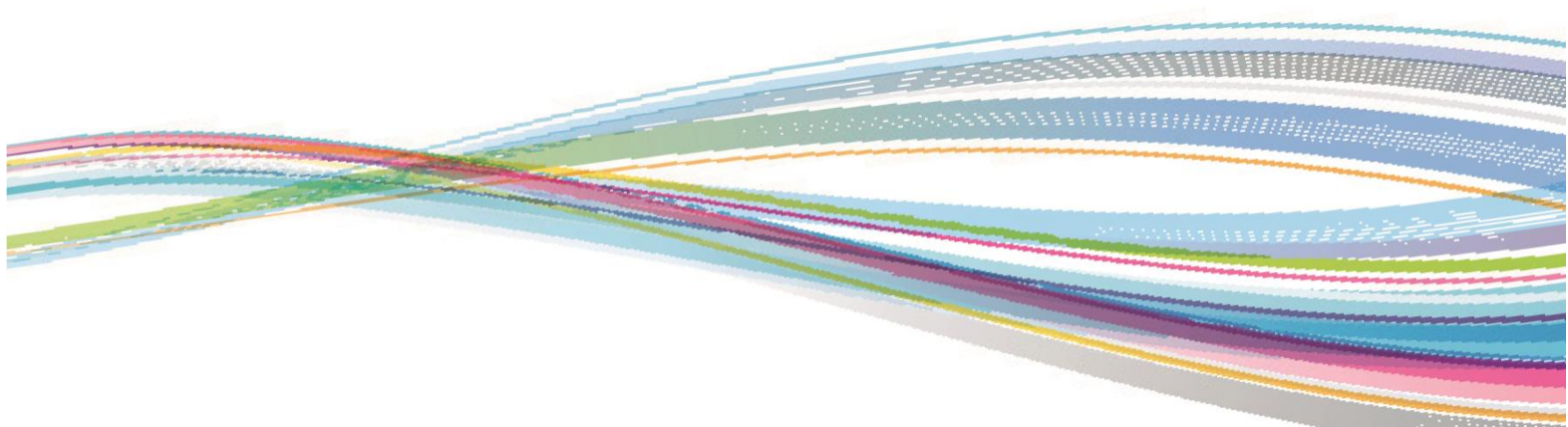




Statement of Compliance with the UK Stewardship Code



Introduction

LPFA is the largest Local Government pension provider in London. As an Administering Authority for the Local Government Pension Scheme (LGPS) we provide defined benefit pension provision to the employees of not-for-profit, charity, private sector and local government organisations.

LPFA's commitment to stewardship and responsible investment is of long standing and recognises the intrinsic value of corporate governance best practice. We believe that well managed companies are best positioned to identify, interpret, and respond to business opportunities and more agile, adaptable and resilient in their management of risks.

We seek to use our ownership influence to encourage high standards of corporate governance by investee companies, seeing a direct connection between this and our fiduciary duty to protect the value of the Fund's investments and the long term financial interests of scheme members as beneficiaries.

Our stewardship approach incorporates shareholder voting, engagement and acting collectively with other investors. We have a strong track record of developing successful partnerships which have enabled us to benefit from shared insights and collective expertise and resources.

The practical implementation of our stewardship approach is an integral part of the investment management services we receive from the Local Pensions Partnership (LPP) launched in April 2016. LPP is a not-for-profit pension services organisation which is a collaboration between LPFA and the Lancashire County Pension Fund. LPFA's investment portfolio is under management by Local Pensions Partnership Investments Ltd, a subsidiary of LPP and an FCA authorised and regulated investment manager.

The 7 principles of the UK Stewardship Code describe best practice standards for asset owners and LPFA supports and complies with the principles in full.

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities

Our approach to stewardship is outlined within our Investment Strategy Statement (ISS) and in our Principles, Beliefs and Objectives which are publicly available from the Responsible Investment section of our website here <https://www.lpfa.org.uk/How-we-invest/RESPONSIBLE-INVESTMENT.aspx>

LPFA's approach to stewardship is rooted in a commitment to protecting the value of the fund and safeguarding the financial interests of members and beneficiaries. We discharge our stewardship responsibilities as an asset owner by putting appropriate arrangements in place for the selection, monitoring and management of assets invested in by the Fund. Ensuring suitable arrangements are in place includes specifying standards within contractual documents and monitoring performance against these on an ongoing basis.

