Pension Board

Monday, 27 February 2023 at 10.00 a.m. Committee Room - Tower Hamlets Town Hall, 160 Whitechapel Road, London E1 1BJ

Supplemental Agenda

6 .1 Risk Register Quarterly Update December 2022

6 .2 ESG, Voting, Engagement and Stewardship Update (Pages 3 - 86)

6 .3 Pension Administration and LGPS Quarterly Update (Pages 87 - 98)

6 .4 Actuarial Valuation at 31 March 2022 Initial Results and employer policies (Academies Policy, Cessation Policy and Bulk Transfer Policy) (Pages 99 - 200)

6 .5 Pension Fund Business Plan

Item withdrawn.

6 .6 Work Plan (Pages 201 - 204)

11. Asset Allocation - Affordable Housing (PAGES 205 - 224)

12. Carbon Foot Print Audit 31 March 2022 (PAGES 225 - 244)

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Non-Executive Report of the: **Pensions Committee** Monday, 13 March 2023	TOWER HAMLETS
Report of: Caroline Holland, Interim Corporate Director, Resources	**Classification:** Unrestricted
ESG, Voting, Engagement and Stewardship Update	

The report was not published five clear days in advance of the meeting. Therefore, before this item can be considered at this meeting, the Chair of the Board would need to be satisfied that it is necessary to consider ESG, Voting, Engagement and Stewardship Updates at this meeting, the Board may also take the view that it is important that there should not be an extended period without any member oversight.

Originating Officer(s)	Miriam Adams
Wards affected	(All Wards);

Executive Summary

This report provides the Committee with an overview of the stewardship activity carried out by Tower Hamlets Pension Fund's investment managers and on its behalf by Local Authority Pension Forum (LAPFF) in the quarter ending December 2022.

Recommendations:

The Pensions Committee is recommended to:

1. Note content of this report and appendices.

1. REASONS FOR THE DECISIONS

1.1 The exercise of voting rights and engagement with investee companies are a key path of the Fund's role as a long-term steward of assets. Ensuring good corporate governance and the adoption of sustainable business models at the companies in which the Fund invests should over the longer term ensure that they are able to deliver superior returns to the Fund.

2. ALTERNATIVE OPTIONS

2.1 There is no alternative approach. The Fund invests mainly in pooled structures. By nature of these structures, voting is exercised by the investment manager rather than directly by the Fund. The Fund would remain

a member of Local Authority Pension Fund Forum (LAPFF) to ensure the Fund's Responsible Investment (RI) approach is exercised via engagement.

3. DETAILS OF THE REPORT

3.1 The move to a pooled structure continues to impact this arrangement as voting rights are exercised at pool or underlying manager level rather than Fund level. The Fund works with London Collective Investment Vehicle (LCIV) to ensure its views through the exercise of voting rights through the investments it manages on its behalf.

3.2 This report includes two appendices which are set out below to ensure that the Pensions Committee and Pensions Board are aware of the engagement activity being carried out by Legal & General Investment Management (LGIM) and engagement activities of Local Authority Pension Fund Forum (LAPFF)

- LAPFF Q3 2022 report (Appendix 1)
- LGIM ESG Impact report (Appendix 2)

LAPFF Engagement Summary

3.3 LAPFF engagement takes place in the form of sending correspondences, issuing alerts, meetings, press releases, attending company, site visitations and community engagement. LAPFF engaged with various companies during the quarter on a range of topics including:

- Social Risk
- Finance and Accounting
- Employment Standards
- Audit Practices
- Governance (General)
- Environmental Risk
- Human Rights
- Climate Change

3.4 Appendix 1 to this report details the Forum's activity during the quarter, Climate Change, Human Rights, Employment Standards, Governance and Audit Practices were some of the main engagement themes during the quarter.

3.5 Reporting has been limited to companies which the Fund has investments in during the quarter. Engagement took the form of alerts, correspondences issued and received as well as meetings with Chairpersons, Specialist staffs, Executive directors, CEO's and Non-Executive Directors.

LAPFF Company Engagements relating to fund investments during the quarter

Company Engagements

3.6 Companies like BHP, Vale and Anglo-American have sent in responses on LAPFF Brazil Report. Responses are being considered by LAPFF as part of their due diligence process.

Say on Climate

LAPFF with Sarasin & Partners, CCLA and Ethos Foundation have written to the chairs of all FTSE listed companies (excluding investment trusts) requesting that boards allow for a shareholder vote on their greenhouse gas emission reduction strategy.

The initiative has gained some useful coverage about the importance of an annual vote to help enhance transparency and accountability on one of the most pressing financially material risks facing investee companies.

AIA

LAPFF was due to meet with AIA Group, one of the Forum's most widely held companies to discuss its approach to climate change and the role that insurers play. Unfortunately, AIA has had to reschedule until after its annual results. LAPFF has sent through the questions that were due to be asked and will follow up with the company for a meeting following the results. This stock is held by Baillie Gifford and RBC.

Collaborative Engagements

Mitsubishi UFJ Financial Group (MUFG) – Asia Research and Engagement (ARE)

LAPFF joined other investors on a collaborative call hosted by ARE to discuss MUFG's ongoing efforts on climate change. The call focused on the company's risk management process and how it was assisting clients with their transition to net zero.

Initiative for Responsible Mining Assurance (IRMA)

IRMA is a third-party certification system of industrial scale mining sites, covering all mined materials. Its voluntary audit certification system publishes publicly available audit reports. LAPFF has met with various auto-manufacturers to discuss responsible mineral sourcing, and IRMA has been mentioned in most of these meetings.

Follow This

Follow This is a group of self-described 'green shareholders in oil and gas companies. It seeks to encourage big oil to take leadership in the energy transition to a net-zero emissions energy system and has filed resolutions at a number of oil and gas majors. LAPFF provided voting alerts to members recommending support for these resolutions at both Shell and BP's AGMs in 2022. As part of a continued engagement with the oil and gas industry

Market Forces

Market Forces is an environmental advocacy project which primarily focuses on financial institutions. It notably coordinated a shareholder resolution at Standard Chartered's AGM last year, which received 11.7 percent support, and has continually engaged and provided commentary on the likes of HSBC and Barclay's.

Consultations

Shareholder Resolutions

Nestlé

There is an opportunity for LAPFF funds to co-file a healthy markets shareholder resolution at Nestlé's 2023 AGM. The aim of the resolution is for the company to set targets to increase sales from healthier products against government endorsed nutrient profiling models. The Nestlé engagement has formed part of LAPFF's involvement with the Healthy Markets Initiative being facilitated by ShareAction. Nearly a third of deaths worldwide are attributable to the consumption of health-harming commodities, including products high in fat, salt, and sugar. Nestlé is the largest producer of food and beverages in the world, and therefore a positive change in the company's approach to nutrition would have a significant impact on public health.

Policy Engagements

Diversity on the LAPFF Executive

3.15 Over the next couple of months LAPFF will be inviting member representatives to apply for election to the LAPFF executive committee. A wide range of Members are expected to put themselves forward for election to the executive.

Voting Activities

3.16 Voting takes place during company meetings such as Annual General (AGM), Special General meeting or Extra Ordinary General Meeting. Meetings are initiated by either management or shareholders as the case may be.

3.17 London CIV (BG) Global Alpha Growth Paris Aligned fund– Voting activity and company engagement over the quarter. A total of 68 resolutions across 5 countries and 8 companies was cast. The manager cast 55 votes FOR, 12 votes cast Against and 1 Withheld vote. The withheld vote on director election was due to concerns about overall board structure.

3.18 LCIV (Ruffer) Absolute Return fund – Votes were cast in 5 companies in 4 Countries. The manager cast votes in 43 resolutions all of which were FOR.

3.19 LCIV (RBC) Sustainable Equity Fund – Votes were cast in 3 companies all in the US. 33 votes FOR, 6 votes Against and 1 withheld vote. Withheld vote was same company as LCIV(BG)(DGF).

3.20 LCIV (BG) Diversified Growth fund – Stewardship voting activities during the quarter involved 9 companies across 4 countries. A total of 55 resolutions were voted on. 52 were voted For and 3 votes Abstained. Meeting types included AGM and Ordinary GM meetings. Abstained votes were in respect of 3 companies. The Manager's reason was due to absence of information and the

manager does not believe that the resolution is in the best interests of clients who vote by proxy.

Engagement
The investment manager met with Nexans and Iberdrola. The engagement with Iberdrola was identified as a top five contributor to portfolio carbon emissions, a number of environmental controversies having been identified and historical concerns remaining regarding relations with indigenous communities related to a Brazilian dam project. This meeting also covered various governance, social and environmental topics.

3.21 LGIM Low Carbon funds – Stewardship voting activities during the quarter
Involved 111 companies across 19 countries. A total of 1,041 resolutions were voted on across a combination of annual, annual/special, extraordinary, court, proxy contest, ordinary shareholders, special, and other meetings.

Resolutions covered a very wide range of categories including antitakeover related matters, compensation, capitalisation, climate change Human rights, reorganisations and mergers, climate emissions, tax transparency, emission reduction targets aligned with Paris Agreement goals, director elections and other director related matters, corporate governance, preferential bond holders and social proposals. The manager cast 218 votes Against the resolution, 772 For, 1 Votes allowing only one year for the resolution, 32 Withheld resolutions, 4 Abstain, 3 non-voting items and 11 blanks in respect of non-voting resolutions.

LGIM BHP voting reasons

Significant votes

Company name	BHP Group Limited*
ISIN	AU000000BHP4
Market cap	£128 billion (source: Salesforce, as at 23 December 2022)
Sector	Metals and mining
Issue identified	Climate-policy advocacy and climate disclosure, both of which LGIM considers to be material to the net zero transition. LGIM considers shareholder proposals on an individual basis.
Summary of the resolution	Resolution 14: Approve Policy Advocacy Resolution 15: Approve Climate Accounting and Audit AGM date: 10 November 2022
How LGIM voted	These were both shareholder-proposed resolutions and LGIM voted in favour of both (i.e. against management).
Rationale for the vote decision	Resolution 14 was a request that the company proactively advocate for Australian policy settings that are consistent with the Paris Agreement's objective of limiting global warming to 1.5°C. A vote in favour of this proposal was applied as LGIM believes positive climate-related advocacy is in the best interest of the company and its shareholders. We also note that nothing in this resolution was designed to limit the board's discretion to take decisions in the best interest of the company. Resolution 15 requested that, from 2023, the notes to the company's audited financial statements include a climate sensitivity analysis which includes a scenario aligned with limiting global warming to 1.5°C, presents the quantitative estimates and judgements for all scenarios used, and covers all commodities. While we consider the company to be a leader with respect to its climate-related disclosure, a vote for this proposal was applied as LGIM believes that further quantitative disclosure in the company's financial statements around the impact of climate change scenarios on BHP's material commodity portfolio is important.
Outcome	These resolutions received 12.7% and 18.7% support, respectively, from shareholders. We continue to engage with BHP and, more broadly, to support proposals that are aligned with LGIM's net zero aims and beliefs.
Why is this vote 'significant'?	These votes were significant because of their importance within our climate change engagement.

3.22 LCIV MAC fund (fixed income fund)

CQS engagement – during the quarter, the investment manager continued its on-going engagement with EG Group. EG group published its ESG report in October 2022. The manager also engaged with SFR Group. Following contact from SFR Group, the manager was able to assist the company to take steps on how to incorporate ESG factors into the investment process.

PIMCO engagement - the investment manager held a call with the investor relations team at HSBC focusing on climate change and human rights.

Voting Alert Variances

3.22 Table below shows voting alert variances during the quarter.

LAPFF issued 2 voting alerts during the quarter ending December 22.

Company/Resolutions/LAPFF RECOMMENDATION	LCIV DGF	LCIV Ruffer	LCIV Paris	LCIV RBC	LGIM
KLA Corporation AGM 2ND November 22	n/a	n/a	n/a	n/a	For

4. Stockholder proposal for a report on net zero targets and climate transition planning **FOR**					
BHP Group Ltd AGM of 10 November 2022 1. Approve the financial statements and reports **ABSTAIN** 8. Re-elect Ken MacKenzie **OPPOSE** 12. Approval of equity grants to the CEO **OPPOSE** 13. Amendment to the Constitution **FOR** 14. Policy advocacy **FOR** 15. Climate accounting and audit **FOR**	n/a	n/a	n/a	n/a	n/a

Voting Alerts

3.24 During the quarter, LAPFF issued two voting alerts. These alerts were for:

- BHP PLC (AGM on 10 November 2022) with LAPFF recommending voting in favour of resolution 6 resolutions:

- Abstain on resolution one which asks shareholders to approve the financial statement and reports.
- Oppose resolution eight which asks shareholders to re-elect Mr. ken MacKenzie, chair of the Board.
- Appose resolution 12 which asks shareholders to approve the provision of equity grants to the CEO.
- Approve shareholder resolution 13 which calls for a constitutional amendment.
- Approve shareholder resolution which calls for climate policy advocacy, and
- Approve shareholder resolution 15 which calls for improved climate audit and accounting.

3.25 LAPFF issued a voting alert in respect of KLA Corporation climate change.

- Vote for Stockholder proposal for a report on net zero targets and climate transition planning

  The resolution requests ‘the Board issue a report, at reasonable expense and excluding confidential information, disclosing how the Company intends to reduce its GHG emissions in alignment with the Paris Agreement’s 1.5-degree goal requiring net zero emissions by 2050.’

4. EQUALITIES IMPLICATIONS

4.1 There are no direct equalities implications from this report.

5. OTHER STATUTORY IMPLICATIONS

5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

5.2 Risk Management Implications
The rigorous robust management of London Borough of Tower Hamlets Pension Fund results in better quicker and more effective decision making which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund.

Ensuring good governance and the adoption of sustainable business models at the companies in which the Fund invests should over the longer term ensure that they are able to deliver superior returns to the Fund.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 This is a noting report and there are no direct financial implications as a result of the contents of this report.

6.2 The exercise of voting rights and engagement with investee companies are a key part of the Fund's role as a long-term steward of assets. Ensuring good corporate governance and the adoption of sustainable business models at the companies in which the Fund invests should over the longer term ensure that they are able to deliver superior returns to the Fund.

6.3 Poor corporate governance and unsustainable business practices can impact on share prices and increases in the risk that the Fund experience a loss of value in its investments in the future.

7. COMMENTS OF LEGAL SERVICES

7.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016 Regulation 7 requires Administering Authorities to publish and maintain an Investment Strategy Statement which includes, amongst other items, details of:

- The authority's policy on how social, environmental, and corporate governance considerations are considered in the selection, non-selection, retention and realisation of investments.
- The authority's policy on the exercise of the rights (including voting rights) attaching to investments.

7.2 This report provides information demonstrating that investment activity is occurring in line with the Investment Strategy

7.3 In addition, Government guidance on the preparation and maintenance of the Investment Strategy Statement states that Administering Authorities should explain their policy on stewardship with reference to the Stewardship Code, the seven principles of which apply on a 'comply or explain' basis.

7.4 When carrying out its functions, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

Linked Reports, Appendices and Background Documents

Linked Report

- List any linked reports
  None

Appendices

- LAPFF Q1 2022 report (Appendix 1)
- LAPFF Workplan 2023/24 (Appendix 2)
- LGIM ESG Impact report June 22 (Appendix 3)

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report

- NONE.

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Quarterly Engagement Report

October-December 2022

Human Rights, Mining, Drax, Renault, Mercedes, Chipotle

Local Authority Pension Fund Forum

LAPFF CONFERENCE







LAPFF Conference 2022

LAPFF held its annual conference in Bournemouth this quarter with a heavy focus on human rights and climate. On the first afternoon, delegates heard from a Total representative about the company's decision to withdraw from Myanmar and from the Vale Chair about his company's efforts to move on from the 2015 and 2019 tailings dam disasters in Brazil. The LAPFF Chair also thanked a Brazilian communities' representative for hosting LAPFF's visit in August and September, and spoke with José Pugas of JGP Asset Management about his organisation's work with Vale, as well as on deforestation.

On the second day, the conference delegates heard from a range of asset managers about their experiences of working to implement sustainability in their operations. Moving onto climate specifically, engaging non-executive directors on the topic, and a panel on electric vehicles followed, along with a session on executive remuneration. There was a fascinating, if disturbing, session on the fall of FTX and a panel discussing the growing importance of the 'S' in ESG. An LGPS panel on 'levelling up' was followed by two sessions on the need for sustainable water use. The day ended with an update on shareholder resolutions requesting racial equity audits.

The final day of the conference opened with a recount of the Covid pandemic from Devi Sridhar, a University of Edinburgh professor who has been vocal about government and societal responses to the pandemic. She was followed by Nell McShane, who has written a book about sex discrimination and harassment against female flight stewardesses and their path to unionising. Brendan Curran from the Grantham Institute at the London School of Economics then spoke about the just transition to a zero-carbon economy. The day ended with a synopsis of the state of affairs globally by political editor and broadcaster, Robert Peston.

COMPANY ENGAGEMENTS

UN Forum on Business and Human Rights

In light of LAPFF's summer visit to Brazil, the LAPFF Chair, Cllr Doug McMurdo, was invited to speak on an investor panel at the 2022 UN Forum on Business and Human Rights in Geneva. He was joined by colleagues from Principles for Responsible Investment, Domini Impact Investments, and Business for Social Responsibility. Cllr McMurdo spoke about the need to engage with affected stakeholders, including communities affected by company operations, in order for investors to understand better the true value of their investments. He implored investors to do more on human rights as a matter of financial materiality.

BHP

Objective: LAPFF attended a BHP webinar on the company's sustainability activities and met with CEO, Mike Henry, informing a position for a voting alert ahead of BHP's November AGM. The LAPFF Chair, Cllr Doug McMurdo, also met with the Australasian Centre for Corporate Responsibility (ACCR) to find out more about why the organisation filed three shareholder resolutions ahead of BHP's AGM.

Achieved: LAPFF issued a voting alert in favour of the ACCR resolutions, recommending that its members oppose the BHP Chair, Ken MacKenzie, and vote in favour of three shareholder resolutions aimed at improving the company's climate practices.

In Progress: While LAPFF was grateful to the CEO for meeting to discuss the shareholder resolutions put to the AGM, there is still concern that the company has denied a meeting on the Samarco tailings dam collapse that occurred in 2015. LAPFF is continuing to engage BHP on both human rights and climate, but the views of both parties diverge significantly at the moment.

Vale Chair, José Penido, speaking at the LAPFF conference

Vale

Objective: One of LAPFF's main objectives with Vale is to have the company engage effectively with stakeholders affected by its operations. While Vale, and particularly the Chair, has remained open to engagement with LAPFF and other investors, LAPFF would still like to see the company engage more effectively with workers and communities affected by its operations.

