



LGPS CENTRAL LIMITED

Responsible Investment & Engagement Framework

APRIL 2024





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About the Responsible Investment & Engagement Framework



The Responsible Investment & Engagement Framework (the “Framework”) outlines LGPS Central’s (“LGPSC” or the “Company”) process to identify, assess and manage Responsible Investment & Engagement (“RI&E”)-related risks and opportunities. The Framework supports and supplements the Company’s Responsible Investment and Engagement Policy (the “Policy”) which sets out the expectations relating to RI&E across all of the Company’s investment activities.

The Framework establishes LGPS Central’s commitment to investing responsibly and encapsulates its related approach. This Framework sits within the broader Governance framework of LGPS Central and ensures compliance with regulatory and/or voluntary requirements, such as the expectations placed on the Company as a signatory of the Principles for Responsible Investment (PRI).

The Company is equally committed to assisting its Partner Funds with the achievement of their RI&E objectives. This commitment arises out of a shared belief that adoption of responsible investment is fundamental in order to discharge our fiduciary responsibility to stakeholders.

The Framework is subject to and does not supersede specific policies and frameworks that controls the primary activities mentioned in this document, and instead shall function as supplements to the main documents. For example, our Investment Oversight Policy controls all investment monitoring activities that we undertake. The RI&E Framework expands on how ESG is integrated in the monitoring process, within the scope of the Manager Oversight Policy.

All RI&E activities will be undertaken in line with the relevant policies and frameworks, further details of which are provided for in this Framework, and in accordance with relevant UK Financial Conduct Authority (“FCA”) or, where applicable, other regulatory requirements.



Our Responsible Investment Approach

The term 'responsible investment' refers to the integration of financially material environmental, social and corporate governance ("ESG") factors into investment processes. It has relevance both before and after the investment decision and is a core part of our fiduciary duty.

It is distinct from 'ethical investment', which is an approach in which the moral persuasions of an organisation take primacy over its investment considerations.

The foundations of the approach stem from the belief that RI&E is supportive of risk-adjusted returns over the long term, across all asset classes. This belief is consistent with those of our Partner Funds. The Partner Funds' investment beliefs and RI&E approach are developed in the context of relevant regulations, statutory guidance and the advice of the Law Commission.

The objectives of RI&E at the Company, in alignment with our Partner Funds' objectives are:

1

Primarily, to support investment objectives.

2

Secondarily, to be an exemplar for RI within the financial services industry, promote collaboration and raise standards across the marketplace.



Our Investment Beliefs

Our investment beliefs are shaped by the beliefs and strategies of our clients. Our approach to responsible investment is fully aligned with the beliefs.



Responsible investment enhances return:

Responsible investment is supportive of risk-adjusted returns over the long term, across all asset classes. Integration of ESG factors into the investment process facilitates the implementation of this belief.



Long termism:

A long-term approach to investment will deliver better returns and the long-term nature of LGPS liabilities allows for a long-term investment horizon. We acknowledge that most ESG factors are long-term in nature, therefore it is an imperative that these factors are considered in investment decisions.



Diversification:

Diversification across investments with low correlation improves the risk-return profile. An exclusionary approach can detract from the full benefit of diversification and the real-world impact than responsible investing can have on society and the economy. A strategy of integration along with stewardship is more compatible with the fiduciary duties owed to internal and external stakeholders. This strategy allows for a broader investment universe which promotes diversification. Risks and opportunities are identified and managed at a more granular level. We consider that the flexibility this affords in terms of stock selection and sector appraisal will lead to better investment outcomes than a broad policy of exclusion.



Corporate governance:

Investee companies and asset managers with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. There is clear evidence showing that decision-making and performance are improved when company boards and investment teams are composed of diverse individuals.



Fees and remuneration:

The management fees of investment managers and the remuneration policies of investee companies are of significance for the Company's clients. Fees and remuneration should be aligned with the long-term interests of our clients, and value for money is more important than the simple minimisation of costs. Contributing to national initiatives that promote fee transparency such as the LGPS Code of Transparency is supportive of this belief.



Risk and opportunity:

Risk premia exist for certain investments; taking advantage of these can help to improve investment returns. There is risk but also opportunity in holding companies that are on an improving trajectory in respect of financially material ESG issues. Opportunities can be captured so long as they are aligned with the Company's objectives and strategy, and so long as there is a sufficient evidence base upon which to make an investment decision.



Sustainable business practice:

We expect investee companies to consider relevant, material social and environmental risk factors in their long-term strategic business planning such as climate change related risks, including biodiversity loss, and human rights related risks. We believe these can have a significant effect on the value of a company's assets over time, and on its ability to generate long-term returns for shareholders.