LPFA's stewardship requirements have been formally set out within an Advisory and Management Agreement (AMA) with LPP I which includes requirements to comply with the principles of the UK Stewardship Code and the Principles of Responsible Investment. These are external measures of the standards we expect to be applied to all asset classes as an integral part of the management of the Fund's portfolio. The same standards apply to all third party agents appointed by LPP I to work on the Fund's behalf.

LPP I's execution of our stewardship requirements is in line with a Responsible Investment Policy available from the company's website here

<https://www.localpensionspartnership.org.uk/what-we-do/investment-management>

The policy sets out the beliefs, standards, procedures and activities which underpin LPP I's fulfilment of fiduciary responsibilities on behalf of client pension funds.

We disclose details of our stewardship arrangements and activities by reporting against the Principles of Responsible Investment assessment framework on an annual basis. We have been a PRI signatory since 2007 and at the conclusion of the annual reporting and assessment cycle a copy of our Transparency Report is automatically made publicly available from the PRI website. <https://www.unpri.org/signatory-directory/>

Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed

LPFA has a robust and effective policy for the management of conflicts of interest which requires actual and potential conflicts to be identified, managed and disclosed. The arrangements in place reflect the different responsibilities of key participants including;

- The LPFA Board
- LPFA Senior Management;
- External advisors to LPFA;
- LPFA Local Pension Board
- LPP and other external delivery partners;

LPFA's conflicts of interests approach for Board Members and staff is described in full within the Constitutional Document available from our website.

<https://www.lpfa.org.uk/What-we-publish/GOVERNANCE-STRATEGY.aspx>

Our focus is on ensuring that the potential for conflicts of interest to arise is identified in advance and managed appropriately to prevent the conflict from materialising in practice.

Each member of the LPFA Board makes an annual declaration of their interests. This refreshes the Fund's central record which is a basis for identifying issues within forthcoming business matters where a personal interest may compromise objectivity and the potential for a conflict of interest exists. Board Members and other individuals participating in Board meetings are required to declare any matter in which they have a conflict of interest at the beginning of each meeting. In the event that a material conflict of interest exists the individual will be excluded from participating in all relevant items of business and will withdraw from the Board Meeting for the period during which the relevant matter is being considered. All conflicts of interest declared are recorded in the minutes of the meeting.

LPFA staff are subject to a written code of conduct which requires disclosure of any non-financial or financial interests which could conflict with the Authority's interests and are also subject to the "Conflicts of Interest Policy to Govern Investment" which applies to all Board Members, all Principal Officers and any other person performing a role within LPFA who has a significant role in managing, monitoring or selecting LPFA's investments. The Policy requires prompt disclosure of any interests to the Monitoring Officer and, where any material conflict arises, precludes participation (in any capacity) in the decision-making process including in the receipt or preparation of papers. Compliance with the policy is reviewed periodically and reported to the Board's Audit and Risk Committee annually.

The LPFA Local Pension Board (LLPB) assists LPFA in its role as an LGPS Administering Authority and comprises at least three Employer Representatives, three Member Representatives and an Independent Chair. The LLPB has its own Code of Conduct which includes a procedure for the declaration and management of personal interests as part of

the management of conflicts of interest. The LLPB code appears within LPFA's Constitutional Document which is publicly available from the Fund's website.

<https://www.lpfa.org.uk/What-we-publish/GOVERNANCE-STRATEGY.aspx>

Specific arrangements exist for the management of conflicts of interest by LPP I as LPFA's provider of investment management services. LPP I is an FCA authorised and regulated entity with a Conflicts of Interest Policy which establishes the parameters of good governance in the management of conflicts. The Policy applies to all staff and identifies the types of conflicts and potential conflicts which may arise and the approach to managing these through robust governance arrangements which include the segregation of functions, conflict management controls and an annual Disclosure of Interests Protocol. A copy of the LPP I Conflicts of Interest Policy is available from LPP on request.

