. A summary of how we have addressed the 12 Principles is detailed in the Appendix. In 2023, we continued to enhance the quality of our case studies to showcase the stewardship work we have done throughout the year. We also expanded our RI team to increase our capabilities.

We welcome the introduction of the FCA's Sustainability Disclosure Requirements (SDR) in 2024, designed to prevent greenwashing and promote greater accountability in ESG investing. As our approach to the SDR framework matures, we will leverage it to rigorously assess the ESG claims and targets of our investee companies and investment managers. By scrutinising their disclosures, we will gain a clearer picture of the ESG credentials of our funds. This will empower us to have more informed stewardship conversations, enabling us to challenge potential discrepancies, advocate for transparency, and push for credible, measurable progress on ESG priorities.

Governance

Governance structures

As signatories to the UKSC, London CIV is committed to ensuring that our governance structures, resources and incentives support best practice stewardship. The diagram below outlines our high level formal governance structure and also the arrangements for informal engagement with our 32 Partner Funds, who are also our shareholders. These arrangements, which are kept under ongoing review, provide a high level of engagement on Responsible Investment and ESG matters, including the development of funds. The governance framework also provides for shareholder decision-making in setting London CIV's budget and strategic objectives. This leverages the impact of the invested assets of the LGP) pooled funds.

The Executive Committee supports the CEO in his leadership of London CIV and the Chief Sustainability Officer reports direct to the CEO, recognising the strategic significance of sustainability and responsible investment. An Investment Committee formed of the Heads of Desk in the investment function, and attended by key staff in other teams such as Operations and Compliance and Risk meets monthly as part of the management level oversight arrangements for our investment activity.

London CIV committee structure

Formal Governance

Our stewardship responsibilities and incentives

The London CIV Board approves and is collectively accountable for London CIV's overall strategy and governance and approves its Statement of Investment Beliefs and Responsible Investment Policy including its Stewardship Priorities. The Board approves the company's annual budget and objectives in the context of a mid-term plan, this includes responsible investment/ESG objectives, including London CIV's net zero ambition.

The Executive Team, led by the CEO, is responsible for the day-to-day management of London CIV development and delivery of our overall strategy and active ownership strategy whilst ensuring the whole organisation supports our own operations in at least meeting or exceeding best practice standards.

The (ICO) oversees the implementation of our investment strategy on behalf of the board including its approach to active ownership and engagement.

The CIO is responsible for managing the integration of ESG considerations into portfolio construction, implementation and overall investment decision making.

We now have a dedicated ESG team of four staff together with an outsourced voting and engagement service provider. Operational accountability on a day-to-day basis is held by the Chief Sustainability Officer (CSO) who reports to the CEO, recognising the strategic importance of sustainability and responsible investment, with two specialist managers one of whom leads on stewardship and engagement and the other on climate activity. The Investment team work closely with investment managers to ensure that London CIV's Stewardship Policy and Voting Guidelines are integrated in their engagement activities.

The integration and implementation of responsible investment is explicit in the roles of all members of the investment and client services teams, and in the purpose statement and values that underpin the work of the whole staff team. However, London CIV does not have a financial bonus structure as part of its remuneration package so it is not built into an incentives package.

This report has been approved on behalf of the Board by the Chair of the Board and signed by the CEO following review by members of the Board and ExCo. It is informed by ongoing reporting throughout the year to the Board, ICO, Shareholder Committee, SWG, and the monthly Business Updates to partner funds.

"Our governance and policy framework is designed to provide a robust foundation for our collaboration with our shareholder partner funds -making make sure our stewardship and engagement activity has the maximum impact and delivers a sustainable future for London Local Authority pension funds and their beneficiaries."

Mike Craston, London CIV Board Chair

Managing Conflicts of Interest

London CIV is required by the FCA to maintain and operate effective organisational arrangements to ensure all reasonable steps are taken to prevent conflicts of interest from adversely affecting the interest of Partner Funds and their beneficiaries.

Our **Conflict of Interest Policy** describes the circumstances that could give rise to a conflict of interest and the principles to be followed in order to identify, avoid, manage, or in the event the other routes are not possible, to disclose clearly to our Partner Funds any conflicts should they arise.

Conflicts of Interest in Practice

We may vote or engage with companies in which our Partner Funds have commercial relationships. These activities will be guided by Stewardship Policy and Voting Guidelines reviewed annually. We share voting and engagement reports with Partner Funds via the client portal on a quarterly basis.