Oversight and Governance

FIGURE 1: LGPS CENTRAL LIMITED GOVERNANCE STRUCTURE



As part of its Terms of Reference, the Board of the Company has ultimate oversight responsibilities over all of LGPSC’s RI&E policies and activities. This oversight includes the responsibility to approve the Policy and the Framework.

Responsibility for the implementation of the Framework resides with the Executive Committee (“ExCo”). ExCo delegates day-to-day management of RI&E to the Investment Teams, with oversight from the Investment Committee (“IC”) and the Chief Investment Officer (“CIO”). The IC has one sub-committee: the Private Markets Investment Committee which will be responsible for some of the activities covered by the Framework, as determined by the threshold specified in relevant internal policies and frameworks. The IC reports directly to the ExCo.

The Director of RI&E has lead responsibility within the IC for the activities covered by the Framework. This includes the responsibility to review and propose changes to the Framework. The Director of RI&E is a member of the IC, the Private Markets Investment Committee and Senior Management Team.

Each business unit is expected to manage their own RI&E activities. The business units will be supported by the RI&E Team which performs a coordinating function with colleagues across the Company.

LGPS Central Responsible Investment & Engagement Champions Network

The Responsible Investment & Engagement Champions Network (the “Network”) is an inter-departmental working group that aims to enhance RI&E integration in all investment functions.

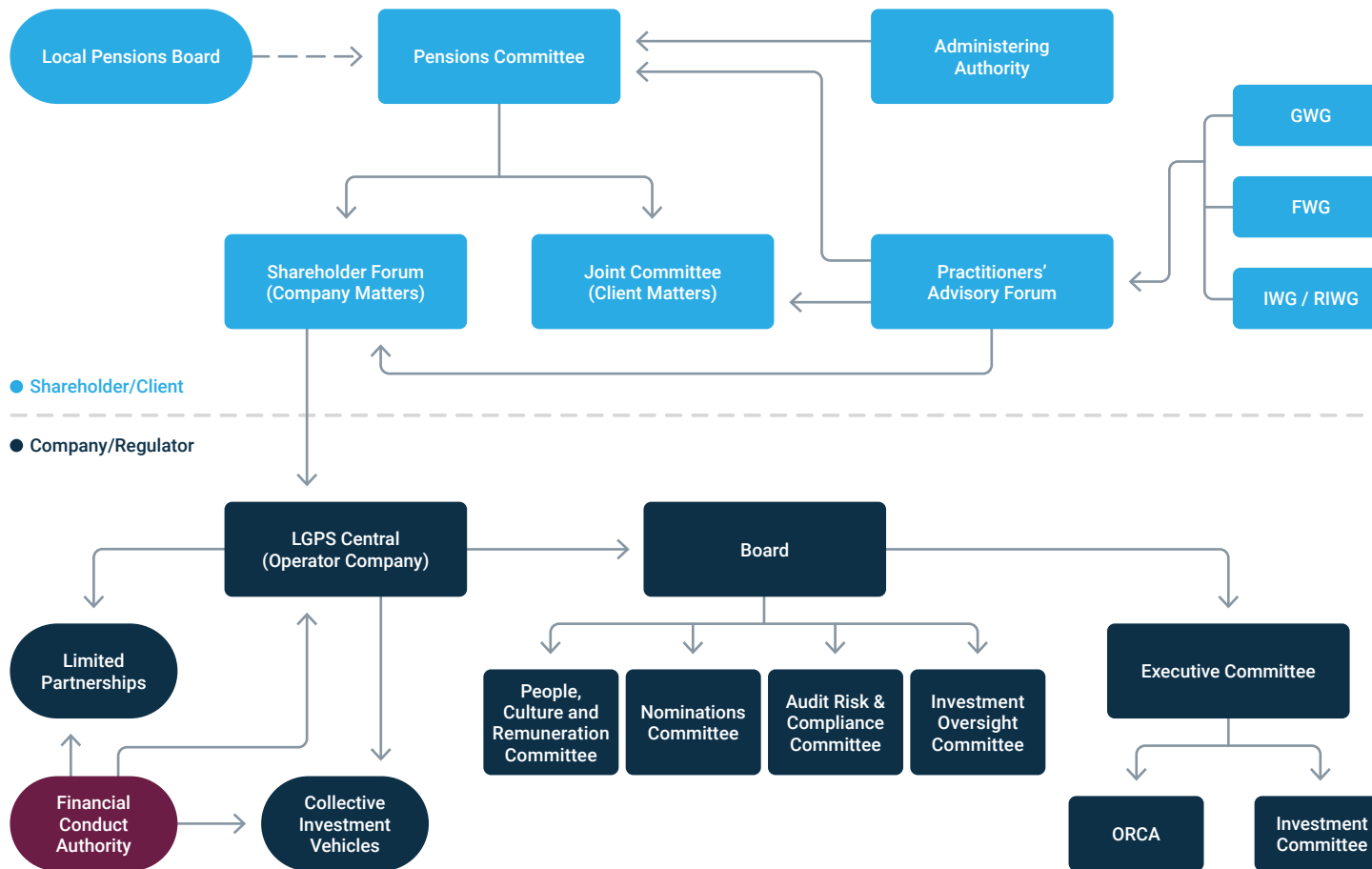
It comprises an RI&E Champion from each investment team and the RI&E team, promoting collaboration and shared responsibility. The Network empowers investment teams to contribute to RI&E integration throughout the investment lifecycle and take ownership of responsible investment processes in their asset class considerations. It ensures regular updates to RI&E policies and processes with the assistance of asset class experts to implement best practices.