Achieved: Vale Chair, José Penido, travelled to the LAPFF conference to speak in person to investors about Vale's work to provide adequate reparations and recover reputationally from the Mariana and Brumadinho tailings dam collapses from 2015 and 2019, respectively. LAPFF is therefore encouraged that the company is taking investor action seriously in respect of these disasters.

In Progress: It remains the case that the vast majority of houses in the various resettlements need to be rebuilt for affected community members. These houses are among many other reparations that still need to be carried out to an acceptable standard. LAPFF also has continued to express concerns that the company is not yet engaging in a meaningful way with affected community members. Fulfilment of Vale's reparations obligations and establishing a process for effective engagement with all stakeholders therefore remain high priorities for LAPFF.

Anglo American

Objective: Cllr McMurdo wrote to Anglo American Chair, Stuart Chambers, and offered to report back on his findings from speaking to communities in Brazil impacted by Anglo American operations.

Achieved: Mr Chambers appeared to be receptive to LAPFF's findings and requested more detailed information from LAPFF.

COMPANY ENGAGEMENT

In Progress: LAPFF is in the process of compiling the detailed findings from the Brazil visit to share with Mr Chambers and his colleagues. After this process has been completed, LAPFF is planning to meet with Anglo American's technical staff to talk them through the findings.

Glencore

Objective: Although LAPFF was keen to meet Anglo American, BHP, and Vale in relation to its Brazil visit, it wanted to share its findings and observations with other mining companies covered in LAPFF's mining and human rights report issued earlier this year. Therefore, Cllr McMurdo met with Glencore Chair, Kalidas Madhavpeddi, to talk about LAPFF's work in Brazil, to discuss concerns community members in Peru have raised about Glencore's activities in that country, and to discuss various bribery and corruption allegations against the company. Glencore's approach to climate was also discussed.

Achieved: For a number of years, LAPFF had requested that Glencore undertake an independent assessment of the company's internal controls. This request stemmed from an investor collaboration spearheaded by Sarasin when details of Glencore's business relationships in the Democratic Republic of Congo raised concerns of bribery and corruption. Although Glencore does not appear to have heeded this request, the company has now entered settlements in numerous countries in relation to various bribery and corruption allegations. It is hoped that these settlements will place internal control requirements on Glencore to prevent the occurrence of future problems in this area.

In Progress: LAPFF is hearing concerns from community members affected by Glencore's operations in Peru that are eerily similar to those LAPFF encountered in Brazil, Colombia, Mexico, Papua New Guinea, and elsewhere. Namely, communities allege that mining companies have polluted, and are continuing to pollute, their water. The companies respond by stating that the water is naturally polluted. LAPFF needs to investigate to understand what is happening in these situations.

Rio Tinto

Objective: LAPFF has been pleased to see some progress made by Rio Tinto after the company's destruction of a 46,000-year-old cultural heritage site at Juukan Gorge, Australia. Rio Tinto has been particularly transparent about its challenges on both community relations and workplace culture. During the year, the company issued both a community engagement update and a workplace culture report by a reputed independent consultant that highlighted a range of practices that need to be improved at the company. LAPFF is keen to ensure that Rio Tinto is undertaking effective social and environmental impact assessments and that the company does not face the same problems in relation to reparations at Juukan Gorge that BHP and Vale are facing in relation to reparations for the Mariana tailings dam collapse in Brazil.

Achieved: LAPFF attended an ESG briefing for investors to discuss the company's new 'Communities and Social Performance (CSP) Commitments Disclosure Final Report'. Given Rio Tinto's description of increased cultural heritage assessments, LAPFF asked if the company has also committed to independent environmental and social impact assessments (ESIAs) as part of its CSP approach.

In Progress: Although it seems that there is a fair amount of external input into various assessments, LAPFF is concerned that the company does not have a consistent or coherent approach to ESIAs. The independent assessment at Panguna in response to the OECD National Contact Point complaint on this issue is apparently underway and is to be commended, but it is reportedly a one off. Acknowledging the expense and resources involved in this type of assessment, LAPFF would like to work with a range of mining companies to determine how it could be feasibly done much more widely.

Drax

Objective: LAPFF has been increasingly concerned about the business model of Drax Group plc, which runs the UK's largest power plant at Drax in Yorkshire. Instead of coal, the plant burns imported wood pellets, mainly from North America. The concerns about sustainability flow from the burning of wood on such a scale, as well as the harvesting of wood, removing a near-term living carbon sink (trees) that can only be replaced over a long period.

Achieved: LAPFF requested a meeting with the chair of Drax Group. A meeting was held, and a comprehensive follow-up letter has been sent to the chair as a result.

In Progress: Because discussions are ongoing, further reporting and updates will occur in due course.

Drax Power Station

COMPANY ENGAGEMENT

Chipotle

Objective: LAPFF has been engaging with Chipotle on the company's approach to water stewardship for three years. The focus of the engagement has been to encourage the company to undertake a full value chain water risk assessment. After a period of heightened engagement with the company, LAPFF member Greater Manchester Pension Fund filed a resolution on this issue ahead of Chipotle's 2022 AGM. Following discussions between LAPFF and the company, an agreement was reached that would see the resolution withdrawn from the ballot. The withdrawal was conditional upon formal commitments being made relating to the company's water stewardship programme.

Achieved: LAPFF held a follow-up call with Chipotle to measure progress made against LAPFF's initial asks. In response to the resolution, the company has completed a materiality assessment covering ingredients, its supply chain and restaurants.

In Progress: Given the company now has a better understanding of the water-related risks facing the business, the next phase of the stewardship plan is to develop context-based targets that relate specifically to areas of the operations under high water stress. LAPFF will continue to work with the company to develop these goals.

KLA

Objective: Given the investment risks associated with global warming LAPFF has been issuing climate change voting alerts focused on shareholder resolutions, including those seeking to ensure companies have 1.5°C aligned targets and transition plans.

Achieved: LAPFF issued a voting alert at US company, KLA, regarding a proposal for a report on net zero targets and climate transition planning. LAPFF recognised the work being undertaken by the company. However, given the risks posed by climate change and the need to disclose a strategy for addressing climate risk and carbon emissions (covering Scopes 1, 2 and 3 and targets aligned to a 1.5°C trajectory) LAPFF recommended a vote in favour of the resolution. In the end, the resolution secured the backing of a quarter of the votes, sending a strong message to the board about what action a significant minority of shareholders want to see.

In Progress: LAPFF expects companies to reflect and respond to such results given the level of support from shareholders. LAPFF will continue to issue climate-related voting alerts in 2023.

Rolls Royce production site

Rolls Royce

Objective: A meeting with Rolls Royce Chair, Anita Frew, was held to follow up on LAPFF's collaborative correspondence to FTSE All Share chairs requesting they set out the company's carbon transition strategy to investors and put an appropriate resolution to shareholders at the AGM.

Achieved: A meeting with the head of sustainability and others covered various aspects of business strategy, targets, governance and disclosure. LAPFF asked

COMPANY/COLLABORATIVE ENGAGEMENT

if a timeline to commercialisation could be given for the company's development of electric prototypes for commuter aircraft and regional flights, noting that Norwegian airline Widerøe, that Rolls Royce has partnered with, has targeted 2025 for its first commercial launch. A separate meeting of the LAPFF Chair with Anita Frew, provided insight into the workings and chairing of the 13-strong board. Discussions on the company's carbon impact and transition plan made evident the emphasis placed on the development of new businesses and products.

In Progress: The LAPFF Chair again pressed for the board to put the transition plan to the AGM for shareholder approval. This may be considered too soon for the 2023 AGM but has not been ruled out for future AGMs.

Responsible Mineral Sourcing

Objective: LAPFF has continued its engagement with electric vehicle manufacturers to gain a better understanding of how they are addressing the risks associated with sourcing the minerals they need to produce the batteries for their vehicles. LAPFF met with Renault and General Motors on this issue for the first time this quarter and with Mercedes for the second time.

Achieved: An overview of Renault's work on risk assessments for the minerals it sources and contingent reporting was discussed. LAPFF also raised the potential benefits of membership of the Initiative for Responsible Mining Assurance (IRMA).

The discussion with Mercedes provided an in-depth view of the work the company was doing with regards to risk assessment of minerals and some of the work the company was doing in the Democratic Republic of the Congo.

General Motors laid out new additions to its board and the skills they would bring in the transition to electric vehicles. The company also spoke about the aspirations it had with its risk assessment process, audit programme and its dialogue with suppliers on the IRMA.

In Progress: LAPFF is continuing to seek engagements with electric vehicle manufacturers, impressing upon them the benefits of transparent reporting and enhanced due diligence, whilst seeking to better understand what work companies are doing and how they are managing a just transition.

Tesco

Objective: Following the military coup in Myanmar in February 2021, it has been widely reported that there has been a drop in human rights and labour standards throughout the country, with union leaders targeted, internet connections cut, wages withheld, and a lack of freedom of assembly for workers. Tesco announced a responsible exit from the country, concluding in May 2022. LAPFF sought a meeting with the company to discuss this responsible exit and gain insight into the company's global supply chain due diligence.

Achieved: When LAPFF met with Tesco, a range of factors for the company's withdrawal from Myanmar were discussed. The Ethical Trade Initiative's recommendations for responsible business in the garment sector arose as a point of reference. There was also a useful discussion about whether companies are able to maintain leverage over factories and the human rights situation on the ground with the Junta in power.

In Progress: LAPFF is continuing to monitor a number of companies that have supply chain links to Myanmar and will likely seek meetings with those that are seeking to exit the country or have already done so to gain a broader picture of how companies are approaching a 'responsible exit'.

COLLABORATIVE ENGAGEMENTS

Asia Transition Platform (MUFG, SMBC, Kasikornbank, J Power)

Objective: Meetings were held with Asian financial institutions and coal-exposed power companies in collaboration with investors in the Asia Transition Platform. Meetings with banks focused on strategies to anticipate regulatory developments, mitigate risks to capital and capitalise on investment opportunities. Engagement with J-Power followed up on LAPFF's voting recommendation for the 2022 AGM, advising support for a resolution requesting carbon emission reduction targets aligned with the goals of the Paris Agreement.

Achieved: Engagement with MUFG sought to elicit further details on the company's proposed transition plan. LAPFF executive member, Cllr Wilf Flyn, pressed particularly on ostensible support for ammonia co-firing in the power industry, given that it delays transition

Workers ride a ferry truck as they go to a factory in the morning in Yangon, Myanmar

COLLABORATIVE ENGAGEMENT

Metal manufacturing and recycling

to renewables and may not provide much benefit due to marginal emission reductions and high costs relative to renewables.

At SMBC, progress was recognised since the last meeting, with the bank setting absolute reduction targets for the oil, gas and coal sectors. It appeared that targets for investment and underwriting were still under development.

A discussion with the President of Kasikornbank, Khun Krit Jitjang, focused on how to work with client companies and bring industry along, noting work undertaken with members of the Thai bankers' association. It appears that there is now no financing for new coal plants or expansion of existing ones.

A meeting with J-Power's Executive Vice President and Director, Hitoshi Canno, covered the company's target to achieve net zero for all operations. Critical points of discussion included a stable supply of electricity for the Japanese domestic market, and a roadmap on these issues.

In Progress: LAPFF intends to continue challenging J-Power's strategy to invest in carbon capture and co-firing, with the associated risk of being 'locked-in' to coal fired plants. Regular meetings continue with Asia Research and Engagement to determine company-specific coverage for 2023, including Chinese-listed companies.

CA100+ ENGAGEMENTS

Lyondell Bassell

Objective: LAPFF sought an update on the multinational chemical company's decarbonisation strategy, subsequent to Peter Vanacker having taken over as CEO in May.

Achieved: With the arrival of the new CEO, it appears that much work has been put into an overall review of company strategy, with low-carbon initiatives poised to be a major part of company growth going forward. The meeting provided initial feedback on progress against the CA100+ benchmark results, set out investor expectations on lobbying and explored policy challenges facing the company and where there might be areas for collaboration. Company representatives noted that engagement with the investor group has helped to promote this low-carbon focus.

In Progress: On Lyondell Bassell's lobbying activities, the company discloses the trade associations it is part of but little else. It is hoped that more company policies will be disclosed by next March when the full revised company business strategy is due to be announced.

ArcelorMittal

Objectives: LAPFF has undertaken a number of engagements with ArcelorMittal and wished to determine progress in implementing zero-carbon technologies, as well as press for shareholders to be able to endorse company initiatives through a 'Say on Climate' resolution at the AGM.

Achieved: ArcelorMittal has joined the Energy Transition Commission (a LAPFF request from 2019) and referred to the

COLLABORATIVE ENGAGEMENT

Mission Possible Partnership's 'net zero steel' report which shows two thirds of the US$5 trillion required to decarbonise the global steel industry is in enabling infrastructure for green hydrogen and renewable electricity. There was a discussion about the Science-Based Targets initiative to develop appropriate methodology for the steel sector. This approach differentiates between primary and secondary steelmaking. The latter is based on recycling scrap steel and accounts for about one-third of production. It is hoped that ArcelorMittal will issue its next climate report after the AGM so it appears there is no plan for a 'transition plan' resolution for the 2023 AGM.

In Progress: The company appears to have made progress in decarbonising primary steelmaking. The Inflation Reduction Act is spurring similar initiatives in the US. In Europe however, the pace of change appears to be slower.

National Grid

Objective: A meeting with National Grid representatives sought to ascertain why the company is not aiming to align with proposed ambitious US state policy for the decarbonisation of heat, and to follow-up on requests around policy disclosure.

Achieved: In the meeting, as ever, the divergence between the US and UK businesses was apparent. The north eastern US states where National Grid operates have set policies for 100% electrification of households in the decarbonisation of heat by 2050. It appears that the company wishes to keep the benefit of existing gas infrastructure. Cllr Chapman attended the meeting and highlighted comments made by the company, which LAPFF shares, that there is no long-term future in gas and that the future is in electrification.

In Progress: Engagement continues to identify and unlock potential policy barriers for National Grid's decarbonisation strategy. LAPFF and other CA100+ investors are interested in partnering with the company in calling for the necessary policies that can unlock the barriers to fast and decisive climate action.

Sarasin – Paris-aligned accounts

Objective: In conjunction with Sarasin, LAPFF co-signed correspondence to the audit committee chairs of Equinor, CRH, Air Liquide and Rio Tinto setting out investor expectations on 1.5°C aligned accounting and audit disclosures.

Achieved: This was a follow up to previous correspondence with the committee chairs, who were also provided with Carbon Tracker's assessment of the company's 2021 audited accounts. In all four cases, there has been evidence of progress. The most substantive was Equinor's accounts where there were additional notes to the accounts and a 1.5°C sensitivity analysis for Property, Plants and Equipment. This led to the identification of a potential impairment of $11.4 billion, equivalent to just under 30% of reported 2021 equity.

In Progress: Correspondence with all four companies recognised inherent uncertainties in the transition to net zero, and responses were welcomed with a meeting offered to discuss the requests made.

Investor Alliance for Human Rights (IAHR) – The Home Depot

Objective: LAPFF joined the Investor Alliance for Human Rights (IAHR) Uyghur Working Group earlier in 2022 as part of a collaborative effort in engaging companies with alleged Uyghur forced labour in their supply chains. Through this group,

LAPFF has taken the lead on The Home Depot, a company with alleged links to forced labour in its polyvinyl chloride (PVC) supply chain noted in the 'Built on Repression' report produced by Sheffield Hallam University.

Achieved: LAPFF met with The Home Depot in December after an initial letter was sent with multiple expectations. These expectations included asking the company to complete a mapping of its value chain both inside and outside of China. The objective of this mapping is to identify both direct and indirect business relationships that are connected to the East Turkestan/Xinjiang region. Other questions were raised around the company's audit programme, including issues with undertaking thorough audits in Xinjiang.

In Progress: LAPFF is continuing to participate in the IAHR's Uyghur working group and will look to follow up with The Home Depot in 2023 to ask further questions about the company's audit programme and mapping process.

Principles for Responsible Investment (PRI) – Advance Human Rights Initiative

Over the course of the year, the PRI has been developing its Advance initiative for investors to promote corporate respect for human rights. The programme was launched at the annual PRI in Person conference this quarter. LAPFF has been assigned to investor groups engaging with Anglo American and Vale. Planning for these group engagements is already under way and will complement LAPFF's own work on human rights, as well as its collaborations through IAHR.

Investor Alliance for Human Rights (IAHR) – Investor Statement on the Corporate Sustainability Due Diligence Directive

The PRI, Eurosif, and IAHR drafted an investor statement in relation to proposed changes to the EU's Corporate Sustainability Due Diligence Directive (CSDDD). The statement proposed five improvements, all of which align with LAPFF positions on human rights, corporate governance, supply chain, and climate. These proposed improvements

COLLABORATIVE/POLICY ENGAGEMENT

are aimed at greater inclusion of financial companies and value chains, strengthening board responsibility for human rights and environmental due diligence (including through executive remuneration), and ensuring alignment with other corporate sustainability legislation within the EU. LAPFF signed onto this statement along with other investors.

SHARE – Amazon Sign-On Letter
Canadian investor body, SHARE, circulated a sign-on letter to Amazon for investors to support. The letter followed a shareholder proposal at the company's AGM asking the Board of Directors to produce a report analysing how Amazon's current human rights policies and practices protect the rightful application of the fundamental rights of freedom of association and collective bargaining. The letter requested that the Board conduct an independent third-party assessment of Amazon's commitment, policies, practices on freedom of association to identify, address and prevent any misalignments with the ILO Declaration on Fundamental Principles and Rights at Work and the UN Guiding Principles on Business and Human Rights. LAPFF joined other investors in signing onto this letter.

POLICY ENGAGEMENT

All-Party Parliamentary Group for Local Authority Pension Funds

Objective: LAPFF supports the All-Party Parliamentary Group (APPG) for Local Authority Pension Funds, established to discuss the issues and concerns of local authority pension funds. The APPG hosted a meeting in October to discuss the issue of levelling up. Part of the government's levelling up agenda has been to encourage and support private investment into local areas. The levelling up white paper also highlighted the role that local authority pension funds could play and called for LGPS funds to invest 5% locally. Through this white paper, the UK Infrastructure Bank has been tasked with engaging LGPS funds on supporting local growth. The meeting provided an opportunity to discuss barriers facing funds to reaching a local investment target as well as the potential opportunities.

Achieved: At the meeting chaired by Clive Betts MP, Lord Jim O'Neill, Vice-Chair of the Northern Powerhouse Partnership, set out the role investment could play in supporting local growth and how some LGPS funds had backed Northern Gritstone, which is financing companies being spun out of northern universities. Kate McGavin, Policy and Strategy Director at the UK Infrastructure Bank, focused on risk appetite, green infrastructure opportunities and investment some local authority pension funds had already made. The meeting provided an opportunity to hear about what funds were doing and their focus on their fiduciary duties and securing returns.