In undertaking these activities, the following conflicts may arise:

- We may engage with or vote the shares of a company which has a strong commercial relationship, including as a service provider, with London CIV and/or our Partner Funds
- We may engage with or vote shares of a company where staff own securities or have a personal relationship with senior staff members in a company
- We may engage or vote shares of a company where client representatives work on the Board of the organisation
- We may engage with a government or government body which is the sponsor or associate of the sponsor of one of our Partner Funds
- We may vote on a corporate transaction, the outcome of which would benefit one client more than another
- We may otherwise act on behalf of Partner Funds who have differing interests in the outcome of our activities

London CIV maintains policies and procedures that mitigate perceived or potential conflicts. Examples of how we reduce the risk of conflicts occurring include:

- Ensuring all staff report any foreseen potential conflict of interest from voting or engagement to their line manager
- Any potential conflicts arising over our approach to voting or engagement are escalated to the CIO if required
- Split voting in exceptional circumstances in the event of a potential conflict

London CIV places the interests of our Partner Funds and their beneficiaries first at all times and demands that when acting on our behalf, our suppliers do the same and publicly disclose their Conflict of Interest Policies. The Conflict of Interest Policy by our current stewardship and engagement provider can be viewed here.

Appendix A

Description	Detail
Principle 1 Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long term value for Partner Funds and beneficiaries leading to sustainable benefits for the economy, the environment and society.	The following sections provide the framework of how London CIV creates long term value for our Partner Funds and deliver sustainable benefits: • "CEO and CSO statements Policy Framework" • "Investment Beliefs" • "Responsible Investment Strategy and Policy" • "Partner Funds" (This includes how we assess our effectiveness in serving the best interests of our Partner Funds) The subsequent sections in this report explain how we make this tangible.
Principle 2 Signatories governance, resources and incentives support stewardship.	The following sections demonstrate our governance, resources and incentives to support stewardship: • "Governance" section • Throughout the report we illustrated how the governance and policy framework and resources support stewardship The SWG was established to improve client consultation and promote best practice. An Executive-level ESG Action Group was also formed to oversee the implementation of the six-point action plan. Both complement our Seed Investment Groups (SIGs), which involve Partner Funds, in fund development. The London CIV Board approves and is collectively accountable for London CIV's strategy and governance, including its approach to active ownership. The ICO oversees the implementation of our investment strategy on behalf of the Board. The Executive Team, led by the Chief Executive Officer, is responsible for day-to-day organisational management whilst the Chief Investment Officer (CIO) is accountable for integrating ESG considerations throughout the design, selection and management of our investment decisions. The CSO leads an RI team of three with 18 years of collective experience across climate change risk and positive impact analysis covering all sectors and asset classes. External providers support the team with services such as ESG analytics, voting and engagement The integration of ESG is explicit in the roles of all staff and in the culture and values statement that underpins our work. It is not part of a financial incentives structure as London CIV does not currently have a bonus structure within its remuneration package.
Principle 3 Signatories manage conflicts of interest to put the best interests of Partner Funds and beneficiaries first.	Conflict of interests is considered in the following section: "Managing Conflicts of Interest"
Principle 4 Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system	How we identify and respond to market-wide and systemic risks to promote a well-functioning financial system is located across the "Step One: Defining Our Priorities" chapter. Throughout the report, we have included examples on how we collaborate with stakeholders to manage the system risks we have identified.
Principle 5 Signatories review their policies, assure their processes and assess the effectiveness of their activities	The policies section sets out how we review our high-level belief statements and our policy framework to make ongoing improvements- and have done so in collaboration with our client shareholders.