Our Approach to Collaboration with Stakeholders on Responsible Investment

Through regular dialogue and collaboration between the Company's executive management and its stakeholders, we are able to equip the Board with the necessary information to identify, consider and respond to any challenges which may occur. Specifically related to RI&E, our Partner Funds have direct influence and dialogue on the overall RI&E efforts through a Practitioners' Advisory Forum ("PAF") at the high level, and through a Responsible Investment Working Group ("RIWG") which assesses RI matters in more detail.

The governance structure of the Central Pool and the relationship between the Company and Partner Funds is illustrated in Figure 2.

FIGURE 2: GOVERNANCE STRUCTURE OF THE LGPS CENTRAL POOL



Practitioners' Advisory Forum ("PAF")

The Partner Fund-led forum includes representatives from each of the eight Partner Funds. The Forum invites LGPS Central Limited Executives to present and discuss updates, on a monthly basis, on the Company's progress. Updates are typically provided by the CEO, CIO, Director of Responsible Investment and Engagement, Chief Stakeholder Officer and members of the Client Services team.

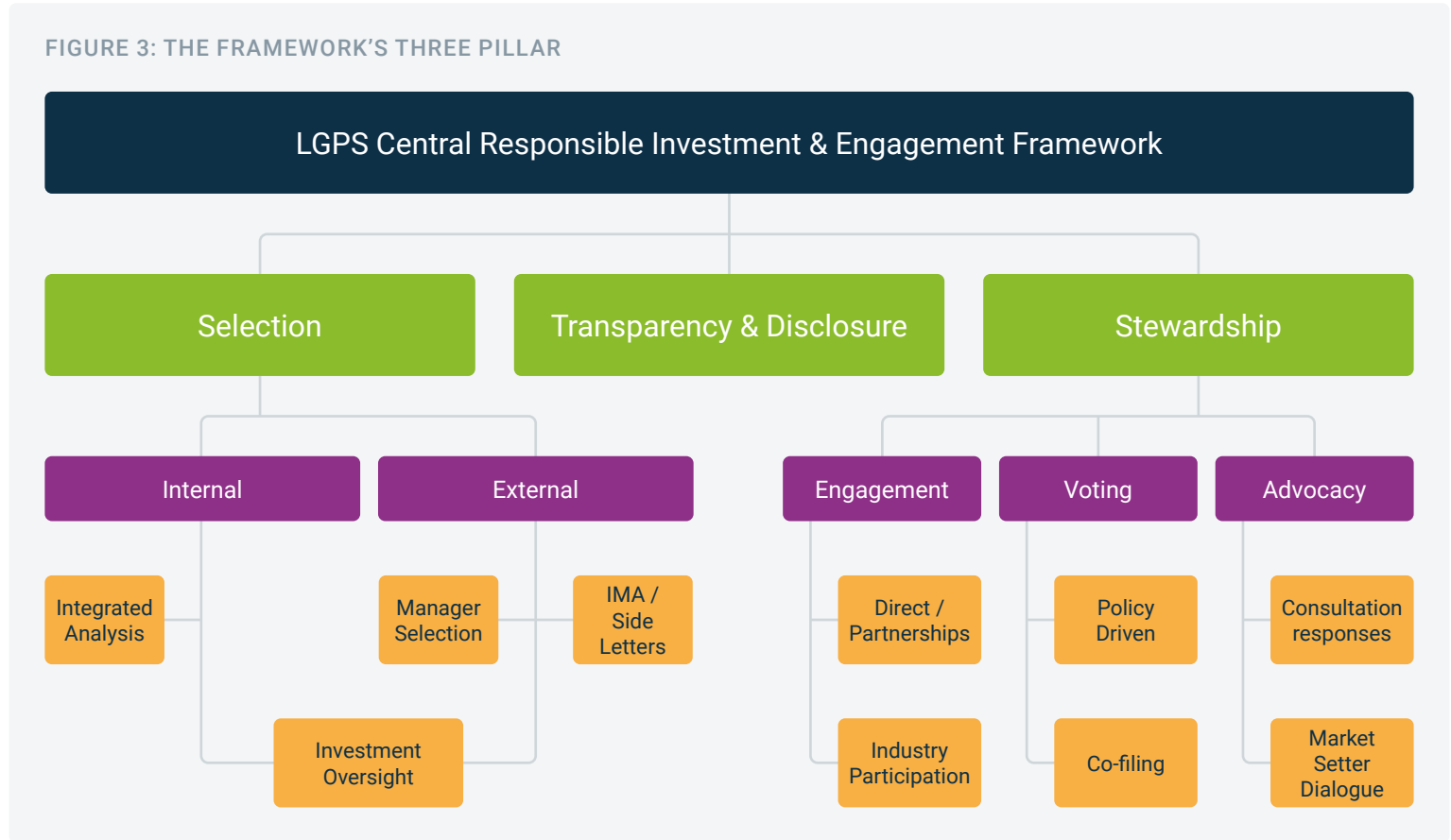
Responsible Investment Working Group ("RIWG")