In Progress: The APPG for Local Authority Pension Funds will continue to discuss relevant policy issues facing the LGPS.

Party Political Conferences

Objective: LAPFF supports fringe events at political party conferences; they are an effective way to raise issues that LAPFF has been involved in with national politicians and among stakeholders. This year the focus of the meetings was on investing in a just transition, following the launch of the report into the issue by the LAPFF-supported APPG on Local Authority Pension Funds. The meetings provided the opportunity for LAPFF to highlight the work of the Forum on the just transition and take part in a discussion about the respective roles of government and investors.

Achieved: LAPFF held meetings at Labour, Conservative and SNP conferences, with the Liberal Democrat conference being cancelled due to the Queen's funeral. At the meetings, LAPFF highlighted why ensuring a just transition was important for investors, including reducing the risks of political resistance to climate action. LAPFF set out how it seeks to reduce risks for members by engaging companies on ESG issues and showcased the engagement work that it has undertaken on a just transition. LAPFF Executive representatives were able to discuss the issues with politicians from the respective parties and answer questions from the audience about the work of LAPFF.

In Progress: LAPFF will continue to be involved in discussions with national politicians given the importance legislation and regulation plays in shaping the environment in which LAPFF members operate.

Government Taskforce on Social Factors

Objective: Since it was founded over 30 years ago, LAPFF has been engaging on social issues and highlighting the importance of social factors to investment value. Despite the importance of social risks to responsible investors, it has often not had as much attention as governance and environmental risks. LAPFF has sought to change this situation, including among policymakers by engaging them through events and responding to consultations. In June last year LAPFF responded to the Department for Work and Pensions' call for evidence on consideration of social risks and opportunities by occupational pension schemes. As part of the Government's response, it decided to establish a Taskforce on Social Factors and LAPFF was invited to be a member.

Achieved: The establishment of the taskforce is to be welcomed and hopefully marks greater emphasis on the social risks that LAPFF engages on, including around human rights and employment standards. It is testament to the work of LAPFF and its members on social issues that it has been invited to take part in the taskforce and shows the importance of engagement with policymakers.

In Progress: The taskforce is running for a year with the expectation that it will culminate in a final report with recommendations.

ENGAGEMENT

CONSULTATION RESPONSES

LGPS Climate Governance and Reporting

In September, the Department for Levelling Up, Housing and Communities issued a consultation on governance and reporting of climate change risks for LGPS funds. The proposals within the consultation would broadly align LGPS funds with the Task Force on Climate-Related Financial Disclosures (TCFD) requirements introduced for DWP regulated funds. LAPFF responded to the consultation welcoming the move and noting LAPFF's long support for TCFD reporting. The response, based on LAPFF's policies and its Climate Change Investment Policy Framework, set out the Forum's positions on alignment with a 1.5°C scenario, the importance of a just transition, and called for further consultation on any guidance to funds that might be issued.

CA100+ Benchmark

LAPFF's response to proposed amendments for the CA100+ benchmark provided input to several proposed amendments. For example, LAPFF supported a new indicator on climate solutions where the proposed definition was for technologies, infrastructure or other activities "which help displace fossil fuels". Areas of concern included a new indicator citing 2050, which current indicators do not. LAPFF considers a 2050 focus to be unhelpful, as recent IPCC reports show the global carbon budget for remaining within 1.5°C is very likely to be used up well before then.

WEBINARS

IndustriALL Social Protection Webinar

IndustriALL and LAPFF joined forces to co-host a second webinar on the need for universal social protection. This webinar focused specifically on an ILO employee injury protection pilot project in Bangladesh. Representatives from brands H&M and Associated British Foods spoke about the reason that their companies see the need for this type of social protection. The Rana Plaza factory collapse in Bangladesh was cited as a catalyst for understanding why social protection is so important, but more brand support is needed (although there are fears of freeriding). It is hoped the pilot leads to long-term, permanent, systemic solutions. You can find a film with worker testimonials here and a brief from IndustriALL here.

MEDIA COVERAGE

Environment

ESG Investor: Firms Looking for the Right Lever to Lead on Net Zero

Mining and Human Rights:

ESG Investor: "Work Still to Do" on Brazilian Tailings Dams
Sydney Morning Herald: BHP investors dial up scrutiny of fatal dam disaster remediation and in the Age
Instit Invest: Un fonds de pension britannique mène son engagement actionnarial sur le terrain
Responsible Investor: Investor pressure builds over human rights in mining
Conectas: Tragedy in Mariana: With no agreement with affected people, companies are under pressure from international investors [in Portuguese]
BN Americas: Horizonte Minerals awards feasibility study contract for Brazil nickel-cobalt project

Health

City Wire: Firms with €5.7tn in total assets join new health coalition
ESG Investor: Investors Unite on Public Health
The Actuary: Investor alliance launched to support "healthier and fairer" societies
Ethical Marketing News: Global investor alliance managing $5.7 trillion unites to improve population health
IPE: Group of investors form health alliance

Due Diligence

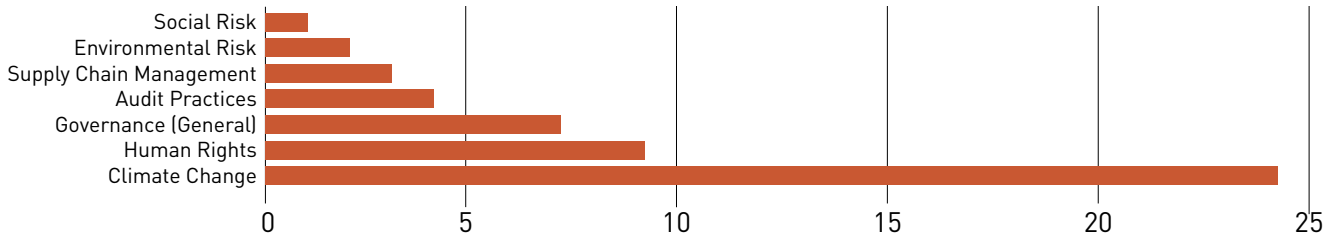
Responsible Investor: Alarm sounded over push for exclusion of FIs from EU due diligence directive

CHAIR'S QUOTE

"The LAPFF Conference this year showcased the breadth of LAPFF's work and the range of its network and partnerships. All of these endeavours and partnerships are aimed at informing our members in the best possible way so that they can make good, responsible investment decisions."

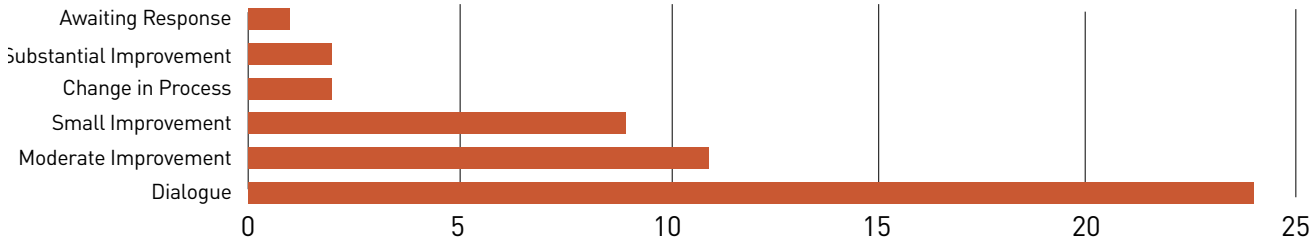
ENGAGEMENT DATA

ENGAGEMENT TOPICS

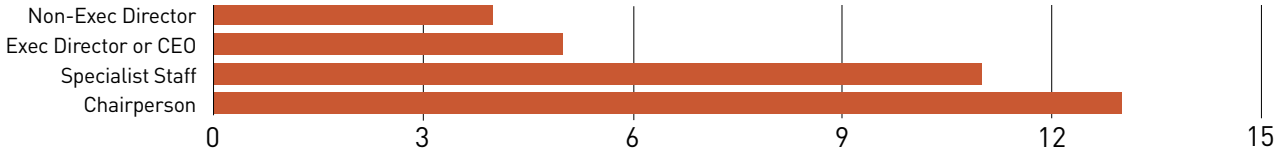


ACTIVITY

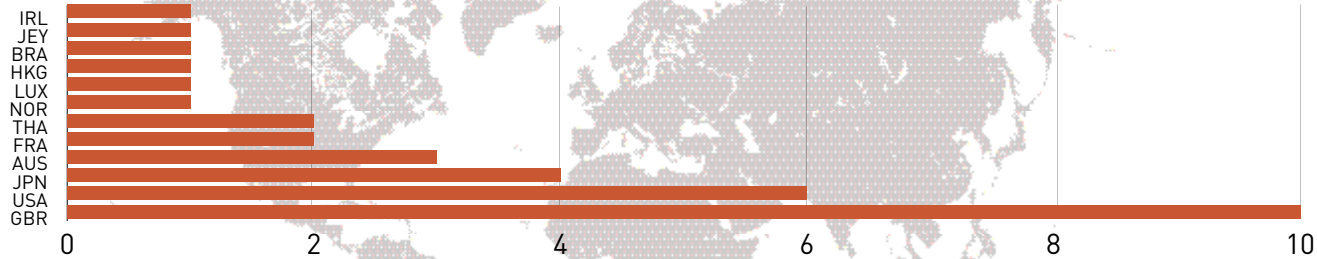
MEETING ENGAGEMENT OUTCOMES



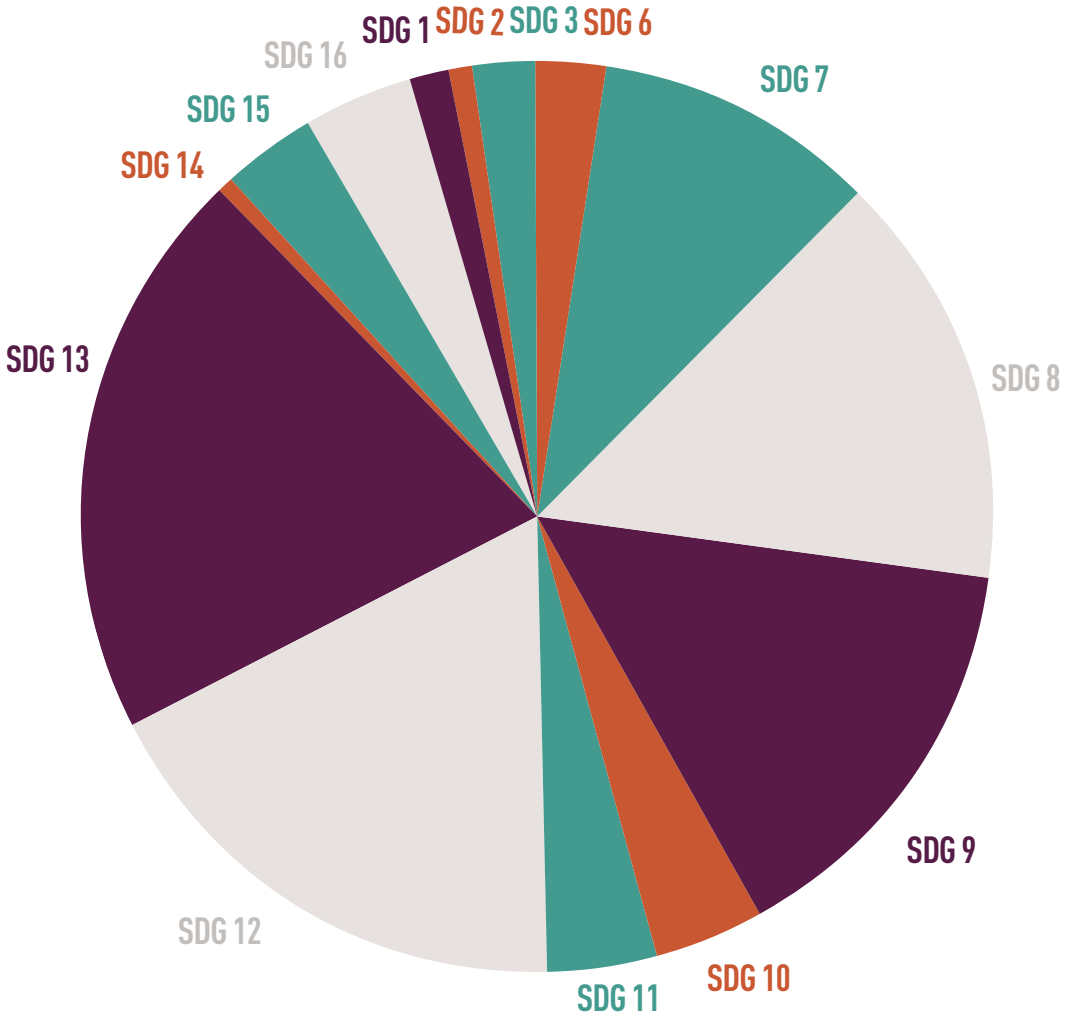
POSITION ENGAGED



COMPANY DOMICILES



ENGAGEMENT DATA



LAPFF SDG ENGAGEMENTS	
SDG 1: No Poverty	2
SDG 2: Zero Hunger	1
SDG 3: Good Health and Well-Being	3
SDG 4: Quality Education	0
SDG 5: Gender Equality	0
SDG 6: Clean Water and Sanitation	3
SDG 7: Affordable and Clean Energy	13
SDG 8: Decent Work and Economic Growth	19
SDG 9: Industry, Innovation, and Infrastructure	19
SDG 10: Reduced Inequalities	5
SDG 11: Sustainable Cities and Communities	5
SDG12: Responsible Production and Consumption	23
SDG 13: Climate Action	26
SDG 14: Life Below Water	1
SDG 15: Life on Land	4
SDG 16: Peace, Justice, and Strong Institutions	5
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

COMPANY PROGRESS REPORT

26 Companies engaged over the quarter

*The table below is a consolidated representation of engagements so reflects the number of companies engaged, not the number of engagements

Company/Index	Activity	Topic	Outcome
AIA GROUP LTD	Sent Correspondence	Climate Change	Awaiting Response
AIR LIQUIDE SA	Sent Correspondence	Climate Change	Moderate Improvement
ANGLO AMERICAN PLC	Meeting	Human Rights	Dialogue
ARCELORMITTAL SA	Meeting	Climate Change	Moderate Improvement
BHP GROUP LIMITED (AUS)	Meeting	Governance (General)	Dialogue
BHP GROUP LIMITED (AUS)	Alert Issued	Governance (General)	Dialogue
CHIPOTLE MEXICAN GRILL INC	Meeting	Environmental Risk	Moderate Improvement
CRH PLC	Sent Correspondence	Climate Change	Moderate Improvement
DRAX GROUP PLC	Meeting	Climate Change	Dialogue
ELECTRIC POWER DEVELOPMENT CO	Meeting	Climate Change	Small Improvement
EQUINOR ASA	Sent Correspondence	Climate Change	Substantial Improvement
GLENCORE PLC	Meeting	Governance (General)	Change in Process
KASIKORNBANK PCL	Meeting	Climate Change	Moderate Improvement
KELLOGG COMPANY	Sent Correspondence	Social Risk	Dialogue
KLA CORPORATION	Alert Issued	Environmental Risk	Dialogue
LYONDELLBASELL INDUSTRIES N.V.	Meeting	Climate Change	Small Improvement
MITSUBISHI UFJ FINANCIAL GRP	Meeting	Climate Change	Small Improvement
NATIONAL GRID PLC	Meeting	Climate Change	Change in Process
RENAULT SA	Meeting	Supply Chain Management	Small Improvement
RIO TINTO GROUP (AUS)	Meeting	Governance (General)	Dialogue
RIO TINTO PLC	Sent Correspondence	Climate Change	Moderate Improvement
ROLLS-ROYCE HOLDINGS PLC	Meeting	Climate Change	Moderate Improvement
SUMITOMO MITSUI FINANCIAL GROUP	Meeting	Climate Change	Moderate Improvement
TESCO PLC	Meeting	Human Rights	Small Improvement
THE HOME DEPOT INC	Meeting	Human Rights	Small Improvement
VALE SA	Meeting	Governance (General)	Dialogue

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

Avon Pension Fund
Barking and Dagenham Pension Fund
Barnet Pension Fund
Bedfordshire Pension Fund
Berkshire Pension Fund
Bexley (London Borough of)
Brent (London Borough of)
Cambridgeshire Pension Fund
Camden Pension Fund
Cardiff & Glamorgan Pension Fund
Cheshire Pension Fund
City of London Corporation Pension Fund
Clwyd Pension Fund (Flintshire CC)
Cornwall Pension Fund
Croydon Pension Fund
Cumbria Pension Fund
Derbyshire Pension Fund
Devon Pension Fund
Dorset Pension Fund
Durham Pension Fund
Dyfed Pension Fund
Ealing Pension Fund
East Riding Pension Fund
East Sussex Pension Fund
Enfield Pension Fund
Environment Agency Pension Fund
Essex Pension Fund
Falkirk Pension Fund
Gloucestershire Pension Fund
Greater Gwent Pension Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney Pension Fund
Hammersmith and Fulham Pension Fund
Haringey Pension Fund
Harrow Pension Fund
Havering Pension Fund
Hertfordshire Pension Fund
Hounslow Pension Fund
Isle of Wight Pension Fund
Islington Pension Fund
Kensington and Chelsea (Royal Borough of)
Kent Pension Fund
Kingston upon Thames Pension Fund
Lambeth Pension Fund
Lancashire County Pension Fund
Leicestershire Pension Fund
Lewisham Pension Fund
Lincolnshire Pension Fund
London Pension Fund Authority
Lothian Pension Fund
Merseyside Pension Fund
Merton Pension Fund
Newham Pension Fund
Norfolk Pension Fund
North East Scotland Pension Fund
North Yorkshire Pension Fund
Northamptonshire Pension Fund
Nottinghamshire Pension Fund
Oxfordshire Pension Fund
Powys Pension Fund
Redbridge Pension Fund
Rhondda Cynon Taf Pension Fund
Scottish Borders Council
Shropshire Pension Fund
Somerset Pension Fund
South Yorkshire Pension Authority
Southwark Pension Fund
Staffordshire Pension Fund
Strathclyde Pension Fund
Suffolk Pension Fund
Surrey Pension Fund
Sutton Pension Fund
Swansea Pension Fund
Teesside Pension Fund
Tower Hamlets Pension Fund
Tyne and Wear Pension Fund
Waltham Forest Pension Fund
Wandsworth Borough Council Pension Fund
Warwickshire Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Westminster Pension Fund
Wiltshire Pension Fund
Worcestershire Pension Fund

Pool Company Members
Border to Coast Pensions Partnership
LGPS Central
Local Pensions Partnership
London CIV
Northern LGPS
Wales Pension Partnership

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Business Meeting
25 January 2023

Agenda item

08a

Draft LAPFF Workplan 2023/2024

Summary

- LAPFF begins 2023 with a membership body of 86 member funds and six pool companies. This draft LAPFF workplan sets out a range of current and anticipated company and policy engagement areas for the coming year.
- The aim of providing the workplan for comment is to ensure that members are content with LAPFF's areas of focus, and that they have the opportunity to provide comment so that LAPFF's engagements align with these areas of focus.
- In presenting each element of the workplan, overall objectives are set, the method by which engagement or activity is to be progressed is explained, and an indication of longer-term objectives is provided. For thematic engagements, engagement success is reviewed annually, and a decision is made regarding whether it is beneficial for LAPFF to continue these engagements.
- Where members consider extra work should be done for the workplan throughout the year, or where new areas of focus arise outside the existing work plan, scoping papers will be produced providing background research alongside an assessment of the amount of work and other resources that might be needed to undertake these engagements.