LPP I require external fund managers and other agents working on its behalf to have an appropriate conflict of interests policy and this requirement is reflected within contractual arrangements put in place around service delivery.

Principle 3 - Institutional investors should monitor their investee companies

Encouraging strong corporate governance by investee companies is a core part of responsible investment practice. LPFA has made a commitment to using its influence as an institutional investor to encourage sustainable business practices and decision-making aligned with the long term best interests of shareholders. These commitments are reflected within the stewardship arrangements LPFA has agreed with LPP I.

The day-to-day monitoring of investee companies is undertaken by Investment Managers with detailed knowledge of the enterprises within their portfolios and an understanding of the business risks and opportunities they face. The assets under management by LPP I are monitored by members of the in-house Investment Team or by external asset managers appointed and overseen by LPP I. Company monitoring provides continuing insight on financial performance and underlying business and market characteristics but also identifies issues related to broader corporate responsibility and to Environmental, Social and Governance matters as part of the ongoing evaluation of company risk and sustainability.

Monitoring activity typically incorporates information from a range of sources including company reporting, news media, real time market metrics, and the insight of research and ratings providers. Wider insights from NGOs, trade unions, regulators and other representative groups are also referenced as appropriate. External managers appointed by LPP I are encouraged to share any material company insights with LPP I as part of regular monitoring calls.

Insight gained from company monitoring informs LPP I's exercise of ownership rights on behalf of LPFA as an institutional investor. The main focus of engagement activity is shareholder voting and participation in wider investor collaborations, though representation on company boards and limited partner advisory panels may also be utilised.

Engagement is time consuming and resource intensive and achieving the critical mass needed to have impact requires effective partnership and collaboration. On LPFA's behalf, LPP I seeks opportunities to work with other responsible investors as part of wider initiatives which concentrate collective stewardship resources and seek to achieve greater reach and influence than is possible acting alone. Separately in its own right, LPFA is a member of the Local Authority Pension Fund Forum (LAPFF) and the Pensions and Lifetime Savings Association (PLSA) and gives support to their campaigns and investor initiatives as appropriate.

The LPFA Board receives information on stewardship and Responsible Investment matters as part of monitoring reports produced by LPP and has access to LPP I's quarterly record of shareholder voting activity.

Principle 4 - Institutional investors should establish clear guidelines on where and how they will escalate their stewardship activities

Shareholder voting and collaborative company engagement are the principal ways in which stewardship is escalated on the Fund's behalf. LPFA's preferred approach is to engage with investee companies in order to raise matters of material concern directly with them. Shareholder voting offers a direct opportunity for dialogue with investee companies and is used to signal investor concerns and to encourage the alignment of company and shareholder interests.

Shareholder voting is a right and a responsibility of ownership and in order to ensure it is managed in an informed and consistent way, LPFA has delegated the oversight of shareholder voting to LPP I. Voting is managed centrally rather than being at the discretion of individual investment managers and is in accordance with a Shareholder Voting Policy available from the LPP website.

<https://www.localpensionspartnership.org.uk/what-we-do/investment-management>

Investment Management Agreements between LPP I and third party managers include a requirement to support the Principles of Responsible Investment and to promote corporate governance best practice. Managers are encouraged to share insights and required to report on their stewardship activities as part of manager monitoring undertaken by LPP I. Third party managers are expected to monitor investee companies and to escalate matters of material concern via engagement. Decision-making on the most appropriate route for raising issues with companies is at the discretion of each manager in accordance with their in-house policy. Managers are required to report to LPP I periodically on their engagement activities.

As part of its broader stewardship oversight, LPP I reviews how accepted standards of corporate governance best practice are being reflected across LPFA's portfolio. This may identify issues where a more thematic approach may be appropriate. Thematic engagements can involve making direct contact with individual companies on specific issues but will more often involve participation in broader investor collaborations to build an impetus for improvement in core characteristics such as board diversity and independent oversight, succession-planning, executive remuneration and shareholder rights across a range of companies. LPP I works alongside General Partners, Limited Partners, other investors and representative investor groups as appropriate.