This working group includes representatives from some of the eight Partner Funds and LGPS Central Limited specialists, such as the Director of Responsible Investment and Engagement and members of the Responsible Investment and Engagement team. The group meets regularly throughout the year. The Company provides updates and works with the group on topics such as climate change, natural capital, human rights, voting issues, current consultation papers and climate risk reporting. This is also the forum where we hold initial discussions on new initiatives and/or additional requirements.

The Framework's Three-Pillar Approach

The Framework is structured around three RI pillars: Selection, Stewardship, and Transparency & Disclosure. The three pillars give an overview of the process that we will take before the investment decision (which we refer to selection of investments), and after the investment decisions (the stewardship of investments). These actions will be communicated to stakeholders to ensure accountability for our actions, using best practice frameworks where applicable (transparency and disclosure of RI activities). We believe that the three pillars create a holistic approach in identifying, assessing, managing and reporting potential ESG risks and opportunities across all of our investments.

From time to time, we will identify systemic ESG risks and/or opportunities that are the most material to the Company and our investments. If appropriate, we will develop specific approaches to identifying, assessing and managing risks and opportunities arising from these ESG factors. The approaches supplement the Framework by detailing steps we take for the specific factors. At the time of writing, we have specific approaches to climate change; biodiversity and deforestation; and human rights.



Responsible Investment Integrated Status



We have developed customised RI procedures which are bespoke to the asset classes and/or investment strategies that LGPSC invests in. The Framework will be supplemented by these Responsible Investment Integrated Status (“RIIS”) documents. Each investment product shall fall under an RIIS umbrella to ensure that all of LGPSC’s investment products integrates RI in its processes.

At the time of writing, IC has approved the RIIS procedures below:

- i. Active Equity strategies
- ii. Active Fixed Income strategies
- iii. Passive strategies
- iv. Private Equity and Co-Investments
- v. Private Credit
- vi. Infrastructure
- vii. Property

Adherence to the specific procedures serve as a basis for the IC to approve the launch of an investment product, appointment of delegated managers and/or review of such products and delegated managers.

While we understand that no single framework document can cover every investment eventuality, the RIIS documents’ ambition is to serve as a guide.

A summary of the RIIS procedures is described below.

Selection

RI assessment will be a core part of the investment decision-making. This is documented in the investment process for each asset class/strategy.

The purpose of the assessment is to identify and assess potential financially material ESG risks and opportunities arising at fund and/or delegated manager level. Where appropriate, an approach to mitigate/exploit these risks/opportunities are proposed.

The assessments will be mandate specific. We have separate procedures for internally and externally managed funds. These may include how RI is evaluated in manager selection, appointment and monitoring; selection of indices for passive strategies; issuer specific ESG analysis; and approval of counterparties.

Internal policies and processes are in place to regulate the investment oversight process.

RI expectations are inserted in each investment mandate documentation.

Externally Delegated Investments

A potential manager's approach to responsible investment is evaluated using a combination of questionnaire, data analysis, and direct meeting. Managers' score on responsible investment forms a significant part of their overall score.