Recommendation

- That LAPFF members review and approve the draft work plan.
- That LAPFF members feed back any thoughts on the draft work plan by 28 February 2023.

Report Originator: PIRC Ltd
Report Author: Alistair Tucker, PIRC
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1. Responsible Investment

1.1. Climate and Strategic Resilience, Environmental Protection, and Fair and Just Transition (ECE)

LAPFF members have indicated that climate change, and in particular carbon emissions reduction at investee companies in line with science-based targets, remains a top priority for them. This issue is increasingly pressing as it becomes clear that the 1.5 degree Celsius threshold for global warming is effectively no longer within reach. This development means that strategic resilience more than ever must cover both mitigation and adaptation to climate impacts and consequent business and investment risks. It is also clear that climate is inter-dependent on a range of other environmental and social issues, including biodiversity, water conservation, and human rights. Therefore, LAPFF's positions and work on climate, environment, and a just transition reflect these developments and inter-connections.

1.1.1. LAPFF Position on Preferred Transition Pathway

Objective: LAPFF aims to provide clear, evidence-based decarbonisation pathways. From prior years' research into potential decarbonisation pathways, LAPFF has been able to form a view on the credibility of particular decarbonisation pathways and those that that are less credible which has included:

- oil and gas companies in respect of trees (so-called 'natural solutions') and carbon capture and storage (CCS)
- carbon capture and storage in steel making
- biomass in power generation (principally Drax Group plc)

LAPFF has seen notable examples of this greenwashing at Drax and Shell in recent years.

The myths surrounding these pathways have included research papers on technologies such as CCS, hydrogen, nuclear power, steel, direct air capture and tree planting.

It is clear that:

- LAPFF's thinking is ahead of some other investors.
- Greenwash is occurring by some industries and companies making claims about less than credible pathways, essentially with an agenda of keeping carbon in the system.
- It is also clear that following the war in Ukraine, the avoidance of dependency on hydrocarbons is highly relevant from a strategic security perspective as well as net zero perspective.

Method: LAPFF will continue to research and engage, with a sceptical mind, in particular looking for other sources of evidence relevant to a complete and consistent picture. For example, the claim that CCS has a role in steel making has been discredited by statements from steel makers in the UK in December 2022 that they do not need the coal from the proposed new mine in Cumbria because they intend to invest in steel making from "green" hydrogen (obtained from electrolysis from renewables).

A good example of an inappropriate route is the decades old "Sky Scenario" from Shell, which envisages extensive use of hydrocarbons well beyond 2100. As well as being less than credible from a technology, economic, and environmental perspective, it is now lacking credibility from a security of supply perspective.

It will therefore be necessary to ensure that a fulsome, evidence-based analysis drives LAPFF's work and in particular in any collaborative engagements where some parties have a propensity to be taken in. This analysis and engagement will include ensuring that company TCFD reporting provides information that allows LAPFF members to make useful investment decisions related to climate and investment.

Longer term objective: LAPFF should continue to undertake work and produce materials that deal directly with and debunk misinformation and disinformation. This analysis includes the incentives and vested interests behind some industries continuing with unstainable practices and business models. The insurance industry might be one area for focus.

SDGs: Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all; Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation; Goal 12. Ensure sustainable consumption and production patterns; Goal 13. Take urgent action to combat climate change and its impacts; Goal 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

1.1.2. Climate and Paris Aligned Accounts

Objectives: LAPFF's aim is to ensure that investors have access to accurate company accounts that allow for sound investment decision-making. LAPFF originated the concept of "Paris Aligned accounts" with Sarasin & Partners given a preponderance of initiatives treating the climate change crisis as a "disclosure" issue rather than an crisis requiring action with balance sheet and investment implications. These implications mean it is important to seek clarity on:

- the stranded asset risk of existing assets
- the stranded assets risk from new capital expenditure
- decommissioning and rectification liabilities.

The desire to follow a substantive numbers-based approach has led to the objective of seeking engagement with and action from the major accounting firms.

With attention on the right transition issues and risk, the scope to call out bad practice and encourage the good, is increased.

Method: The work has been highly collaborative requiring co-signing of letters to companies and the major audit firms, which are actions that should continue at pace. LAPFF also recommended a vote in favour of a shareholder resolution at BHP's AGM during 2022 calling for Paris-aligned accounts. LAPFF will seek opportunities to support similar viable company resolutions in the coming year, as well as supporting continued engagement with accounting firms on this issue.

Longer term objective: The work is essential to credible numbers as drivers of credible transition pathways. This is an area where the cross referencing of good practice by the large audit firms makes the behaviour of lagging companies more visible with audit risk to them.

SDGs: Goal 13. Take urgent action to combat climate change and its impacts; Goal 16: Build effective, accountable and inclusive institutions at all levels; Goal 17. Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development

1.1.3. Strategic Resilience

Objective: LAPFF's aim is to bring together a sustainable environmental and economic basis for company development as set out above with strategic factors such as energy security.

Method: The work is inherently high level, which fits well with LAPFF executive led engagement and challenge. LAPFF is continuing to support the 'Say on Climate' initiative and is writing to the FTSE AllShare (minus investment trusts) to encourage companies to table an annual vote on their net zero strategies. The work is also dependent on rational policy making frameworks. LAPFF will continue to engage with banks, possibly including Barclays and HSBC, on aligning business practices with the Paris Agreement, including a number of Asian-based financial institutions, undertaken through a collaborative engagement with Asia Research Engagement (ARE). Continued engagement with oil and gas companies, including Shell and BP, will take place as appropriate. LAPFF continues to engage with a range of companies through CA100+, and these engagements will continue to be monitored for effectiveness.

***Longer-term objective*:** This work is consistent with initiatives to eliminate disinformation in the form of greenwash given that advanced forms of greenwash may attempt to affect policy making outcomes. LAPFF's strategic objective is for companies to implement a climate action transition plan that is reviewed yearly and is put to shareholders for approval. Where LAPFF has engagement history

with companies on climate, it will consider voting alerts for members at AGMs as well as potential shareholder resolutions where required.

1.1.4. Electric Vehicles

Objectives: As a major contributor to carbon emissions, carmakers face considerable climate risks. These risks include higher regulatory standards on emissions and growing consumer expectations. LAPFF will seek to ensure carmakers are reducing emissions in the short term and have transition plans based on electric vehicle production implied by heightened government intervention. At present few carmakers, bar new entrants, have plans and production levels aligned with a 1.5 degree scenario. Moving to production of electric vehicles will not only require capital investment in making EVs themselves but also charging infrastructure itself. LAPFF will therefore seek assurances around how new infrastructure is being delivered to support existing drivers and encourage increased sales. As significant changes are required to decarbonise the industry and the vehicles the sector produces, LAPFF will seek to ensure the shift is being undertaken in a just way, both for the manufacture of vehicles and in supply chains and the sourcing of raw minerals.

Method: LAPFF will engage the largest carmakers on their transition plans and investment in electric vehicles and charging infrastructure. It will continue to participate in collaborative engagements through CA100+ with US companies, as appropriate, including their work regarding US regulations and lobbying activity of carmakers. It will also undertake specific engagements on responsible mineral sourcing. LAPFF has engaged and will continue to engage EV manufacturers on the importance of due diligence in sourcing materials, encouraging companies to have more transparency and greater reporting around the issue.

Long term objective: The Forum will seek to ensure that carmakers have clear net zero commitments and that these commitments are being met.

SDGs: Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation; Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable; Goal 12. Ensure sustainable consumption and production patterns; Goal 13. Take urgent action to combat climate change and its impacts

1.1.5. Sustainable Commodities and Deforestation, Biodiversity, Plastics, Public Health

Objectives: LAPFF aims to engage with companies to promote positive environmental impacts. First, it seeks to work with companies to mitigate their supply chain risks due to commodities associated with illegal deforestation, ensuring that they are undertaking appropriate due diligence to mitigate their risks. It also seeks to address the harmful environmental impacts of plastic packaging and microfibres. Finally, LAPFF seeks to ensure that retailers and

suppliers recognise public health risks they are creating, and that they take appropriate action to encourage healthy living.

Method: LAPFF supports a number of collaborative engagements relating to deforestation and sustainable commodities. These engagements include the Finance Sector Deforestation Action Initiative, which is taking measures to eliminate agricultural commodity-driven deforestation from portfolios by 2025. The Investor Policy Dialogue on Deforestation is another initiative in which LAPFF participates. This initiative engages with public agencies and industry associations in selected countries on the issue of deforestation. LAPFF is also mindful that the PRI had intended to launch its 'Sustainable Commodities' initiative and will monitor the progress of that programme during the year.

LAPFF continues to engage major plastic producers, including brands such as Nestlé and supermarkets such as Sainsburys and Tesco. LAPFF continues to be a member of As You Sow's Plastic Solutions Investor Alliance and will join collaborative engagements through this initiative on a holdings basis throughout the year.

On public health, LAPFF is part of two collaborative engagements with ShareAction (Long Term Investor's in People's Health (LIPH)) and the Access to Nutrition Index (ATNI), where LAPFF co-leads with Kellogg's. LIPH seeks to elevate health as a systemic risk, and ATNI seeks suppliers and retailers to address healthier living in their food offerings.

***Longer-term objectives*:** LAPFF aims to encourage companies to better recognise risk in their supply chains to mitigate deforestation and the use of plastics. LAPFF also seeks to ensure that companies recognise the risk associated with healthy living and public health and that they will report regularly regarding health and nutrition. This reporting will supply investors with appropriate tools to assess company progress in this area. Biodiversity is a rising area of concern for investors, so LAPFF will explore engagement opportunities in this area.

SDGs: Goal 2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture; Goal 12. Ensure sustainable consumption and production patterns; Goal 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss; Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

1.1.6. Water Security

Objectives: LAPFF is a founding member and co-chair of the Valuing Water Task Force, a group of global asset owners and financial institutions focused on catalysing systemic change in how water is valued by multinational corporations.

The objective is for investee companies to improve water management practices through the adoption of water stewardship best practice.

Method: The taskforce has now developed a set of corporate expectations relating to water stewardship best practice. The expectations have been informed by The Valuing Water Global Assessment of Private-Sector Water Impacts study, facilitated by CERES, which has highlighted the scientific evidence of the most critical externalities to water resources linked to industries and companies. The expectations are focussed on water quality, water quantity, ecosystem protection, access to water, governance, and public policy engagement. In December 2022, the engagement phase of the initiative commenced with LAPFF nominated as lead investor for Constellation Brands.

***Longer-term objectives*:** LAPFF's ultimate objective is for investee companies to achieve sustainable water management practices. In addition, the initiative is also seeking to contribute to more water-risk informed portfolio and investment decision-making. Water pollution globally has surfaced in particular through LAPFF's mining and human rights engagements, so this issue is addressed further in the human rights section of the work plan.

SDGs: Goal 6. Ensure availability and sustainable management of water and sanitation for all; Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development

1.1.7. Water Companies and Sewage

Objectives: LAPFF aims to ensure plans are in place and progress is being made in reducing the amount of sewage being released into waterways and to reduce the investment risks (reputational, regulatory and legal) of not doing so. LAPFF further aims to ensure that plans for reducing greenhouse emissions are adequate and to ensure companies are meeting regulatory requirements on leaks.

Method: LAPFF will engage water and sewage utility companies on their plans and the progress being made. LAPFF will seek assurances that progress and targets are ambitious to reduce negative water impacts and understand how these can be achieved (including adequate capital investment) given the economic regulation that companies face on charges. LAPFF will engage companies on their climate transition plans.

***Longer-term objectives*:** LAPFF seeks to ensure company commitments to reducing pollution in waterways are being met by tracking progress. Further engagements on valuing water – as covered at the 2022 LAPFF Conference – will be explored as these opportunities present themselves.

SDGs: Goal 6. Ensure availability and sustainable management of water and sanitation for all; Goal 11. Make cities and human settlements inclusive, safe,

resilient and sustainable; Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development

1.1.8. Housebuilders

Objectives: LAPFF's aim is to reduce the climate risks related to investment in the housebuilding industry given that housing is a major contributor to greenhouse gas emissions. LAPFF will also seek to ensure that concerns from consumers and policymakers around leasehold arrangements and build quality are being addressed.

Method: LAPFF will engage the largest UK housebuilders. The engagements will seek to ensure plans are in place to move to net zero homes, have Paris-aligned transition plans, and meet regulatory standards on emissions. The meetings will also engage companies on wider issues facing the sector, including around quality of homes and leaseholder issues.

***Longer-term objectives*:** LAPFF seeks to ensure that there are actual emission reductions for operations and occupied homes that meet targets for a 1.5 degree scenario.

SDGs: Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation; Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable; Goal 13. Take urgent action to combat climate change and its impacts

1.1.9. Policy Engagement and Fair and Just Transition

Objective: LAPFF aims to reduce the investment risks associated with climate change and recognises that this work cannot be achieved by any single actor alone, investors included. Strong regulation is required to ensure the shift to a net zero carbon economy and that the transition is undertaken in a fair and just way. LAPFF therefore wishes to see policies, programmes, and regulations that are reducing the investment risks for LAPFF members.

Method: LAPFF will engage policymakers and companies on policies that support a fair and just transition. Last year, LAPFF produced a report for one business meeting analysing the Climate Change Committee's 2022 report to parliament. The report set out potential areas for engaging regulators aligned to topics LAPFF already engages companies on. LAPFF will, where appropriate, engage relevant regulators and government departments on policies necessary to ensure a fair and just transition, including around land use and carbon offsetting, transition plans standards, charging infrastructure, plastics, housebuilding, aviation and transport, and energy.

Longer-term objective: LAPFF's long-term aim is that regulations increasingly support a fair and just transition to a decarbonised economy. In particular, LAPFF will seek to engage with policy makers and regulators on infrastructure

developments that enables both innovation in energy solutions and fair social consequences (ie, affordable and clean energy).

SDGs: All SDGs are relevant for a just transition.

1.2. Human Rights and Employment Practices (EMP)

Investors are gaining and ever-increasing awareness of the financial implications of investee companies' human rights practices. LAPFF members have gained this awareness through non-governmental organisation letters on the Occupied Palestinian Territories (OPT), through engagements with mining companies and communities affected by mining, and through engagements with companies and workers on employment standards and company supply chain practices. Last year, LAPFF established a human rights strategy to help drive and frame an increasing demand for engagement on human rights.

***Objective*:** The LAPFF human rights workstream aims to implement the LAPFF human rights strategy as set out below. As well as engagement on human rights in a broad sense, this workstream includes work with investee companies to implement acceptable employment standards and supply chain practices.

***Method*:** The LAPFF human rights strategy is based on three components: company engagement, affected stakeholder engagement, and policy engagements. These engagements cover three categories: sovereign-based engagements, sector-based engagements, and issue-based engagements. Collaborative engagements are included under all of these categories. Details of the three engagement categories, LAPFF's collaborative engagement strategy, and the policy component are set out below. A link to a just transition as it relates to human rights is presented in the final section of this topic.

1.2.1. Sovereign-Based Engagements

LAPFF maintains engagements on the Occupied Palestinian Territories (OPT), on companies operating in conflict zones – in particular Myanmar and Ukraine - and in the Xinjiang region of China where the Uyghur population is currently being subject to forced labour. All of these engagements are expected to continue or escalate, either through LAPFF alone or collaboratively where deemed appropriate. LAPFF is a member of investor groups on Myanmar and Uyghur issues through the Investor Alliance on Human Rights (IAHR). It is expected that voting alerts will be helpful in relation to some of these engagements over the course of the coming year. The voting alerts will be determined closer to the times of the company AGMs and will be dependent on company and political developments. Motorola is a company about which a few members have asked so will be looked at closely for a voting alert.

1.2.2. Sector-Based Engagements

Over the last four years, LAPFF has focused on human rights in the mining sector. During 2022, the LAPFF Chair and support staff visited Brazil to further an engagement in relation to mining after a request to do so from affected communities in Brazil. It is foreseeable that other such visits will be requested by affected communities in other countries. Furthermore, an additional engagement with Grupo Mexico is likely in the coming year. This engagement would follow a similar template to the Brazil engagements with companies and communities. Voting alerts will continue to be issued as necessary in relation to these engagements.

There will also be continued engagement with the apparel sector, including in relation to supply chain working conditions and social insurance. In relation to social insurance in the apparel sector, LAPFF held webinars on a new International Labor Organisation social insurance initiative with IndustriALL and is planning to hold additional webinars in the coming year on this topic. LAPFF engages the technology sector through voting alerts, through a technology working group based in IAHR, and through investor sign-on letters to companies. These engagements are expected to continue or escalate during the coming year.

Other possible sectors for engagement include the care sector, the defence sector, the food and beverage sector, and the solar sector.

1.2.3. Issue-Based Engagements

Joint ventures remain a major concern for LAPFF in relation to all sectors, but particularly as a result of the mining sector engagement. During the coming year, LAPFF plans to engage a consultant to explore the environmental, social, and governance gaps resulting from joint venture structures, as well as best practices in joint ventures. Discrimination is an umbrella topic for a number of LAPFF engagements covering the 30% Club investor group, which now covers race and gender, and the socio-economic taskforce engagement that LAPFF undertook during the course of the year. On modern slavery, LAPFF is a member of initiatives led by CCLA, Rathbones, and IAHR. It is anticipated that these engagements will continue or escalate over the course of the year. Furthermore, an additional area of engagement – access to resources – is anticipated. This engagement is likely to be prompted by the cost of living crisis, which could exacerbate lack of access to resources such as Covid vaccines, water and natural resources, and energy for vulnerable or low-income populations. These developments could well impact on the resources and profits of investee companies as a result.

1.2.4. Collaborative Engagements

LAPFF's primary vehicles for collaborative engagements on human rights are the IAHR and the Principles for Responsible Investment (PRI). Through IAHR, LAPFF will continue to participate in the groups on Uyghurs, Myanmar, and technology.

LAPFF will also seek to initiate a group through IAHR to form a global network of investors to undertake effective engagement with affected workers and communities. This year, LAPFF joined the PRI's Advance human rights programme and has been placed in the collaborative investor groups for Anglo American and Vale.