On LPFA's behalf, LPP I has arrangements in place for monitoring emerging shareholder litigation and any financial interest in the companies involved. Where appropriate, the Fund will participate in shareholder litigation in order to recover losses and address wrongdoing.

Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate

LPFA actively seeks opportunities to work in partnership with other investors and to participate in collective initiatives which address shared stewardship priorities. The Fund recognises that investor influence is most likely to be fruitful when collective resources are being pooled and a consistent message is being amplified by multiple like-minded investors.

LPFA is a member of a number of organisations which provide the opportunity to align with and give support to collaborative initiatives. These include LAPFF, the PLSA and the Principles of Responsible Investment. LPFA is also a member of the Institutional Investor Group on Climate Change and CDP.

Examples of the themes the Fund has engaged on as part of wider investor collaborations include:

- Climate change risk, sustainability and the global transition to low carbon;
- Executive remuneration;
- Transparency and effective disclosure within corporate reporting;
- Diversity and independent representation on company boards.

LPFA's direct participation has included co-signing investor letters to companies, regulatory bodies and government representatives and expressing support for shareholder resolutions.

LPFA collaborates regularly with other LGPS funds via its direct partnerships (LPP and GLIL¹) and through LAPFF and the Responsible Investment sub-group to the LGPS Cross Pool Collaboration Group (established as part of the implementation of LGPS pooling arrangements). The RI sub-group brings stewardship and Responsible Investment practitioners together from Funds within each pool to discuss collective stewardship issues and the most effective approaches to common challenges.

The contact for potential collaborative engagements on behalf of LPFA is LPP I's Responsible Investment Manager: frances.deakin@localpensionspartnership.org.uk

Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity

LPFA has a clear policy on shareholder voting which is set out within the Fund's ISS. Shareholder voting is recognised to be an important route for influencing companies to adopt sustainable business practices and to develop corporate governance arrangements aligned with protecting shareholder value.

LPFA pooled its listed equity investments in November 2016 and subsequently the Fund has owned units within a Global Equities Pool rather than shares in underlying companies. LPFA does not direct shareholder voting but has influenced the voting arrangements put in place by LPP I which are undertaken in line with a Shareholder Voting Policy available from the LPP website. <https://www.localpensionspartnership.org.uk/what-we-do/investment-management>

Shareholder voting for the Global Equities Pool is managed centrally rather than being delegated to individual portfolio managers. This arrangement facilitates an objective approach which is consistent across the equities held by the pool. LPP I employs an external provider of proxy voting services to oversee ballot management and vote execution and to provide voting information, analysis, voting recommendations, and recording and reporting facilities via an online voting platform.

Voting recommendations reflect an agreed voting policy which is actively reviewed on an annual basis and updated to reflect emerging issues and trends. The detail of forthcoming meetings and ballots is reviewed by LPP I online to identify upcoming issues where it may be appropriate to depart from the voting recommendation. In cases where a different vote is instructed the underpinning rationale is recorded for vote reporting purposes.

¹ A joint venture by LPFA and the Greater Manchester Pension Fund which is a platform for the founders and a growing number of other LGPS funds to invest in infrastructure.

A detailed report on shareholder voting activity for the Global Equities Pool is produced quarterly and published on the LPP website.

<https://www.localpensionspartnership.org.uk/what-we-do/investment-management>

Principle 7 - Institutional investors should report periodically on their stewardship and voting activities

LPFA reports periodically on stewardship and voting activities via news and other content made available via the Fund's website. We describe our approach to stewardship within an Investment Strategy Statement and publish an extensive range of other information describing wider policies in place, the Fund's governance arrangements, reports considered by the Board and minutes from Board meetings.

Whilst we include high level stewardship insights within our Annual Report our most detailed disclosure on stewardship and responsible investment themes is via our annual completion of the PRI annual assessment framework. We have been a signatory to the PRI since 2007 and output from our detailed disclosure is captured within annual Transparency Reports which are made publicly available via the PRI website.

Prior to the pooling of listed equity investments in November 2016 LPFA routinely published quarterly shareholder voting information via its website. Shareholder voting activity for the Global Equities Pool managed by LPP I is now accessible via quarterly reports published on the LPP website. <https://www.localpensionspartnership.org.uk/what-we-do/investment-management>