RI&E expectations will typically be inserted into the investment management agreement, side letter or any other fund documentation as appropriate.

Delegated fund managers are monitored in order to ensure the ongoing application and efficacy of their approaches to integration and stewardship. Managers are expected to report to the Company on RI&E activities that support the objectives given in the investment mandate.

Internally Managed Investments

Internally managed funds adhere to its respective investment process. RI&E expectations are clearly indicated in all investment process documents.

Decisions on index selection (for passive strategies) are driven by client preference, in collaboration with the investment team. We may assess material ESG risks attributable to several indices related to the chosen strategy to assist with the selection.

Additional analysis may include ESG assessment during the selection and monitoring of counterparties.

Internal funds are reviewed on an ongoing basis, with RI&E matters discussed from time to time.

Stewardship

Throughout the oversight process, we identify issuer-level ESG risks and opportunities within the funds. A key component of managing the risks and/or capturing the opportunities is through our stewardship process.

The Company's approach to stewardship is focussed on outcomes, and as such the Company will seek to escalate an engagement where escalation is deemed to improve the chances of engagement success. A decision to escalate, and the form or sequence of subsequent escalation is particular to the engagement in question. The most effective means of escalation varies from one engagement to another (see further detail below). It is also important to consider that escalation is rarely a linear process, hence the use of one engagement method does not preclude the use of others.

Engagement with Issuers

The Company may engage directly with issuers, participate in engagement partnerships and appoint a stewardship provider to engage on our behalf. Delegated managers are also expected to engage with issuers.

The prioritisation of engagement themes or companies depends on economic significance, resourcing and likely significance for the majority of stakeholders. We evaluate the appropriateness of the engagement themes on a triennial basis and shall propose amendments to our partner funds from time to time.

Shareholder and Bondholder Voting

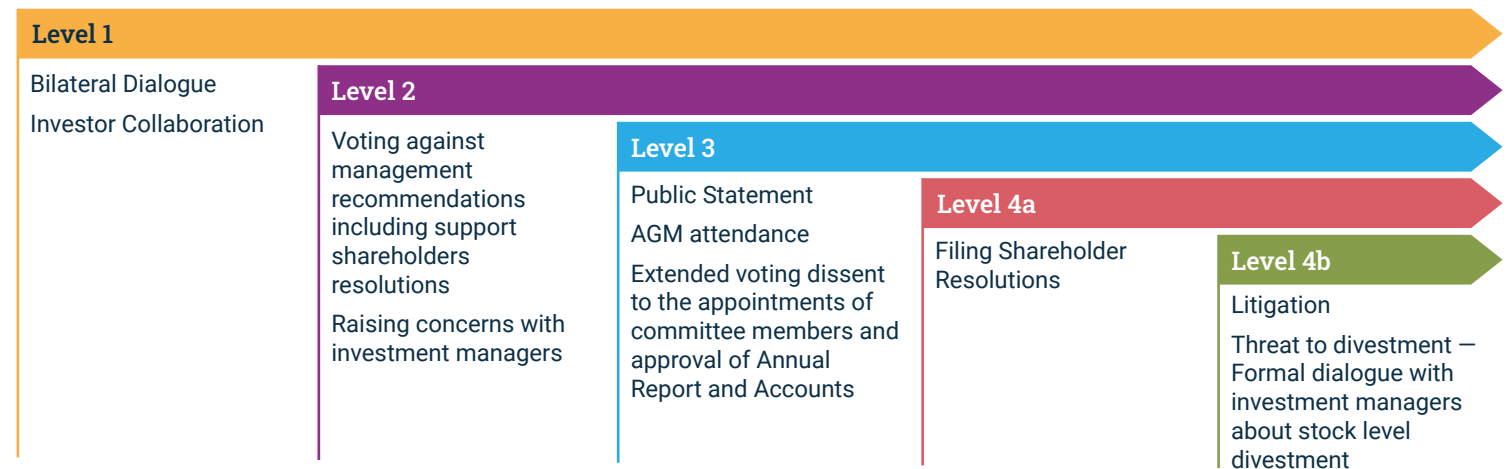
The Company aims to vote all eligible ballots in accordance with its agreed Voting Principles. This includes the voting shares of portfolios managed externally where those funds are held in segregated accounts.

The Company's Voting Policy is subject to annual review by the Board of the Company. The Voting Policy document is owned by the Company's Director of Responsible Investment & Engagement and is implemented by the Responsible Investment Team, with ultimate responsibility resting with the Executive Committee.