Although LAPFF will continue to look for opportunities to engage collaboratively with other investors, both through these vehicles and through investor sign on letters and other joint initiatives, LAPFF will be more selective about which investors to partner with. The criteria will be whether the standard of engagement through collaborative engagements is more effective in allowing LAPFF to follow through on its objectives than it has been in the past. Where this criterion is not met, LAPFF will either not engage with a collaborative engagement in the first place or will withdraw from existing engagements that have proven ineffective.

As a general note, LAPFF engagements have become more internationally-oriented over the past five years. It will therefore be increasingly important to partner with international investors with local knowledge to ensure that LAPFF's engagements are both culturally-appropriate and effective.

1.2.5. Policy Engagements

LAPFF's engagement on human rights has escalated exponentially in the last five years, to the point that LAPFF is now seen as a leader in this area. Consequently, LAPFF was invited to join a governmental social taskforce this past year, and participation in this group looks set to continue. There is also a range of new legislation covering human rights and environmental due diligence globally, including the new European Union Corporate Sustainability Due Diligence Directive (CSDDD) that is currently under development and will need to be monitored.

Litigation tracking is another area that LAPFF will need to cover given human rights cases involving BHP, Vale, Anglo American, Glencore, and Shell, among others. LAPFF responded this year to a consultation to update the US National Action Plan to implement the UN Guiding Principles on Business and Human Rights. It is expected that there will be an increasing need to monitor legislative and policy developments on human rights and draft consultation responses in this area.

***Longer-term objectives*:** LAPFF would like to see company boards embrace corporate cultures that enable the companies to uphold their responsibilities to respect human rights in line with the UN Guiding Principles on Business and Human Rights. This culture change should help companies to become more sustainable and resilient in respect of a host of environmental, social, and governance issues. These aspects of culture will become more ever more

financially material for companies as new legislation is brought in like Europe's Corporate Sustainability Due Diligence Directive.

It is likely that the cost of living crisis will create challenges for investee companies and people alike. LAPFF will assess whether any engagements beyond those with care companies are needed in this area. LAPFF will also continue to monitor whether more work needs to be done in engaging pharmaceutical companies on Covid or other emerging infectious diseases.

1.2.6. Fair and Just Transition as it relates to Human Rights

Objective: LAPFF would like to see companies move away from creating silos for ESG issues to understanding how all three elements link together. This inter-connected understanding of ESG issues is the foundation for a fair and just transition.

Method: The climate and environment components of human rights are becoming increasingly important as the scale of the climate crisis increases. More and more human rights engagements are focusing on the link between human rights, climate, and the environment, especially as there is now a new recognised human right to a clean and healthy environment. For example, LAPFF currently has an engagement on responsible mineral sourcing with automobile companies that covers both climate and human rights considerations. Therefore, fair and just transition will become a more prominent engagement topic across all of LAPFF's engagements, human rights and otherwise.

***Longer-term objectives*:** LAPFF would like to see a meaningful definition of a fair and just transition developed and espoused by both companies and investors. Until this definition is developed and acted on, the term will continue to be abstract and hard to implement for all parties involved.

SDGs: All of the SDGs are relevant to the realisation of all human rights.

1.3. Leadership: Emerging and Developing Initiatives (LEAD)

Objectives: LAPFF aims to identify emerging thematic investment concerns as well as to respond to responsible investment concerns at companies widely held by members, on issues raised by members and the Executive committee. These issues can arise at any point during the year and so do not necessarily align in timing with the development of the LAPFF work plan.

Method: Monitoring and assessment of emerging thematic investment concerns is undertaken during the year, with compelling investment concerns and impacts drawn into the workplan throughout the course of the year. Responsible investment concerns at companies widely held by members will be explored and relevant engagement strategies proposed as will issues raised by the Executive

committee. This process will include identifying initiatives where the Forum could be active or could collaborate and progress engagement.

***Longer-term objectives*:** LAPFF seeks to retain a focus on areas that provide added value for members whilst ensuring priority and emerging engagements or value-added collaborations can be incorporated. One of these emerging areas is split voting.

2. Promoting Good Governance

LAPFF continues to take the view that without effective corporate governance, effective social and environmental standards and practices cannot be implemented at investee companies. Necessary governance practices include adequate board diversity, good practice on anti-bribery and corruption, effective governance of technological development and implementation of this technology, and reliable company accounts. LAPFF engagements in these areas are set out below.

2.1.1. Anti-Bribery and Corruption (GOV)

***Objectives*:** LAPFF has engaged a number of companies on anti-bribery and corruption in the past, most recently Glencore. The aim is to ensure that companies have appropriate internal controls in place and are transparent in their relationships with business partners, including their identity, their location, and the exact relationship to the investee company.

Method: To date, LAPFF has engaged investee companies with support from Global Witness, a non-governmental organisation aimed at promoting anti-corruption practices at major multinational companies. This type of engagement will continue where situations arise warranting LAPFF's scrutiny.

Longer-term objectives: LAPFF will seek to monitor investee companies in respect of any bribery and corruption allegations both to determine when it is appropriate to engage and to ascertain whether any policy engagement is necessary in relation to corporate conduct in this area.

2.1.2. Diversity (GOV)

Objectives: The Forum seeks to enhance the diversity of boards and the workforce. LAPFF recognises that higher levels of diversity at board level are needed to tackle 'group think'. There are various papers and reports that show links to better company performance where there are higher levels of diversity at board level. FCA rules introduced from 1 April 2022 also now require companies to disclose in their annual reports whether they have met specific board diversity targets on a 'comply or explain' basis.

Method: LAPFF is a member of the 30% Club Investor Group, which seeks to improve gender diversity at board level. This group has extended its remit to incorporate ethnic diversity. LAPFF will continue to engage collaboratively through this group as well as with identified laggard companies. John Gray, LAPFF Vice Chair, previously sat on the City of London's Taskforce on Socio-Economic Diversity which sought to progress discussions and identify best practice in the financial sector. This has now morphed into the 'Progress Together' initiative which Cllr Gray will continue to support.

***Longer-term objectives*:** Given the time limits of both the Parker and Hampton-Alexander reviews alongside the new FCA rules, it is clear where boards have made minimal effort to meet these recommendations. LAPFF will look at whether boards have incorporated diversity into their business strategy and the process undertaken by boards in ensuring diversity considerations are integral to the appointments process. Within this analysis of companies, LAPFF will also take into account pay gap reporting, both on ethnicity and gender, at both board and company level.

SDGs: Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all; Goal 5. Achieve gender equality and empower all women and girls; Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all; Goal 10. Reduce inequality within and among countries

2.1.3. Technology and Governance (GOV)

Objectives: LAPFF will seek to improve the governance practices of technology companies which fall far short of best practices. The Forum will also seek improved practices for content management on their platforms to reduce human rights risks facing investee companies and therefore shareholder value.

Method: LAPFF will seek to engage with major technology companies, including issuing voting alerts focused on resolutions on governance issues (including dual class shares, majority voting for directors and joint chief executive and chair roles) and on social issues (including human and civil rights policies and practices and content management safeguards). Where appropriate LAPFF will engage collaboratively.

***Longer-term objectives*:** That technology companies' (including those making IPOs) governance arrangements are in line with best practices and that human rights risks around their content are being properly managed.

SDGs: Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

2.2. Reliable Accounts, Capital Market Regulatory Reform (REL)

Objectives: This objective is an umbrella for the climate-related accounts engagement set out above. LAPFF aims to ensure that there is a regulatory environment that ensure companies prepare and report their accounts in line with a true and fair view as established in law.

Deficiencies with accounts and audits became a matter of significant concern following the 2007-2010 banking crisis/credit crunch. LAPFF identified that rather than a liquidity crisis, the problems stemmed from a solvency crisis, in large part due to the accounts of banks a) leaving out likely losses and b) taking unrealisable market only gains on trading books to profit and loss (unrealisable as large-scale selling would deflate what was an asset bubble).

The position was supported by the House of Lords Economic Affairs Committee, the Treasury Select Committee and the Parliamentary Commission for Banking Enquiry (a joint committee of both houses of parliament).

It then became clear that the problematic accounting of the International Financial Reporting Standards (IFRS) International Accounting Standards Board (IASB) were conceptually flawed as the accounting was inconsistent with determining a) whether a company was capable of being assessed as a going concern or not b) whether a company was in a position to pay a dividend lawfully or not (with a) and b) having mutual dependencies, and both being Companies Act requirements).

After years of Parliamentary intervention and enquiries, Parliamentary Questions, Freedom of Information Act requests and legal opinions it has become clear that the problems in resolving matters flow from officials within BEIS. One outcome has been the recommendations of the Kingman Review that the Financial Reporting Council is replaced by the Auditing, Reporting and Governance Authority (ARGA). However, progress in laying legislation to implement those reforms has been hampered by the regular changes in Prime Ministers.

As there are now parallel issues appearing with Liability Driven Investment strategies (LDIs) it is proposed to add work on this topic to the workstream because:-

> The EU Directive relevant to occupational pension schemes prohibits pension funds borrowing, but it appears that due to industry lobbying the UK transposition of the Directive changed words to permit borrowing.
>
> LDIs are predicated on “hedging” the number for pension “liabilities” produced by IAS 19 (using a bond rate). Whereas the same pension funds in the hands of insurers use IFRS 17 (Insurance) which permits discounting at a rate based on the actual expected returns of an investment portfolio).

LDIs led to financial instability and forced selling of equities by pension funds at distressed prices. There is therefore a problem with inconsistent, illogical and

value destructive regulation arising from what is essentially policy making outsourced to vested interests that runs contrary, inter-alia, to the intention of Parliament and democratic institutions.

Method: An accounting issues group within the LAPFF Executive is being established. The aims of this group are to break through the jargon and false complexity to deal with the harm that has occurred and is continuing to occur from poor and misleading accounting and audit practices.

***Longer-term objectives*:** Overall the objective is to get in place a rational, public interest framework for accounting, audit and capital market reform that is in the interests of long-term shareholders and the public interest, in the place of piecemeal gerrymandered structures created by vested interests.

The Kingman Review stated the risk of deviating from the public interest in such terms relating to the FRC, however, the broad point is relevant regardless of which regulatory is involved...

> "The Review is concerned by what appears to be a widespread assumption that the FRC's board should in some sense be "representative" of the many stakeholders affected by its work. Many respondents, in fact, asked for additional representatives to be added to the board…
>
> …the purpose of a regulator's board, … is not to represent all the multiplicity of views of relevant vested interests and somehow reconcile them in discussion, but rather to ensure that the regulator is doing a highly effective job in protecting and promoting the public interest."

SDGs: Goal 17. Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development

2.3. Holdings Based Engagement, AGM Attendance (HBE)

Objectives: LAPFF aims to communicate with/meet board members of companies most widely held by members in a number of markets, at least bi-annually. It is important to ensure any engagement on behalf of bond holders is differentiated from engagement on behalf of shareholders. LAPFF seeks to participate in UK and non-UK-based company AGMs in a manner that is best targeted to communicate with board members and ensure board access for follow-up meetings.

Method: Holdings data is requested from members from September onwards and collated. This data collection enables LAPFF to undertake engagement where members collectively represent a significant holding in the company (2 percent and over). Engagement is undertaken on identified governance, capital stewardship, and corporate responsibility concerns as well as topics aligned with workplan themes. In undertaking engagement on bonds, there is recognition that

the skills needed to scrutinize bonds are different to those used to deal with equity, as the risks are very different. Engagement will also recognize the conflict of interest between what is best for shareholders and what is best for bondholders. AGM attendance has long moved on from being purely an escalation strategy and is now a regular part of ongoing engagement with companies. Attendance can commend boards for progress as well as press on areas where further progress could be made. Given that most meetings are now virtual or hybrid, LAPFF executive members have greater access and are briefed in advance of such meetings.

***Longer-term objectives*:** LAPFF seeks to build relationships with company boards so that increasingly directors seek out meetings with LAPFF. It also seeks to build further board-level relationships with non-UK company boards, especially where current collaborative engagements may be at investor relations level.

2.4. Policy Engagements (CONS)

Consultation Responses, Networking, Policy Development

Objectives: LAPFF's objectives include promoting the highest standards of corporate governance and corporate responsibility by influencing government, regulatory and market-led policies and norms. In doing so, LAPFF aims to increase its impact by building relationships with like-minded organisations.

Method: LAPFF promotes policies aligned with LAPFF's purposes. In doing so, the Forum will respond to government consultations. Priority will be given to consultations which best serve LAPFF's and its membership's objectives and interests. With a significant volume of new regulation focused on climate change this topic is likely to be a major part of the consultation response work. LAPFF's continued interest in auditing and accounting standards is likely to remain a focus area, as are legislative developments related to human rights and environmental due diligence. Other issues could include interventions regarding the LGPS, responsible investment, and corporate governance standards.

Government consultations are likely to be the main focus but LAPFF may also respond to relevant consultations from collaborative initiatives and NGOs given the potential to influence market standards. Responding to consultations is a good way to build relationships and last year led to LAPFF being invited onto a DWP taskforce on social factors in investing. LAPFF will continue to be involved in this initiative and will also build relationships through networking and speaking engagements.

Climate policy will continue to be informed by LAPFF's interactions with investor partnerships and initiatives, including IIGCC, CERES and PRI. LAPFF will continue to maintain and develop relationships with NGOs, workers, and affected communities to inform its work and further its engagement activities. Feedback

from activities will be provided in the QER and the chair's email and new policies agreed by the LAPFF membership will be updated in the LAPFF responsible investment guide.

***Longer-term objectives*:** LAPFF seeks to enhance its position as a leading voice on responsible investment and corporate governance issues.

3. Positioning the Forum, Communication and Member Services

3.1. Communications, Media Outreach, Publications (COMM)

Objectives: LAPFF aims to **maintain regular communication with members on engagement objectives, activities, and outcomes, as well as** other pension fund-specific collaborations to drive greater momentum in some areas and to make sure that work is not duplicated in others. It aims to **actively highlight progress and effectiveness of LAPFF engagement** across multiple materials and platforms including media coverage**.**

Method: Part of LAPFF's success is dependent on the communication of its work to members, to other investors, and to the general public. The chair's e-mail provides weekly updates on LAPFF's work to members. The quarterly engagement report presents a quarterly update on LAPFF's engagement progress, including through publication of a table containing engagement outcomes. The annual report communicates LAPFF engagement themes and trends over the year.

The LAPFF website is a first port of call for information about LAPFF, including recent initiatives, publications, and news. Following Elon Musk's acquisition of Twitter, LAPFF has paused activity on that social media platform. Instead, there is now a LAPFF LinkedIn page to keep interested parties up to date on the Forum's activities. Media outreach will aim to forge stronger relations with journalists as well as facilitating responses to enquiries and issuing press releases. The use of video and film to promote and support LAPFF work will continue.

Meetings and webinars keep members up to date on investment related topics, emerging initiatives and LAPFF policy development and engagement. In the past year, LAPFF has co-hosted two webinars with IndustriALL on social protection for workers in the garment and clothing sectors. Webinars such as these, and webinars with community members affected by mining operations will continue.

LAPFF also issues a range of reports that are usually released publicly. Although voting alerts are generally reserved for LAPFF members and their fund managers, when appropriate, these alerts can also be issued publicly when it is deemed necessary to do so to promote LAPFF's engagement objectives. Voting alerts are usually made public through press releases regarding LAPFF's work. LAPFF also

responds to press requests on a range of topics, including reliable accounts and, increasingly, human rights.

***Longer-term objectives*:** The long-term goal of LAPFF communications is to position LAPFF as a responsible investment leader, based on a strong research, evidence-based analysis, and practical engagement with companies. LAPFF also seeks to become a first 'point of call' for journalists seeking views on ESG investment issues.

3.2. Member Liaison, Services, Support and Training (SUPP)

Objectives: LAPFF aims to support members through the provision of the aforementioned communications, executive and business meetings, and other ad hoc communications responding to various member requests. LAPFF also liaises with executive members to ensure they have access to relevant training opportunities.

Method: Members receive educational and explanatory materials in a range of formats about LAPFF for use by member funds, including during the induction of newly elected members. These materials cover the work and organisation of both LAPFF and its engagement partners, and how funds can become actively involved. The materials also seek to motivate individuals to become directly involved themselves in the work of LAPFF, for example through standing for the Executive Committee. Support also includes responding to queries, maintaining up-to-date contact lists, and ensuring access to the member section of the LAPFF website, where access to information that is private and confidential for LAPFF members is posted.

The member site provides a range of information on LAPFF's activities including information pertaining to LAFF meetings, voting alerts, draft consultations, and the chair's e-mail. It also includes the provision of material that might be helpful for wider dissemination across pension committees and local pension boards in the form of short documents providing members with background information and responses to 'live' issues and concerns as well as responses to stakeholders.

LAPFF holds quarterly Executive and Business meetings, seminars, and conferences. Member holdings are collated to facilitate LAPFF's ability to obtain engagement meetings with investee companies. Records of these engagement meetings with companies are retained on PIRC's server to facilitate further engagement and to enable regular reporting on LAPFF engagement activities and outcomes. Ongoing training is provided for Executive committee members to ensure development needs are met.

***Longer-term objectives*:** LAPFF will seek to ensure information channels are maintained in a manner that suits all members and their changing needs. LAPFF Executive members will also be consulted on whether a more formalised

approach to inducting new members to the LAPFF Executive, or to LAPFF more broadly, is needed.

3.3. AGM, Business, Executive, and Subcommittee Meetings (MEET)

Objectives: LAPFF aims to ensure that executive committee meeting discussions further LAPFF's mission to promote the highest standards of corporate governance and corporate responsibility. These meetings also aim to inform members about outcomes from LAPFF activities and encourage debate in a way that allow them to take useful decisions in driving LAPFF's objectives forward.

Method: Quarterly executive committee meetings allow executive members to discuss and deliberate new proposals as well as review outcomes from engagement. On occasion, other sub-committees are convened to discuss proposals and report back to the executive committee. An annual meeting of the executive in the latter part of the year determines strategy for the year ahead. Quarterly business meetings provide members with the opportunity to debate current initiatives and how LAPFF will engage, as well as to hear updates on engagement outcomes from activity over the previous quarter. The AGM ensures that relevant procedural items are dealt with, such as election of executive committee members and receipt of the annual report.

***Longer-term objectives*:** LAPFF seeks to ensure that meetings continue in a format that will best ensure input and discussion by the LAPFF executive and wider membership.

3.4. APPG, Party Conference Fringe Meetings, Asset Managers, LGPS Events (LGPS)

3.4.1. All-Party Parliamentary Group (APPG) for Local Authority Pensions Funds

Objectives: LAPFF supports the APPG for Local Authority Pensions Funds which has been established to discuss LGPS issues with policymakers and stakeholders. The group helps to raise issues of concern, develop policy thinking and inform the work of LAPFF.