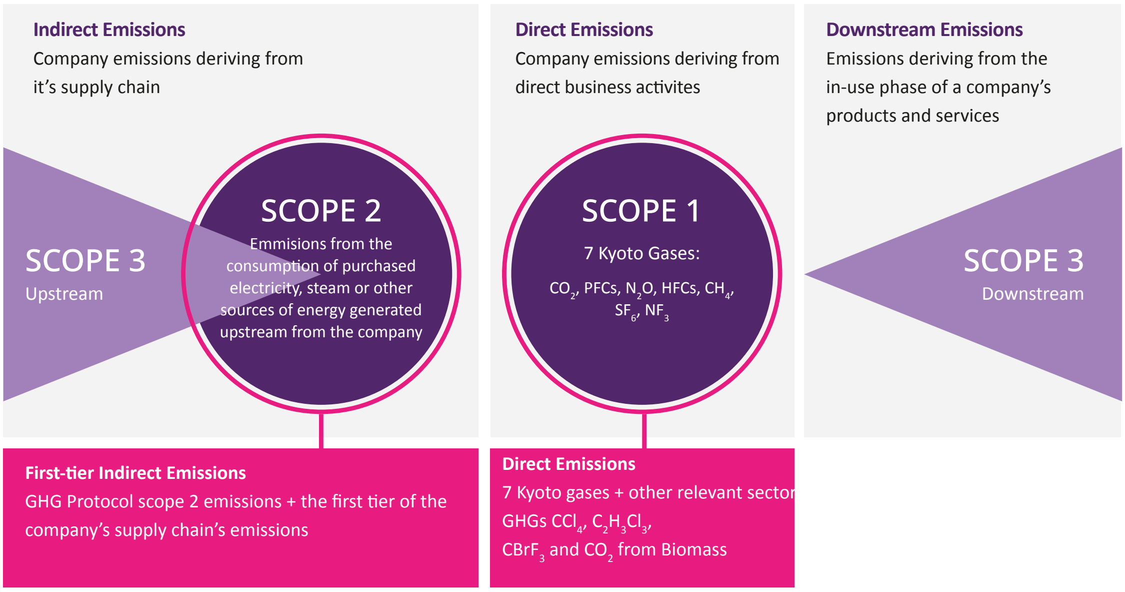
Appendix A continued

Description	Detail
Principle 6 Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them	London CIV's 32 LGPS Partner Funds are long-term investors and committed to responsible investment. Consultation takes place via surveys and committee meetings provide opportunities to ensure partner views are reflected. Their priorities are considered in the development of all policies and are at the forefront of our manager monitoring and company engagement. This is described in the Partner Funds section of the report. The "Disclosure and Transparency" section sets out how we report and the steps we have taken to improve reporting. The Responsible Investment Strategy and Policy section provides the frequencies of our ESG reporting and disclosures. We have provided additional "Deep Dive" reports this year to assist understanding and summary information on key deliverables at the beginning of this report and throughout the year on our website and monthly partner briefings
Principle 7 Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.	London CIV engage on ESG issues across four pillars: People, Planet, Principles of governance and Prosperity. Themes are then prioritised using global risks, partner priorities, asset specific risk and exposure. We have added additional case studies this year about how we work with companies, investment managers and implement engagement by theme and asset class.
Principle 8 Signatories monitor and hold to account managers and/or service providers	We describe how we hold managers and service providers to account in "Our collaborative approach to stewardship" section and in improvements made this year.
Principle 9 Signatories engage with issuers to maintain or enhance the value of assets.	We appointed EOS as our service provider for voting and engagement in 2021. Our Stewardship Policy provides the framework for manager engagement to monitor that they are undertaking monitoring as we expect. This is described in "London CIV's Responsible Investment Strategy and Policy" section
Principle 10 Signatories, where necessary, participate in collaborative engagement to influence issuers	Our collaborations are set out in p. 63 and we keep these under review in collaboration with Partner Funds through our SWG. We participate in co-signatory engagements. These are described throughout the report. Our case studies describe the impact of these collaborations.
Principle 11 Signatories, where necessary escalate stewardship activities to influence issuers	Our Stewardship Policy explains the expectations we have set for investment managers that escalate stewardship activities on our behalf. Case studies across the report and more specifically in the "Escalation" section illustrate how we have exercised those rights including in collaboration with others.
Principle 12 Signatories actively exercise their rights and responsibilities	We have described how we actively exercise our rights in the case studies and facts and figures summary at the beginning of the report and in Case study Shell Plc (pg. 36) Case study Amazon (pg. 62) illustrate the impact of our activity.

Glossary Acronyms and Terms

Antitakeover Related	Typically include proposals to adopt or remove anti-takeover provisions like poison pills or supermajority voting requirements.
Capitalisation	Typically include proposals to add additional shares to the charter or affect stock splits.
Directors Related	Typically include proposals to elect directors or change the board composition.

Emissions:



- **Direct (Scope 1)** = CO_2e emissions based on the Kyoto Protocol greenhouse gases generated by direct company operations.
- **Direct (Other)** = Additional direct emissions, including those from CCl_4, $C_2H_3Cl_3$, $CBrF_3$, and CO_2 from Biomass.
- **Purchased Electricity (Scope 2)** = CO_2e emissions generated by purchased electricity, heat or steam.
- **Non-Electricity First Tier Supply Chain (Scope 3)** = CO_2e emissions generated by companies providing goods and services in the first tier of the supply chain.
- **Other Supply Chain (Scope 3)** = CO_2e emissions generated by companies providing goods and services in the second to final tier of the supply chain.
- **Downstream (Scope 3)** = CO_2e emissions generated by the distribution, processing and use of the goods and services provided by a company.