Advocacy

Joining working groups, responding to consultations, dialogue with regulators and presenting at conferences are important features of the Company's stewardship approach. Industry participation allows the Company to represent the interests of its clients to a broad audience and, through joint action, supports investment outcomes over the long term. The Company will seek participation including active contribution where this serves the long-term interests of the Company's clients.

FIGURE 4: LGPS CENTRAL STEWARDSHIP ESCALATION PROCESS



Transparency

The Company aims to report its RI activities in accordance with best practice. This includes regular disclosures that demonstrate to stakeholders how this framework is being applied in practice.

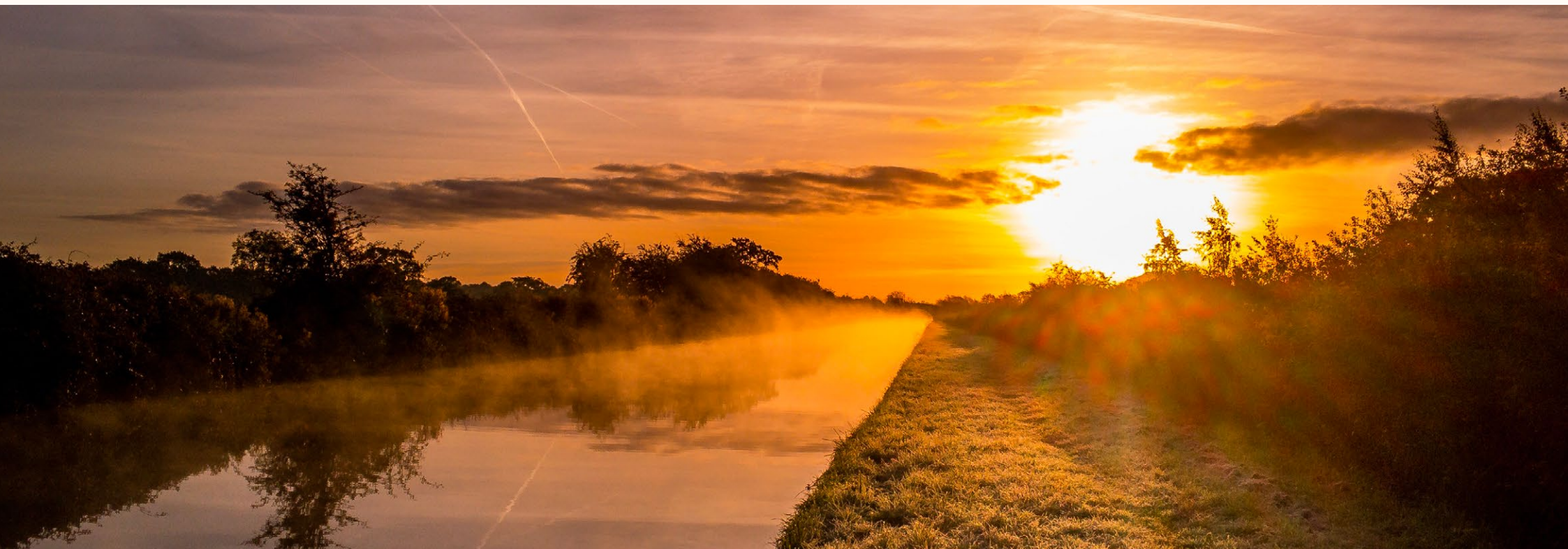
The Company reports on its stewardship activities in line with the Financial Reporting Council's UK Stewardship Code 2020 standards. The Company will also disclose stewardship activities to its clients at regular intervals throughout the year. This includes reporting on voting activities.

The Company supports the statutory annual reporting requirements of its local authority pension fund clients.

As a signatory to the Principles for Responsible Investment, the Company discloses a Transparency Report on an annual basis.

The Company has signed up to the LGPS Advisory Board Code of Transparency.

Where appropriate, RI factors are integrated into periodical product disclosures to the Company's clients. This includes quarterly fund updates and annual climate disclosures.



Risk Management and Assurance

The Risk Policy outlines the Risk Framework that is embedded within LGPS Central Limited and the roles and responsibilities of relevant staff and committees in ensuring that this operates effectively. The document explains LGPSC's Three Lines of defence model – which requires separation of potentially conflicted functions (e.g., Compliance and Investment Management) and independent risk oversight from Risk and Compliance and Internal Audit.

Each business unit serves as the first line of defence for its own risks. Regarding ESG risks such as climate, these are regarded as a subset of investment risks. Consequently, responsibilities for identifying, assessing,

and managing such risks are carried out by the Investment teams and RI&E team, with operational oversight from the IC. The RI&E and/or Investment teams ensure the successful design, implementation, and operational effectiveness of controls to mitigate and manage the identified ESG risks. This process is further reinforced by a quarterly review of key risks and controls, with any issues escalated to the IC to facilitate timely resolution.