Method: LAPFF supports the APPG which arranges meetings with parliamentarians and a broad range of stakeholders. The APPG invites ministers and shadow ministers to speak alongside experts and professionals from the investment world.

***Longer-term objectives*:** LAPFF seeks for the APPG to further raise awareness of the work it is carrying out and to strengthen relationships with key stakeholders.

3.4.2. Party Conference Fringe Meetings

Objectives: The regulatory and legislative environment in which LAPFF operates is shaped by policymakers. To support an environment which helps promote LAPFF's objective of having the highest standards of corporate governance and corporate responsibility, LAPFF will host fringe meetings at the Party conferences.

Method: LAPFF will host fringe meetings at the party conferences to build relationships with parliamentarians and ministers, to raise awareness of responsible investment issues, and to lead the debate on reforms which promote well-functioning markets. These meetings provide an opportunity to engage a wide range of stakeholders on the panel and in the audience. The topics of the meetings will be on specific issues relevant to the Forum's workplan.

***Longer-term objectives*:** LAPFF aims to raise awareness of its work and strengthen its position as a thought leader on responsible investment issues.

3.4.3. LGPS Events, Asset Managers

Objectives: LAPFF aims to maximise its influence both within the investment chain and in respect of investee companies and to promote improvements in practice. One way LAPFF gains influence is through supporting executive participation in external events. LAPFF also aims to ensure good two-way communication between LAPFF fund and pool members.

Method: LAPFF will continue to engage with asset managers, regulatory bodies with responsibility for stewardship and related areas, and other relevant experts on matters such as stewardship practices, shareholder voting, stock-lending and infrastructure. Care will be taken to ensure no cross-cutting in terms of the work done by the Pools in 'managing their managers'. Representatives of the research and engagement partner on occasion present to pension committees, pension boards, and employee AGMs on a variety of aspects of the workplan and initiatives. Representation and support are provided to executive and other members for other external events undertaken on behalf of LAPFF as well as for any outreach by the Chair with member funds. In 2023, this event participation may well have a regional focus. Support will be provided for the chair to meet with pool company chairs, CEOs, and Responsible Investment leads on matters of mutual interest and vote recommendations, ensuring greater communication between LAPFF's engagement strategies and similar strategies undertaken by pools.

***Longer-term objectives*:** LAPFF seeks to have well-developed relationships with major asset managers and to ensure that the requirements of both fund and pool members are understood by the LAPFF chair and executive through regular communication and integrated into the LAPFF workplan where appropriate.

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Q4 2022

ESG impact report

Global engagement to deliver positive change

LGIM

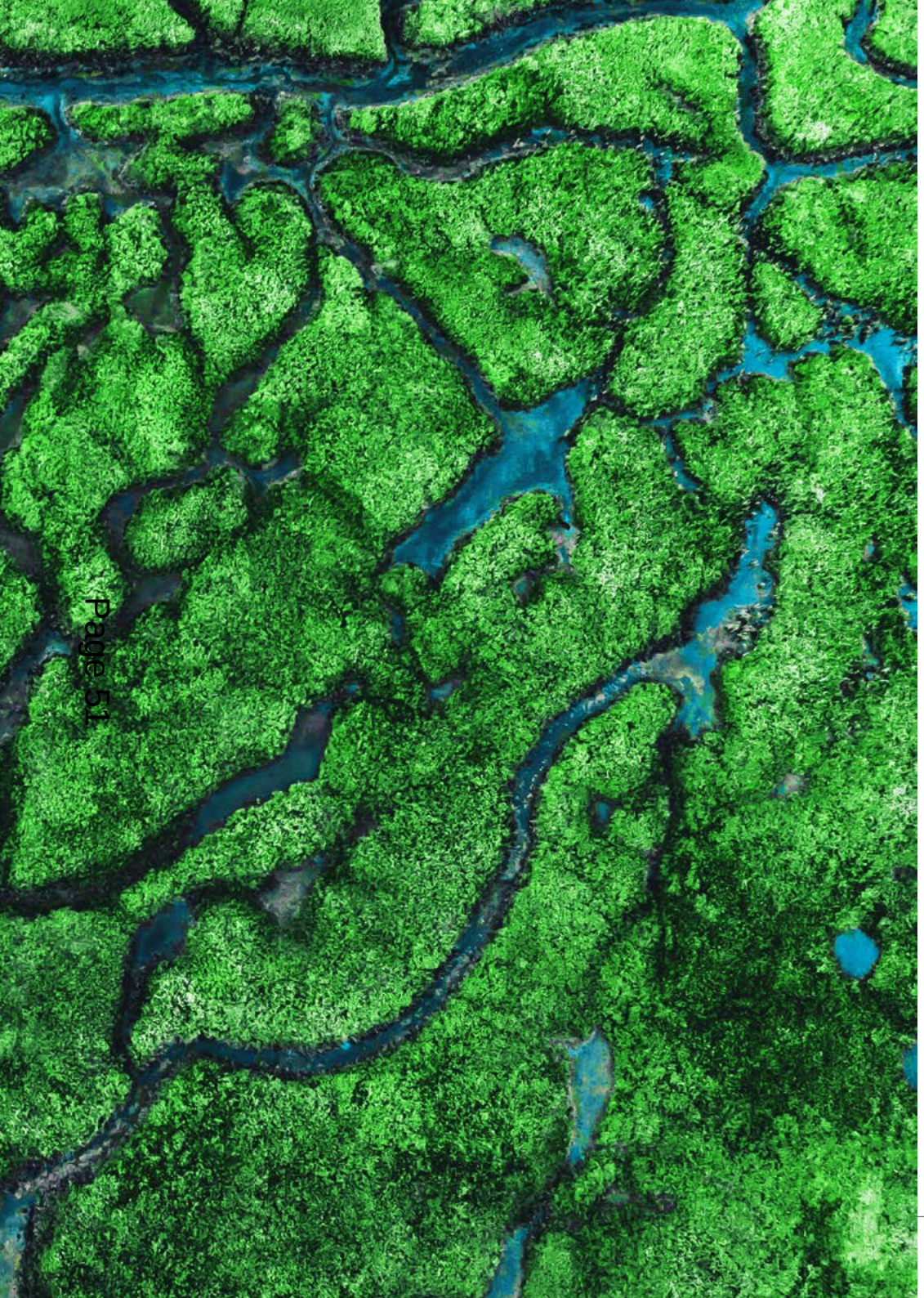
Our mission

We aim to use our influence to ensure:

1. Companies integrate environmental, social and governance (ESG) factors into their culture and everyday thinking

2. Markets and regulators create an environment in which good management of ESG factors is valued and supported

In doing so, we seek to fulfil LGIM's purpose: to create a better future through responsible investing.



Our focus

Holding boards to account

To be successful, companies need to have people at the helm who are well-equipped to create resilient long-term growth. By voting and engaging directly with companies, we encourage management to control risks while seeking to benefit from emerging opportunities. We aim to safeguard and enhance our clients' assets by engaging with companies and holding management to account for their decisions. Voting is an important tool in this process, and one which we use extensively.

Creating sustainable value

We believe it is in the interest of all stakeholders for companies to build sustainable business models that are also beneficial to society. We work to ensure companies are well-positioned for sustainable growth, and to prevent market behaviour that destroys long-term value. Our investment process includes an assessment of how well companies incorporate relevant ESG factors into their everyday thinking. We engage directly and collaboratively with companies to highlight key challenges and opportunities, and support strategies that seek to deliver long-term success.

Promoting market resilience

As a long-term investor for our clients, it is essential that markets (and, by extension, the companies within them) are able to generate sustainable value. In doing so, we believe companies should become more resilient amid change and therefore seek to benefit the whole market. We use our influence and scale to ensure that issues affecting the value of our clients' investments are recognised and appropriately managed. This includes working with key policymakers, such as governments and regulators, and collaborating with asset owners to bring about positive change across markets as a whole.

Action and impact

In this report, we highlight some of our key activity in the Investment Stewardship team, including our latest Climate Impact Pledge updates, our participation in COP27 and COP15, and a selection of our significant votes.

Environmental | Social | Governance

ESG: Environment

Expanding the Climate Impact Pledge: the next phase of our engagement

At LGIM, climate change and supporting a drive to net zero remain a priority.

As such, we have further expanded our dedicated climate engagement programme, the Climate Impact Pledge, by strengthening our climate expectations and red lines for investee companies, with the goal of accelerating progress towards net zero greenhouse gas (GHG) emissions globally.

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We have expanded the scope of our climate engagement programme in three main ways:

1. We have increased the number of sectors to 20

In 2016, our first iteration of the Climate Impact Pledge covered 6 sectors. In 2020 we increased this to 15 and we have now expanded coverage to 20 sectors. These companies are responsible for the majority of global carbon emissions from listed companies and also have been identified as the most carbon-intensive sectors within our portfolio.

Within some existing sectors, we have expanded the sub-industries covered. For example, within apparel we cover not only apparel retail and manufacturers, but also other GICS[1] sub-industries like footwear, apparel luxury goods, and textiles.

1. GICS – Global Industry Classification Standard

Climate Impact Pledge sectors (new sectors highlighted in blue)

airlines	glass
aluminium	insurance
apparel	logistics
banks	mining
buildings	multi-utilities
cement	oil & gas
chemicals	road transport
electric utilities	shipping
food	steel
forestry and paper & pulp	tech & telecoms

2. Our data-driven assessment now covers more of LGIM's portfolio emissions, raising the number of companies covered from 1,000 to 5,000+

By publishing our climate ratings on our dedicated website, we enable companies to verify their progress and identify areas in their climate disclosures and strategies which need improvement. There may be voting implications for those companies not meeting our minimum standards.

3. We have increased the number of companies subject to direct engagement from 60 to over 100 companies

In October 2022, we began our next cycle of direct climate engagement with selected companies. These companies are influential in their sectors, but not yet leaders on climate change and sustainability; we believe they can and should embrace the transition to net zero carbon emissions in the next few years. Complementing our data-driven approach, this qualitative approach enables our stewardship team sector experts to conduct an in-depth assessment of each company, based on the framework set out in the net zero sector guidelines published on our website. This engagement aims to help companies remove roadblocks and encourage progress.

We expect these in-depth engagement companies to meet our published sector-specific red lines. There are potential voting and divestment implications for companies not meeting these after a certain period of engagement.

Updating our sector expectations

In our 2020 update, we developed sector-specific guides to support companies in aligning to net zero and to outline our sector-specific expectations clearly. And we have seen progress: of our deeper engagement companies, 53% now have net-zero targets, versus 22% before, and over recent years we have reinstated five companies previously on our Climate Impact Pledge divestment list into relevant funds.[2]

But a commitment to net zero alone is not enough; further progress is required to translate those commitments into credible pathways and action.

In 2022, we reviewed our net zero guides and strengthened our expectations to reflect the latest climate science and industry standards. While these expectations vary from sector to sector, we have set a red line for all sectors on the disclosure of lobbying activities. Lobbying is a key lever for decarbonisation and can have a significant impact and influence on the stringency and effectiveness of public climate policy. Ultimately, we expect companies to act in support of climate goals in all areas of their political influence.

Across all sectors, we have placed more emphasis on disclosure of plans, actions and investments to support delivery of commitments, and on linking executive remuneration to short- and medium-term emissions reduction targets.

We have also introduced 'just transition' considerations, and expectations emphasising the essential role of combating deforestation, biodiversity and nature loss in delivering a credible pathway to net zero.

We believe it is in investors' interest to support decarbonisation across our holdings and across all sectors. By expanding our Climate Impact Pledge engagement programme, we continue to hold many of the world's largest companies accountable for their progress towards net zero.

2. Climate Impact Pledge 2022 - Net zero: going beyond ambition (lgim.com)

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Deforestation: campaign and collaboration

Campaign update

In the fourth quarter of 2022, we continued our deforestation engagement campaign with portfolio companies. Having communicated initially with around 300 companies in deforestation-critical sectors, we then followed up with direct engagements where requested. For instance, we met with Colgate-Palmolive* and Sime Darby Plantation* to discuss their deforestation policies and approaches.

As communicated in our deforestation policy, we will be sanctioning companies for not meeting our minimum expectations of having a deforestation policy or programme from 2023 onwards.

We will continue to work on achieving our milestones as part of the COP26 Commitment on Eliminating Agricultural Commodity Driven Deforestation from Investment Portfolios, which we signed in 2021.

Collaboration update

In response to commitments made at COP26, LGIM joined with over 30 financial institutions as part of the Finance Sector Deforestation Action (FSDA) initiative to commit to use best efforts to eliminate agricultural commodity-driven deforestation from our investment portfolios by 2025. Through our involvement in the FSDA initiative, we are working with other investors to accelerate progress in key sectors and across value chains. This is a critical step towards reversing deforestation globally and aligning the financial sector with a Paris Agreement-compliant 1.5°C pathway. The initiative has set out investor expectations for companies around commitments, disclosure and actions related to deforestation. The FSDA has also identified key companies in deforestation-critical sectors to engage with, and LGIM has taken the lead on four of these engagements.

The FSDA initiative outlines a clear timeline to demonstrate 'best efforts', including:

1. By the end of 2022: complete an assessment of deforestation risk exposure associated with investments related to forest-risk agricultural commodities, adopt policies to address deforestation risk and deepen engagement with clients and holding companies

2. By 2023: disclose deforestation risk exposure and mitigation activities associated with investment portfolios and continue engagement activities

3. By 2025: publicly report on progress and incorporate engagement outcomes into investment decisions

For more details on how LGIM is taking actions to meet these three requests, please see our focus section on deforestation in our Q3 2022 Quarterly Impact Report.

*For illustrative purposes only. This is not a recommendation to buy or sell any security.

Significant votes

Company name	BHP Group Limited*
ISIN	AU000000BHP4
Market cap	£128 billion (source: Salesforce, as at 23 December 2022)
Sector	Metals and mining
Issue identified	Climate-policy advocacy and climate disclosure, both of which LGIM considers to be material to the net zero transition. LGIM considers shareholder proposals on an individual basis.
Summary of the resolution	Resolution 14: Approve Policy Advocacy Resolution 15: Approve Climate Accounting and Audit AGM date: 10 November 2022
How LGIM voted	These were both shareholder-proposed resolutions and LGIM voted in favour of both (i.e. against management).
Rationale for the vote decision	Resolution 14 was a request that the company proactively advocate for Australian policy settings that are consistent with the Paris Agreement's objective of limiting global warming to 1.5°C. A vote in favour of this proposal was applied as LGIM believes positive climate-related advocacy is in the best interest of the company and its shareholders. We also note that nothing in this resolution was designed to limit the board's discretion to take decisions in the best interest of the company. Resolution 15 requested that, from 2023, the notes to the company's audited financial statements include a climate sensitivity analysis which includes a scenario aligned with limiting global warming to 1.5°C, presents the quantitative estimates and judgements for all scenarios used, and covers all commodities. While we consider the company to be a leader with respect to its climate-related disclosure, a vote for this proposal was applied as LGIM believes that further quantitative disclosure in the company's financial statements around the impact of climate change scenarios on BHP's material commodity portfolio is important.
Outcome	These resolutions received 12.7% and 18.7% support, respectively, from shareholders. We continue to engage with BHP and, more broadly, to support proposals that are aligned with LGIM's net zero aims and beliefs.
Why is this vote 'significant'?	These votes were significant because of their importance within our climate change engagement.

*For illustrative purposes only. This is not a recommendation to buy or sell any security.

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Environmental | Social | Governance

ESG: Social

Expansion of our ethnic diversity campaign

Diversity, in all its forms, has long been a key priority for LGIM. The enduring belief behind these efforts is that diversity contributes to better decision-making and therefore better boards, which should, in our view, create better-run, more sustainable companies. Several studies, including the most recent study on employee diversity data, have confirmed that diversity is financially material enough to warrant pressure from investors and other stakeholders.[3]

Our ethnic diversity campaign: a brief recap of our aims and actions

In 2020, we launched a campaign to engage with the largest 100 companies in the UK and the largest 500 companies in the US on ethnic diversity at board level. Our request was simple: that they should have ethnically diverse representation at board level by 2021, or face voting sanctions.

Of the 79 companies with whom we engaged due to them not meeting our expectations, we ultimately only voted against one US company. But there is still progress to be made – due to turnover during the year and new board appointments, several new companies have been flagged as having no ethnic diversity. Therefore, we continued our focus and wrote during the quarter to the remaining laggards in the FTSE 100 and S&P 500, to remind them of our expectations and that voting sanctions will apply if diversity is not improved. There are six companies within these indices that currently do not have any ethnicity on the board, and voting sanctions will be applied at the 2023 AGM if progress is not made.

3. As You Sow: Workplace Diversity and Financial Performance, December 2022
4. As at time of writing - December 2022

These companies[4] are:

Dish Network* (S&P 500)
Universal Health Services* (S&P 500)
Caesars Entertainment* (S&P 500)
Dechra Pharmaceuticals* (FTSE 100)
Vodafone Group* (FTSE 100)
Unite Group* (FTSE 100)

*For illustrative purposes only. This is not a recommendation to buy or sell any security.

We have also widened our scope for this campaign and plan to engage those companies failing to meet our minimum expectations within the broader FTSE 250 and Russell 1000 indices. Our expectation for the companies in these additional indices is identical but, in line with the UK's Parker Review, we allow these smaller companies more time to meet our expectations and will therefore expect compliance by 2024.

Collaborating on diversity: our work in the US

In November 2022, LGIM again supported the Russell 3000 Board Diversity Disclosure Initiative as an investor signatory. This initiative is comprised of a coalition of investor organisations calling on companies in the Russell 3000 Index to disclose the make-up of their boards of directors – inclusive of gender, race and ethnicity – given the correlation between board diversity and long-term performance.[4] Since 2020, the Illinois treasurer has led this initiative, that includes 26 investor organisations representing over US$3 trillion in assets.[5] Each year, the investor coalition sends a letter to Russell 3000 companies asking each to report the racial, ethnic and gender composition of the board of directors in their annual proxy statement.

This year, the initiative wrote three different letters grouped by top performers with individual-level disclosure (386 companies), middle performers with either partial or aggregate-level disclosure (1,847 companies), and bottom performers with no disclosure (702 companies). It is extremely promising to see that the level of disclosure in aggregate or by individual director has increased from 292 companies in 2020, to over 2,200 companies in 2022 – a 13-fold increase over the span of two years.[6]

LGIM will continue to advocate for greater disclosure and transparency around diversity, at board level and throughout an organisation, working collaboratively with our peers, and also leading our own campaigns.

AMR

LGIM in the press

Three members of our team have contributed to the recent Citi GPS publication on Antimicrobial Resistance: The Silent Pandemic, highlighting the financial materiality of Antimicrobial Resistance (AMR) for investors, and the role that investors can play in terms of mitigating the risks, through both direct company engagement and engaging with policymakers and regulators.