Miscellaneous	Proposals to that are atypical or one-off requests.
Non-Salary Comp	Proposals to adopt or amend equity plans; say-on-pay.
Preferred/Bondholder	Proposals to amend aspects of a preferred share class or bond covenant.
Reorg. and Mergers	Proposals to merger with or acquire another company.
Routine/Business	Proposals to approve the annual report or prior meeting minutes.
SH-Compensation	Shareholder proposals to affect some aspect of executive pay.
SH-Corp Governance	Shareholder proposals to change some aspect of the company's governance profile, like classified board structure.
SH-Dirs' Related	Shareholder proposals to committee or board structure, like adopting a new board committee.
SH-Health/Environ.	Shareholder proposals to enhance disclosure around an environmental or health issue.
SH-Other/misc.	Shareholder proposals on one-off issues.
SH-Routine/Business	Shareholder proposals to separating the chair/CEO position.
SH-Soc./Human Rights	Shareholder proposals to enhance disclosure on human rights issues.
SRD II	The Shareholder Rights Directive II is a European Union (EU) directive, which sets out to strengthen the position of shareholders and to reduce short termism and excessive risk taking within companies traded on EU regulated markets.
Social Proposal	Shareholder proposals to address worker or supply chain issues.

Use of data providers

We utilise a variety of data sources to inform our stewardship activities. We recognise that ESG data is an ever-evolving discipline and we consistently encourage improved disclosure from our investment managers. In addition to our investment managers' and London CIV's own analysis of ESG exposure within our portfolio, we use third party proprietary and public data sources. At present these include:

Provider	Description	Website
Trucost, part of S&P Global	Trucost, part of S&P Global, assesses risks relating to climate change, natural resource constraints, and broader environmental, social, and governance factors. Data includes carbon emissions for scope 1, 2 and 3 emissions, coal power generation, fossil fuel reserves, physical risk, transition risk and broader environmental factors. London CIV uses its data sets to inform our environmental portfolio risk analysis.	trucost.com
EcoInvent	The EcoInvent database is an lifecycle inventory database, providing documented process data for thousands of products, including renewable energy assets. London CIV uses its database to model the embedded emissions of its infrastructure investments as part of its wider climate risk analysis.	ecoinvent.org
Forest500	For nine years, Global Canopy's Forest 500 has tracked the policies and performance of the 350 most influential companies and 150 financial institutions linked to deforestation in their supply chains and investments.	forest500.org
Transition Pathway Initiative (TPI)	The LSE Transition Pathway Initiative Centre (the TPI Centre) is an independent, authoritative source of research and data on the progress of the financial and corporate world in transitioning to a low-carbon economy. The TPI Centre's analysis considers corporate climate governance and carbon emissions.	transitionpathwayinitiative.org

A lack of standardisation and transparency across ESG data means that analysis can be subject to inconsistencies. To ensure the quality of our data outputs we assess the Quality Control (QC) procedures for any new datasets we use and maintain our own QC checks by way of internal assurance. Owing to the complex and nuanced nature of ESG data, analysis is always reported alongside qualitative insights. We use data where possible in our everyday monitoring and report on insights in our quarterly reports to support the stewardship activities and oversight of our Partner Funds. As ESG data evolves, we review our provision and aim to increase the information available to us on an annual basis. Whilst our focus has been largely on climate risk to date, we seek to increase our analysis on other material ESG factors in order to work effectively with our managers on a broader spectrum of investment risks.

EOS regional principles

Australia	The ASX Corporate Governance Principles
Brazil	Brazilian Corporate Governance Code
Canada	The Canadian Coalition for Good Governance
Mainland China & Hong Kong	The Code of Corporate Governance for Listed Companies The Corporate Governance Code
Denmark	Committee on Corporate Governance Recommendations for corporate governance
France	Corporate Governance Code of Listed Corporations
Germany	The German Corporate Governance Code
India	2013 Companies Act
Italy	The Italian Corporate Governance Code
Japan	The Asian Corporate Governance Association's "White Paper on Corporate Governance in Japan
Mexico	The Code of Best Practices in Corporate Governance
The Netherlands	Dutch Corporate Governance Code
Russia	The Federal Commission for the Securities Markets' "Code of Corporate Conduct", and the OECD's "White Paper on Corporate Governance in Russia
South Africa	King Code of Corporate Governance
South Korea	Act on Corporate Governance of Financial Institutions
Spain	The Comisión Nacional del Mercado de Valores' "Unified Good Governance Code of Listed Companies
Sweden	The Swedish Code of Corporate Governance
Switzerland	The Swiss Code of Best Practice for Corporate Governance
United States	EOS US Corporate Governance Principles

London CIV

Getting in touch with the team

If you have any questions or comments about this report please email Jacqueline Amy Jackson, Chief Sustainability Officer (CSO) at RI@LondonCIV.org.uk

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