Our Risk and Compliance functions are our second line of defence. Risk and Compliance functions assisted by other central functions such as Legal and Finance provides policy direction and oversees and monitors the risk

framework to determine whether all key risks are being identified, assessed, and controlled by management in a manner commensurate with the company's risk appetite and regulatory needs. The Director of RI&E acts as the Risk Owner for all ESG-related risks that are escalated to the second level.

The third line of defence, provided by Internal Audit, objectively assesses the adequacy and effectiveness of the processes within the first two lines and provides periodic assurance on the control environment across LGPSC. An internal audit plan is reviewed and approved by ARCC on an annual basis and is formally reassessed, and refreshed as necessary, at the half year.

Under the direction of ARCC, from time-to-time our RI&E activities are assessed by Internal Audit to ensure that the Framework is adequate and effective.

It is best practice principle to have internal controls and risk monitoring processes subject to periodic independent reviews by external third parties. The independent reviews, conducted by external auditors may cover RI&E activities, to the extent that which these activities fall under the latest Audit and Assurance Faculty (AAF) technical standard.

FIGURE 5: LGPS CENTRAL'S THREE LINES OF DEFENCE MANAGEMENT MODEL



Our Approach to Systemic Risks

From time to time, we will identify systemic ESG risks and/or opportunities that are the most material to the Company and our investments. If appropriate, we will develop specific approaches to identifying, assessing and managing risks and opportunities arising from these ESG factors.

The approaches supplement the Framework by detailing steps we take for the specific factors. At the time of writing, we have specific approaches to climate change; biodiversity and deforestation; and human rights.

Climate Change

The Company considers the risks and opportunities stemming from the transition to and physical shock from climate change are likely to be material to the Company's operations and investments. As such, we take a proactive approach internally and assist our Partner Funds closely on the issue.

Our net zero ambition and strategy

LGPS Central Ltd has formally committed to transitioning our investment portfolios to Net Zero greenhouse gas emissions (GHG). As part of the commitment, we have developed a strategy to achieve Net Zero emissions across our internally and externally managed portfolios by 2050 (or sooner). We will track our progress to meet this ambition and play an active role in the Industry to enhance climate integration in investments.

Climate Risk Monitoring Service ("CRMS")

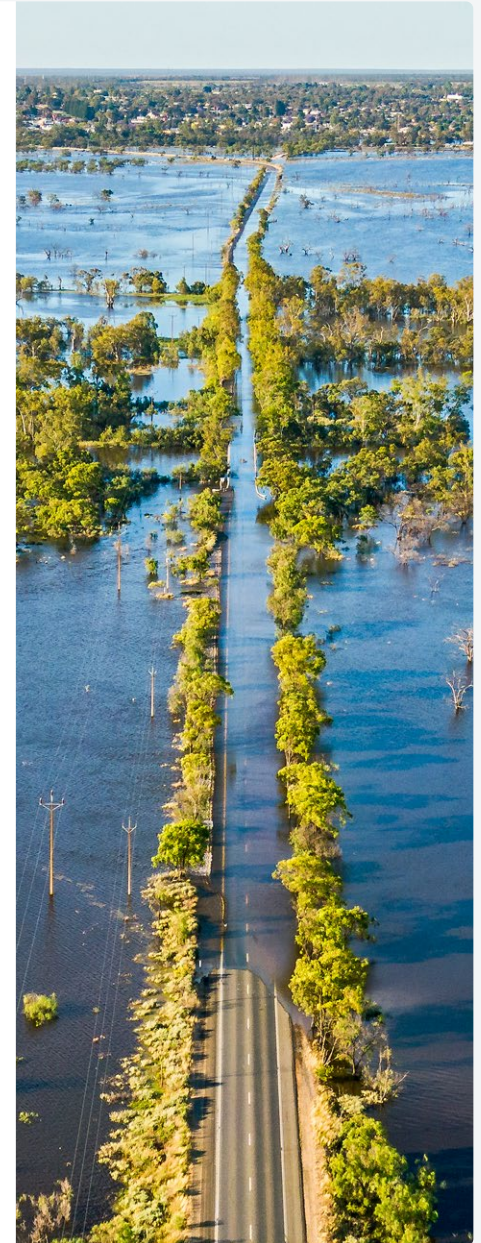
CRMS is a set of four services designed to assist our Partner Funds with their strategic responses to climate-related risks. It is based on the

recommendations of the TCFD, and the deliverables are designed to support partner fund alignment with TCFD.