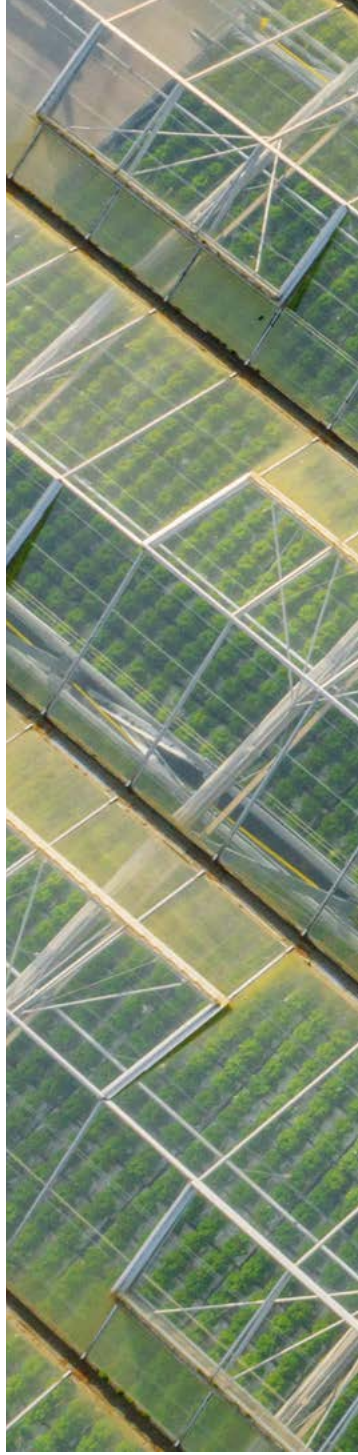
For more updates on our latest AMR activity, please see the Policy section of this report.

Nutrition: broadening our engagement through collaboration

Through its impact on a range of sectors, from food retail to healthcare and pharmaceuticals, and on individuals and workforces, the topic of nutrition has the potential to affect a broad range of companies in which LGIM invests around the world, on behalf of our clients.

Building on our previous engagements in this area, in the fourth quarter of 2022 we co-signed, with our peers, letters to 12 food and beverage manufacturers, under the leadership of ShareAction's Healthy Markets Initiative. In the individual tailored letters, we encourage the companies to do more in several areas. These include, for example, transparency around their nutrition strategy, demonstrating progress on their nutrition strategy, committing to disclosures around the proportion of the company's portfolio and sales associated with healthy food and drinks products (using government-endorsed nutrient-profiling models), and setting targets to increase the proportion of these sales. We also praise companies for the positive steps taken so far. The companies we wrote to were Danone*, General Mills*, Kraft Heinz*, Mondelez*, Unilever*, Nestlé*, PepsiCo*, Coca Cola*, Suntory*, Britvic*, AG Barr* and Premier Foods*.

In terms of next steps, we will be monitoring companies' progress over 2023 on the points raised with each, and engaging with them directly, in collaboration with ShareAction, to further improvements on specific areas.



4. https://illinoistreasurergovprod.blob.core.usgovcloudapi.net/twocms/media/doc/november2022_russell3000.pdf
5. Michael W. Frerichs - Illinois State Treasurer: Russell 3000 Board Diversity Disclosure Initiative (illinoistreasurer.gov)
6. Michael W. Frerichs - Illinois State Treasurer: Russell 3000 Board Diversity Disclosure Initiative (illinoistreasurer.gov)

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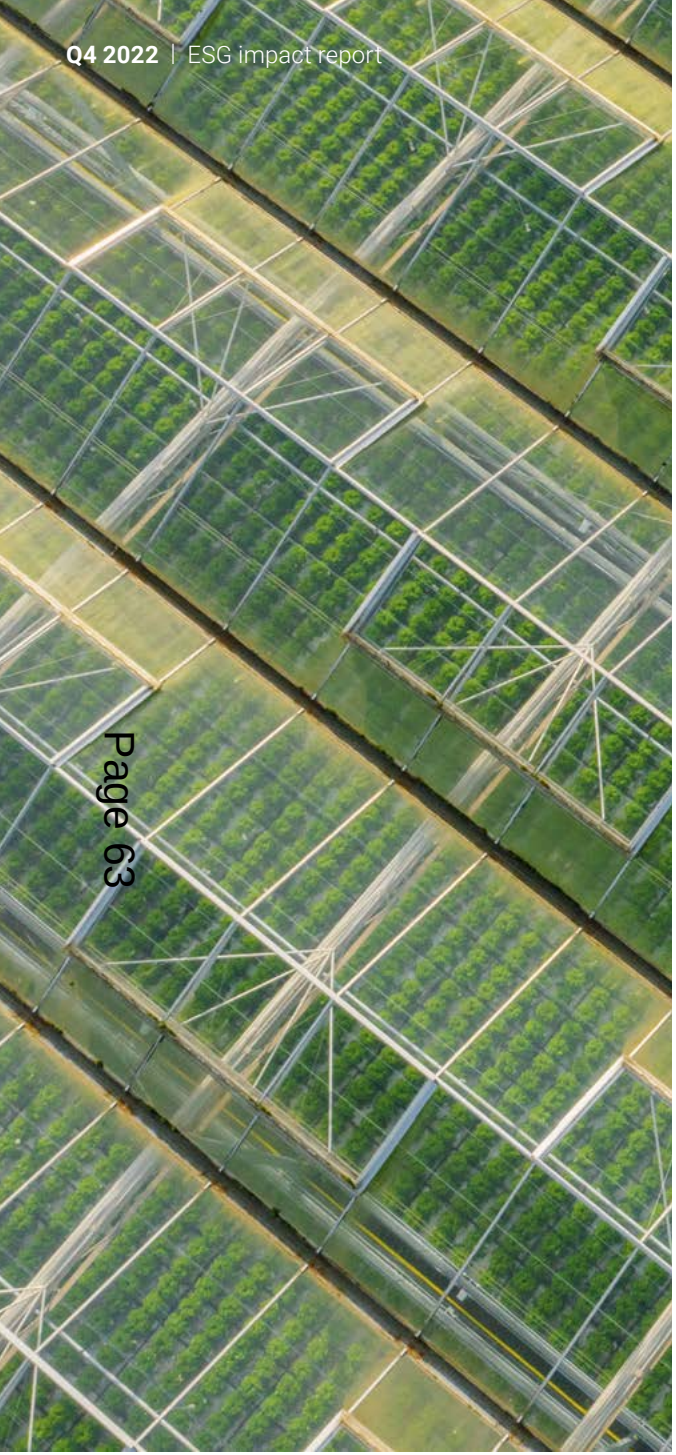

Significant votes

Company name	AVEVA Group plc*
ISIN	GB00BBG9VN75
Market cap	£10 billion (Source: Salesforce, 14 December 2022)
Sector	Technology
Issue identified	The UK-listed software company, AVEVA Group plc, is 59% owned by Schneider Electric. In September, the AVEVA board recommended a takeover by Schneider Electric. LGIM and several other shareholders were not satisfied with the bid, as we believed it to significantly undervalue the company, particularly given that the AVEVA business was in a period of transition. The initial EGM (Extraordinary General Meeting) was set for 17 November; however, following shareholder concerns about the deal and a raised offer from Schneider Electric, the meeting was adjourned to 25 November.
Summary of the resolution	Resolution 1 – Approve matters relating to the recommended cash acquisition of AVEVA Group plc by Ascot Acquisition Holdings Limited. EGM date: 25 November 2022.
How LGIM voted	Against the proposal (and against management recommendation)
Rationale for the vote decision	LGIM joined the collaborative engagement established and led by the investor forum. Our Stewardship team also engaged internally with LGIM's investment teams regarding this proposed deal. LGIM voted against the resolution as we considered the proposed acquisition to significantly undervalue the company.
Outcome	The bidder was forced to increase its offer by 4% in order to gain sufficient support, despite an AVEVA board recommendation. This case illustrates that potential takeover deals are not a foregone conclusion and that target boards are prepared to recommend a bid and then hand the decision over to their shareholders. It also illustrates the power of collaborative shareholder engagement, where the bidder increased their offer due to shareholder dissatisfaction. Given the acquirer, Schneider Electric, already controlled 60% of the AVEVA share capital, there was little chance of the deal not being approved. The deal was approved and the acquisition is expected to close in the first quarter of 2023.
Why is this vote 'significant'?	Mergers and acquisitions – this vote demonstrates the power of collaborative shareholder engagement in a takeover situation where we believed the original offer undervalued the company significantly.

*For illustrative purposes only. This is not a recommendation to buy or sell any security.

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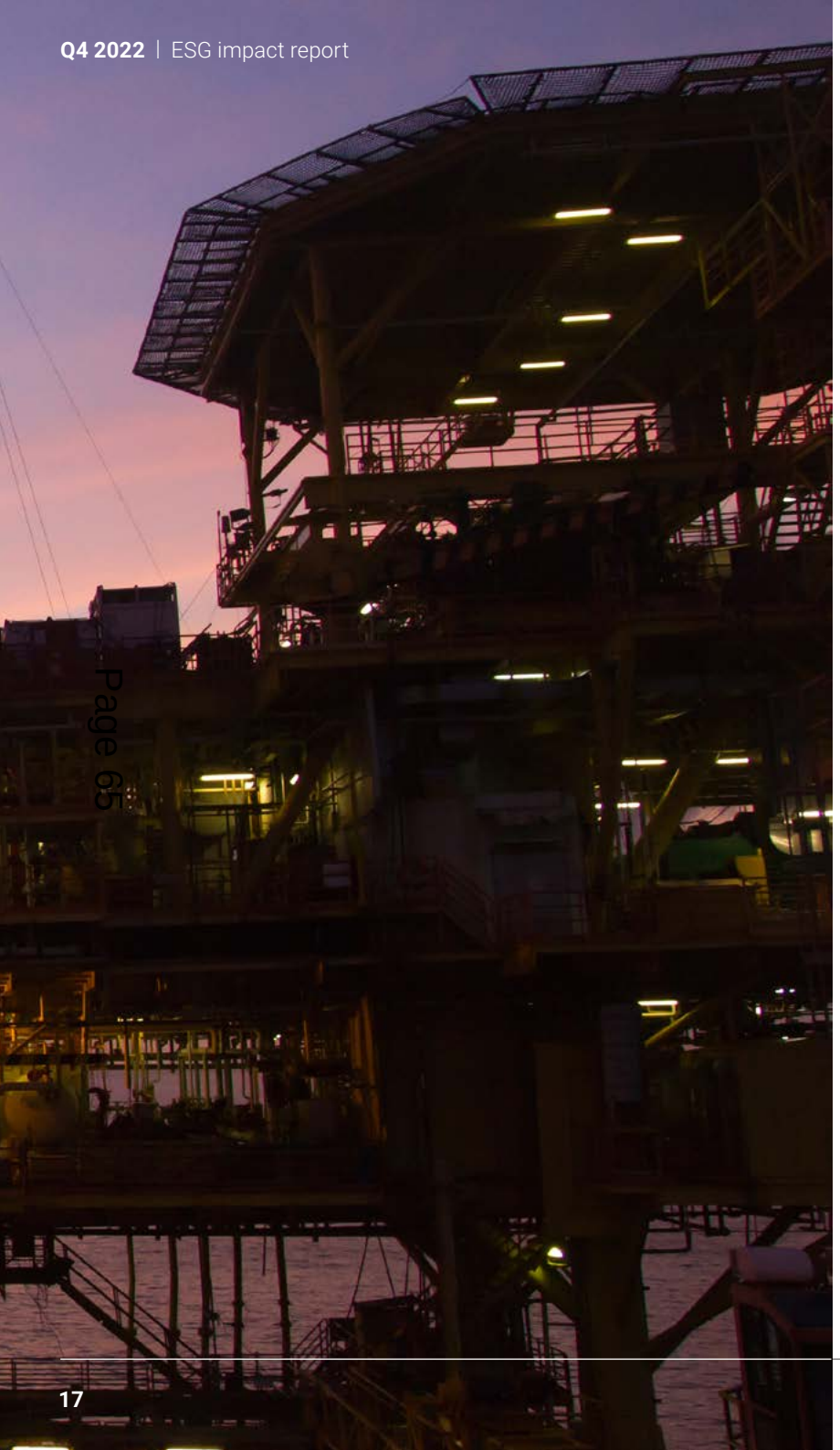
Environmental | Social | Governance



ESG: Governance

Update: bringing ESG into remuneration

While we at LGIM still believe that a substantial majority of incentive pay should be linked to delivering financial performance, ESG risks can clearly be financially material to a company's medium to long-term value. Our mantra here is: 'what gets measured gets done': if an action has a direct impact on a director's take-home pay, the attention on it will increase exponentially. It's therefore wise to set tangible ESG objectives against executive remuneration.

However, not all ESG metrics are equally suitable across all companies: the balance of importance and relevance will differ from sector to sector. Currently, when it comes to ESG metrics in executive pay, much, but not all of our focus is on climate. However, certain other ESG issues are also topical and will require addressing across different industries.

LGIM's expectations

ESG metrics may already form part of a company's strategy and be included in its published 'key performance indicators' ('KPIs'). If this is the case, there is no need to reinvent the wheel. However, certain ESG issues are more pressing and will require direct action. We believe companies exposed to high levels of ESG risks should include relevant and clearly measurable targets within their directors' pay, and we have set out the following expectations:

- **Health and safety:** In high-risk sectors, where the health and safety of employees is paramount (and potentially threatened), we expect a health and safety modifier (by way of malus) to ensure that directors are held accountable for loss of life within the workplace
- **Oil and gas:** Remuneration at oil and gas companies should prioritise financial value over fossil fuel production. Measures that directly encourage volume growth (such as reserve replacement ratios or production targets) risk incentivising over-investment
  - Financial measures (such as total shareholder return or balance sheet strength) or other strategic metrics are preferred – volume growth targets may result in a negative vote from LGIM

- **Climate:** Companies in sectors that can have a significant effect on climate change should link part of their pay to delivering on their climate mitigation goals
  - Metrics should be linked to science-based targets transition plans (ideally SBTi-approved or an equivalent methodology) and aim to achieve net zero by 2050 or sooner
  - Targets should also be set to create new opportunities that not only improve revenue, but have a positive impact on climate

Importantly, as we now have visibility of companies' short- to medium-term goals towards 2030, such targets lend themselves perfectly for inclusion in long-term incentive plans.

Therefore:

- From 2025, to ensure LGIM's support for a new pay policy, we expect climate targets to be included in the long-term incentive plan
- These targets should be in line with stated transition goals for reaching net zero and across the full value chain (scope 1, 2 and material scope 3 emissions)
- These targets should represent at least 20% of long-term incentive plan awards
- Or, where a company has a restricted share plan, one of the vesting underpins should be linked to achieving carbon reduction targets

The sectors that LGIM considers 'climate-relevant' under this policy are:

Autos, Apparel, Aviation, Banks, Cement, Chemicals, Food, Insurance, Mining, Oil & Gas, REITs, Shipping, Steel, Technology, Telecoms and Utilities

Our expectations for UK companies have been published on our website in our recently updated UK Executive Pay Principles.

Significant votes

Company name	Microsoft Corporation*
ISIN	US5949181045
Market cap	£1,528 billion (source: Salesforce, 22 December 2022)
Sector	Technology
Issue identified	In 2021, without seeking prior shareholder approval, Microsoft took the decision to recombine the roles of chair and CEO, which had previously been separate for many years.
Summary of the resolution	Resolution 1.4: Elect Director Satya Nadella AGM date: 13 December 2022
How LGIM voted	We voted against the resolution (against management recommendation).
Rationale for the vote decision	LGIM expects companies to have a separate chair and CEO on account of risk management and oversight considerations, and also because the roles are substantially different and require different skills. Previously, in Microsoft's 2021 AGM, we voted against both the re-election of the chair and of the board nomination committee chair/lead independent director, and we have conveyed our disappointment at this change.
Outcome	94.8% shareholders voted for the resolution (for the re-election of Satya Nadella). Nevertheless, we maintain our belief in the importance of the separation of the chair and CEO roles, on account of the different skillsets and different responsibilities of these roles. We were disappointed that Microsoft took the decision to recombine these roles, and will continue to engage with them on this and other topics.
Why is this vote 'significant'?	LGIM believes that, within the broader topic of board effectiveness, the roles of chair and CEO should be separate.

*For illustrative purposes only. This is not a recommendation to buy or sell any security.

Case study – Climate, Governance and M&A: Capricorn*

Background

At LGIM, we engage across the E, S and G of ESG. While climate change is often at the forefront of investors' minds when it comes to responsible investment, we believe that many ESG elements are linked, and that many decisions relating to climate ultimately come down to governance.

In this case study we demonstrate the combined engagements of LGIM's Stewardship, Investment and Climate Solutions teams in pushing for a better financial and environmental outcome for shareholders, and the power of combined shareholder action.

Identify: climate and governance

The actions of Capricorn's board in 2022 in seeking to merge with other energy companies raised some concerns about the company's governance and decision-making process, given the potential negative impact such decisions would have on Capricorn's shareholders. As a smaller-scale oil and gas company, Capricorn's climate credentials had been reasonable and until the surprising announcements by the board and its subsequent actions, no material governance concerns had previously been raised.

Engage: direct communication

The first proposed merger with Tullow Oil*, an Africa-based oil company, was announced in June 2022. LGIM's Investment Stewardship and Climate Solutions teams spoke directly with Capricorn's management team and directors to voice our concerns about the proposed transaction, as it didn't seem to advance the energy transition strategy for Capricorn's shareholders, in light of the increased exposure to oil prices and geographical risks. Additionally, we believe that such merger would have resulted in increased financial leverage and dramatically elevate climate transition risks.

In further conversations with Capricorn, we asked detailed questions about the process they had gone through in terms of deciding on this merger and whether other alternatives were considered. Nevertheless, despite mounting opposition from LGIM and other shareholders, Capricorn and Tullow initially proceeded with the merger before a decision was taken by Capricorn to abandon it, citing concerns about market conditions and external factors as the reason.

*For illustrative purposes only. This is not a recommendation to buy or sell any security.

The second merger proposal with NewMed*, an Israeli-based natural gas producer, was met with rising suspicion and even less support than the first and we met again with Capricorn to voice our concerns. We are not the only shareholder to have questioned the Capricorn board's actions, and one of its largest shareholders, Palliser Capital*, became more vocal about its objections to the proposed NewMed deal, which has also begun to attract attention and criticism in the press.[7]

Escalate: time for a change of direction

As a result of these unpopular proposals, Palliser Capital has called for an Extraordinary General Meeting to be held in January 2023, for shareholders to vote on a complete overhaul of the board while requesting the deposition of seven directors, including the CEO, and the appointment of six new members instead.