Identification and assessment of risks and opportunities are carried out through bottom-up carbon risk analysis using a range of carbon metrics, and top-down climate scenario analysis. Based on our findings, we provide Partner Funds with a Climate Stewardship Plan which includes priority engagement targets. Delegated managers, with below average carbon risk metrics, and/or advocacy programs may also be included in the stewardship plan.

Climate change disclosure

The Company reports annually using the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD). This complements the Company's broader support for the TCFD and its work to encourage other participants in the corporate and investment value chains to adopt the TCFD recommendations.





Human Rights

Our approach

The long-term legitimacy of sectors and markets depends, among other things, on operations and products that are ethically acceptable. We recognise the role that we as investors can play in advancing human rights globally. Just as for all businesses, institutional investors have a responsibility to respect human rights. This is reflected in The UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD Guidelines for Multinational Enterprises.

Our investments are monitored and reviewed to detect ESG risks, including human rights risks. Concerns are managed in accordance with the Framework. In line with our RI beliefs, a strategy of engagement is preferred over exclusion. Stewardship activities on human rights risks are conducted across multiple engagement strands, including direct, collaborative and engagement with policymakers.

Modern slavery

Due to the nature of our business, we consider ourselves at low risk of being directly involved in facilitating modern human slavery. However, we recognise that we play a role in helping to eliminate modern human slavery, wherever possible through our operations and our investments.

Commercial organisations in the UK with an annual turnover of at least £36 million are required to publish a modern slavery statement as per Section 54 of the Modern Slavery Act 2015. While LGPSC is currently below this threshold, the Company has decided to voluntarily publish a [Modern Slavery Statement](#) where our approach to combatting modern slavery in our operations, investments and supply chain can be found.

We expect issuers which fall under the Act to publish a Modern Slavery Statement. As part of our ESG portfolio analyses the modern slavery processes and controls of our listed investee companies are evaluated and underperformance may result in engagement or be reflected in our voting.

Diversity, Equity and Inclusion

Equal opportunity and no discrimination are key components of the UN Universal Declaration of Human Rights. The Company is committed to promoting equal opportunities in employment and discharging our obligations under the Equality Act 2010. Our Diversity and Inclusion Policy sets out our approach to equal opportunities and the avoidance of discrimination at work.

Investee companies and asset managers with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. There is clear evidence showing that decision-making and performance are improved when company boards and investment teams are composed of cognitively diverse individuals. We integrate diversity criteria in our Selection process and are involved with diversity-related Stewardship activities (including through engagement and voting) alongside industry peers.

Biodiversity and Deforestation

Biodiversity loss could reduce nature's ability to provide goods and services, including food, clean water and a stable climate. Tropical forests play an important role in tackling climate change, protecting biodiversity and ensuring ecosystem services. Forests alone absorb one-third of the CO₂ released from burning fossil fuels every year. We are concerned about the financial impact that biodiversity loss, deforestation and the violation of the rights of indigenous peoples may have on our portfolio and investee companies, by potentially increasing reputational, operational and regulatory risks.

Identifying and managing biodiversity related risks and opportunities

The Company, through our investments, play an essential role in incentivising the protection and restoration of biodiversity, as well as mitigating and preventing the major drivers of nature loss. We encourage investee companies to develop and disclose a strategy to address biodiversity loss and commit to publish a report based on the Taskforce on Nature-Related Financial Disclosures (TNFD) recommendations as launched in 2023.

During COP26¹ many governments pledged to halt deforestation by 2030. Financial institutions, including LGPSC, have committed to engage with a view to eliminating commodity-driven deforestation by 2025 through engagement at policy and corporate levels. Through our Voting Principles we have set expectations on companies across sectors to protect nature and biodiversity as part of their ongoing climate transition efforts. This is in support of ongoing engagements with high-risk commodity sectors including palm oil, soy, beef, pulp and paper.

We view policy dialogue as an important engagement tool alongside corporate engagement. LGPS Central participates in policy engagement with the Brazilian government through the Investor Policy Dialogue on Deforestation (IPDD) initiative. The goal of IPDD is to coordinate a public policy dialogue on halting deforestation. Since 2020, the investor group has met with federal representatives, state representatives, congress members, and civil society in Brazil. IPDD also holds educational and knowledge sharing sessions, both in and outside of Brazil, and conducts outreach with investor coalitions, foreign representatives, and other relevant stakeholders.





LGPS Central Limited is authorised and regulated by the Financial Conduct Authority.
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