As reported widely in the press,[8] LGIM has declared its support for the restructure of the board. We believe that there has been a substantial breakdown in relations between the board and its shareholders, to such an extent that a change is now warranted. Adding our voice publicly to this action increases its strength and momentum and – to quote The Guardian – *"LGIM's intervention has changed the script."*[9]

At the time of writing,[10] the EGM has not yet taken place, but we will report on its results and our further actions in 2023.

*For illustrative purposes only. This is not a recommendation to buy or sell any security.

7 For example, Capricorn/NewMed: better price would align stars for E&P deal | Financial Times (ft.com)\

8. For example, Legal & General joins shareholder revolt at Capricorn Energy | Business | The Times and Activist investor demands shake-up at gas producer Capricorn Energy | Financial Times (ft.com)

9. Now would be a good moment for the chair of THG to find his voice | Nils Pratley | The Guardian

10. December 2022

Public policy update

As a long-term investor, we share a responsibility to ensure that global markets operate efficiently to protect the integrity of the market and address systemic risks, foster sustainable and resilient economic growth, and aim to protect the value of our clients' assets. Part of how LGIM acts on these responsibilities is by engaging in global policy dialogue, providing practical advice to policymakers and regulators on the key systemic issues.

LGIM in the press

For more information on our activities, press comments and quotes from LGIM, please see articles from Responsible Investor, Portfolio Institutional, We Wealth, Morningstar and Fundscene.

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COP27

All eyes were turned to Egypt as COP27 got underway, with high expectations following the momentous commitments made in 2021. Members of LGIM's responsible investment team attended the event, one highlight from which was the agreement for the UN FAO commitment to publish a roadmap for agricultural and food systems by COP28 in November 2023.[12] Food systems currently contribute around a third of global greenhouse gas emissions,[13] yet efforts to decarbonise the sector have plateaued. LGIM has long advocated for a comprehensive, science-based international plan for sustainable agriculture and land use; recognising the urgency of this issue, global leaders including former Secretary General of the United Nations Ban Ki-Moon and former President of Ireland Mary Robinson joined calls by a group of investors managing US$18 trillion in assets under management for policymakers and multilaterals (namely the United Nations FAO), to develop a science-based roadmap for the global agriculture and land-use sector. This effort was co-ordinated by the FAIRR initiative, a collaborative investor network that LGIM is a member of focusing on ESG risks and opportunities caused by intensive animal production.

In addition to aligning the sectors with a 1.5°C trajectory, it is anticipated that the UN FAO's roadmap will also set out clear targets and deliverables to protect the planet while developing sustainable food systems at a time of heightened food security risk.

At LGIM, we seek an economy that is both net zero and nature-positive, in which ecosystems are restored. We were pleased to see notable 'nature-related' events and 'nature-based solutions' being included in discussions for the first time.

Another highlight from COP27 was the announcement by the Transition Plan Taskforce ('TPT') of the publication of their disclosure framework and implementation guidance. Following on from the UK government's commitment at COP26 to make transition plans mandatory for listed companies and financial institutions, these publications provide financial institutions with the tools they need to credibly transition to a low carbon economy. The work of the TPT enables consistent and comparable reporting of transition plans, and builds on the UK government's leadership on climate disclosure.

12. COP27: Investors Give Warm Welcome as FAO Commit to Net Zero Roadmap for Food - FAIRR
13. https://www.nature.com/articles/s43016-021-00225-9

Net Zero

Following the High Court's ruling that the UK government's revised Net Zero Strategy was unlawful and lacked sufficient detail, the UK Department for Business, Energy, & Industrial Strategy (BEIS) launched an independent review of Net Zero. As a Group, L&G fed into the review through meetings and formally inputting into the Call for Evidence, highlighting the need for the UK's continued leadership and that there is no trade-off between economic growth and decarbonisation; a 'Just Transition' is key to the UK's long-term prosperity. We focused our input around three pillars: decarbonising our investment portfolio, using our scale and assets to influence, and reducing our operational carbon emissions. The further revised Net Zero Strategy is due to be launched in March 2023.

COP15

Our Investment Stewardship team attended the United Nations Biodiversity conference COP15 in December. LGIM had hoped for a 'Paris moment for nature', calling for a strengthening of disclosure and management, alignment of public finance and global roadmaps, and ambition, co-ordination and accountability.

Whilst in Montreal, the team contributed to panels and discussions, and engaged with other investors and policymakers, continuing our call for world leaders to agree a global framework that will halt and reverse nature loss over the coming decades. Keynote and central speeches throughout the summit focused on subsidies and a roadmap for the agriculture, food and land-use sectors, areas in which LGIM has been pushing for reform.

LGIM supported two targeted multi-stakeholder collaborations:

i. **'Ambitious GBF'** – led by UNEP FI, PRI, and Finance for Biodiversity. This statement was signed by 150 financial institutions representing US$24 trillion. It was targeted at negotiators to agree an ambitious framework

ii. **'Make it Mandatory**' – led by Business for Nature. This was targeted at negotiators to push for 'mandatory' disclosures from all businesses on their impact and dependencies on biodiversity

And we participated in the following panels:

- **'The Time to Act is Now'** – hosted by ShareAction, covering investors' engagement on biodiversity
- **'Aligning agricultural subsidies with nature and biodiversity goals: Shifting the trillions towards a nature-positive economy'** – hosted by the WWF (World Wildlife Fund), TIFS (Transformational Investing in Food Systems) and FAIRR (Farm Animal Investment Risk and Return), looking at ways to shift government subsidy programmes.

The Kunming-Montreal Global Biodiversity Framework

This is a momentous agreement that we hope will pave the way towards a more sustainable relationship with nature. As with all international agreements of this kind we will need to unpack what this will mean for businesses and investors, but we are pleased that, despite some necessary compromises, negotiators have agreed this ambitious framework, which includes robust 2030 targets to put us on course towards a 2050 goal of 'Living in Harmony with Nature'

We believe LGIM and other investors share the collective responsibility to raise global standards and accelerate action to reduce biodiversity loss. Investors are facing a common challenge presented by the lack of comprehensive data, robust frameworks, standardised metrics and definitions. Whilst some good data sets do exist, they are not at the scale required. The developing 'Taskforce for Nature Related Disclosures' (TNFD) framework, and announcement by the IFRS International Sustainability Standards Board (ISSB) of the inclusion of Nature and a Just Transition into their framework will be crucial. ISSB and TNFD are working closely together, and we are calling for governments to adopt these frameworks to strengthen how corporates manage biodiversity impacts and dependencies and disclose them clearly. The Transition Plans Taskforce is also working to integrate nature into its expectations of good practice transition plans.[14]

14. An HM Treasury initiative which LGIM are contributing to that aims to develop a gold standard for private sector climate transition plans

LGIM's actions on biodiversity and deforestation

LGIM has been engaging on these topics for over five years, ahead of this landmark framework, ramping up our own work and commitments on biodiversity. Over the past year we have:

- Launched standalone biodiversity and deforestation policies, setting out our current commitments
- Expanded LGIM's ESG Score to include biodiversity
- Engaged with roughly 350 companies exposed to deforestation risks, as part of our recently launched deforestation campaign
- Expanded our Climate Impact Pledge to capture biodiversity risks more explicitly
- Engaged with policymakers around the world

Our recent blog posts on our policy priorities at COP15 and LGIM's approach to tackling biodiversity loss provide more detail on our aims and actions.

Sustainable finance

In the United Kingdom, the Financial Conduct Authority (FCA) has released the long-awaited consultation on 'Sustainability Disclosure Requirements (SDR) and investment labels' that includes a package of measures to strengthen transparency on sustainable investment across the market. LGIM has been engaged with the FCA over the course of 2022 on this topic and will continue to in 2023, including providing a formal response to the consultation in early 2023. LGIM has provided some commentary to strengthen understanding of the SDR proposal in a series of articles, Spotlight on SDR, that can be found here: Responsible Investing | LGIM Adviser.

S AMR – Pasteur Act

In December, under the umbrella of Investor Action on AMR, we wrote to the US Congress (the Honourable Nancy Pelosi, Speaker of the House; Chuck Schumer, Majority Leader; Kevin McCarthy and Mitch McConnell, Republican Leaders of the House of Representatives), urging them to enact the PASTEUR Act in the end-of-year package.

In the letter, we emphasised that we believe the PASTEUR Act would contribute to protecting modern medicine by supporting the development of critically important new antibiotics for bacterial and fungal infections. The Act creates market incentives for the commercialisation of new and novel antibiotics to treat resistant infections. The aim of the Bill, which would disconnect companies' *profits* from the *volume* of antibiotics sold, addresses the market challenges that have led many pharmaceutical companies to abandon antibiotic development, thereby weakening the pipeline for new, innovative antibiotics. The Act would authorise the US Department of Health and Human Services to enter into subscription contracts for critical-need antimicrobial drugs. These types of subscription contracts also go under the name of the 'Netflix model' for antibiotics and have been adopted in the UK, the first country to use this kind of model for the development of new antibiotics. The Bill has bipartisan support and is widely backed by researchers, healthcare policy experts and drug company executives. But when Consolidated Appropriations Act for 2023 was voted upon just before the Christmas holidays, the PASTEUR Act had been scrapped. The proposed legislation will be re-introduced during next Congress.

Our policy and collaborative work continue to play a key part of our engagement on AMR, an area where evolution of the regulatory environment remains crucial to tackling these challenges.

G Governance in Japan

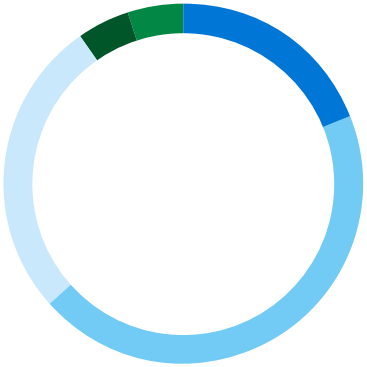
We have observed corporate governance progress in Japan in recent years (increase in the number of outside directors, female directors, reduction in cross shareholdings), but there is more room to improve. As a member of Asia Corporate Governance Association (ACGA) and International Corporate Governance Network (ICGN), LGIM engaged with Keidanren (the largest business federation in Japan), Financial Services Agency (FSA), Ministry of Economy, Trade, and Industry (METI) and Japan Exchange Group/Tokyo Stock Exchange (TSE) on various governance issues. Key topics covered were i) strengthening disclosure of senior advisory position; ii) aligning the publication of securities report with the international norm, i.e. before AGMs; iii) improving gender diversity; iv) Board independence; and v) mandating sustainability corporate reporting and the importance of adopting the IFRS ISSB standards.

Regional updates

UK - Q4 2022 voting summary

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	56	0	0
Capitalisation	262	12	0
Directors related	543	28	0
Remuneration related	106	17	0
Reorganisation and Mergers	25	3	0
Routine/Business	270	3	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Directors Related	0	0	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	0	0	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	0	0	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	1262	63	0
Total resolutions	1325		
No.	82		
No. EGMs	34		
No. of companies voted	107		
No. of companies where voted against management /abstained at least one resolution	36		
% no. of companies where at least one vote against management (includes abstentions)	34%		

Votes against management



- Anti-takeover related - 0
- Capitalisation - 12
- Directors related - 28
- Remuneration-related - 17
- Reorganisation and Mergers - 3
- Routine/Business - 3
- Shareholder Proposal - Compensation - 0
- Shareholder Proposal - Corporate Governance - 0
- Shareholder Proposal - Directors related - 0
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 0
- Shareholder Proposal - Other/Miscellaneous - 0
- Shareholder Proposal - Routine/Business - 0
- Shareholder Proposal - Social/Human Rights - 0
- Shareholder Proposal - Social - 0

Number of companies voted for/against management

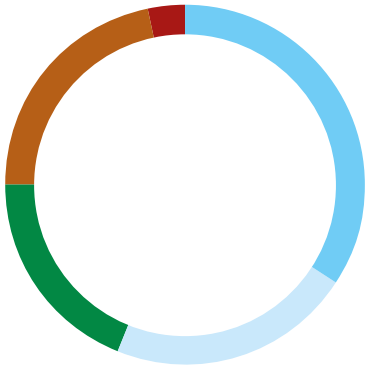
- No. of companies where we supported management
- No. of companies where we voted against management

LGIM voted against at least one resolution at 34% of UK companies over the quarter.

Europe - Q4 2022 voting summary

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	0	0	0
Capitalisation	22	0	0
Directors related	40	8	3
Remuneration related	14	7	0
Reorganisation and Mergers	8	0	0
Routine/Business	61	5	1
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Directors Related	7	2	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	0	0	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	1	0	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	153	22	4
Total resolutions	179		
No. AGMs	10		
No. EGMs	18		
No. of companies voted	27		
No. of companies where voted against management /abstained at least one resolution	7		
% no. of companies where at least one vote against management (includes abstentions)	26%		

Votes against management



- Anti-takeover related - 0
- Capitalisation - 0
- Directors related - 11
- Remuneration-related - 7
- Reorganisation and Mergers - 0
- Routine/Business - 6
- Shareholder Proposal - Compensation - 0
- Shareholder Proposal - Corporate Governance - 0
- Shareholder Proposal - Directors related - 7
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 0
- Shareholder Proposal - Other/Miscellaneous - 0
- Shareholder Proposal - Routine/Business - 1
- Shareholder Proposal - Social/Human Rights - 0
- Shareholder Proposal - Social - 0

Number of companies voted for/against management

- No. of companies where we supported management
- No. of companies where we voted against management

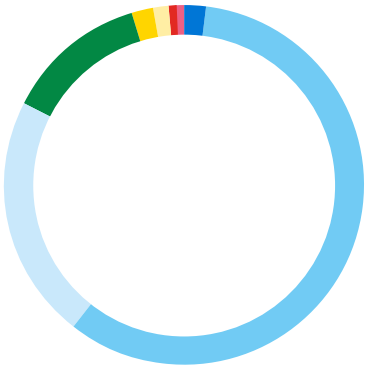
LGIM voted against at least one resolution at 26% of European companies over the quarter.

Source for all data: LGIM as at 31 March 2022. The votes on this page and in the pages that follow represent voting instructions for our main FTSE pooled index funds.

North America - Q4 2022 voting summary

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	7	0	0
Capitalisation	9	3	0
Directors related	231	88	0
Remuneration related	11	33	0
Reorganisation and Mergers	4	0	0
Routine/Business	21	19	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Directors Related	0	1	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	3	2	0
Shareholder Proposal - Other/Miscellaneous	2	4	0
Shareholder Proposal - Routine/Business	0	1	0
Shareholder Proposal - Social/Human Rights	1	1	0
Shareholder Proposal - Social	1	2	0
Total	290	154	0
Total resolutions	444		
No. AGMs	34		
No. EGMs	8		
No. of companies voted	41		
No. of companies where voted against management /abstained at least one resolution	38		
% no. of companies where at least one vote against management (includes abstentions)	93%		

Votes against management



- Anti-takeover related - 0
- Capitalisation - 3
- Directors related - 88
- Remuneration-related - 33
- Reorganisation and Mergers - 0
- Routine/Business - 19
- Shareholder Proposal - Compensation - 0
- Shareholder Proposal - Corporate Governance - 0
- Shareholder Proposal - Directors related - 0
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 3
- Shareholder Proposal - Other/Miscellaneous - 2
- Shareholder Proposal - Routine/Business - 0
- Shareholder Proposal - Social/Human Rights - 1
- Shareholder Proposal - Social - 1

Number of companies voted for/against management

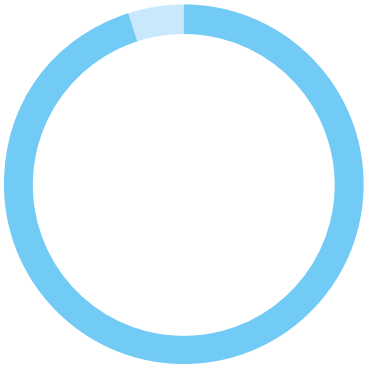
- No. of companies where we supported management
- No. of companies where we voted against management

LGIM voted against at least one resolution at 93% of North American companies over the quarter.

Japan - Q4 2022 voting summary

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	0	0	0
Capitalisation	1	0	0
Directors related	105	20	0
Remuneration related	3	1	0
Reorganisation and Mergers	15	0	0
Routine/Business	8	0	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Directors Related	0	0	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	0	0	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	0	0	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	132	21	0
Total resolutions	153		
No. AGMs	12		
No. EGMs	5		
No. of companies voted	17		
No. of companies where voted against management /abstained at least one resolution	12		
% no. of companies where at least one vote against management (includes abstentions)	71%		

Votes against management



- Anti-takeover related - 0
- Capitalisation - 0
- Directors related - 20
- Remuneration-related - 1
- Reorganisation and Mergers - 0
- Routine/Business - 0
- Shareholder Proposal - Compensation - 0
- Shareholder Proposal - Corporate Governance - 0
- Shareholder Proposal - Directors related - 0
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 0
- Shareholder Proposal - Other/Miscellaneous - 0
- Shareholder Proposal - Routine/Business - 0
- Shareholder Proposal - Social/Human Rights - 0
- Shareholder Proposal - Social - 0

Number of companies voted for/against management

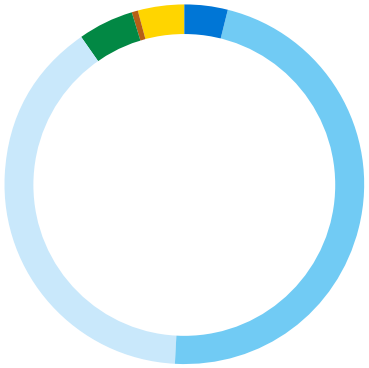
- No. of companies where we supported management
- No. of companies where we voted against management

LGIM voted against at least one resolution at 71% of Japanese companies over the quarter.

Asia Pacific - Q4 2022 voting summary

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	13	0	0
Capitalisation	9	7	0
Directors related	261	84	0
Remuneration related	156	71	0
Reorganisation and Mergers	24	0	0
Routine/Business	43	9	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Directors Related	1	3	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	7	3	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	0	7	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	514	184	0
Total resolutions	698		
No. AGMs	98		
No. EGMs	23		
No. of companies voted	118		
No. of companies where voted against management /abstained at least one resolution	75		
% no. of companies where at least one vote against management (includes abstentions)	64%		

Votes against management



- Anti-takeover related - 0
- Capitalisation - 7
- Directors related - 84
- Remuneration-related - 71
- Reorganisation and Mergers - 0
- Routine/Business - 9
- Shareholder Proposal - Compensation - 0
- Shareholder Proposal - Corporate Governance - 0
- Shareholder Proposal - Directors related - 1
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 7
- Shareholder Proposal - Other/Miscellaneous - 0
- Shareholder Proposal - Routine/Business - 0
- Shareholder Proposal - Social/Human Rights - 0
- Shareholder Proposal - Social - 0

Number of companies voted for/against management

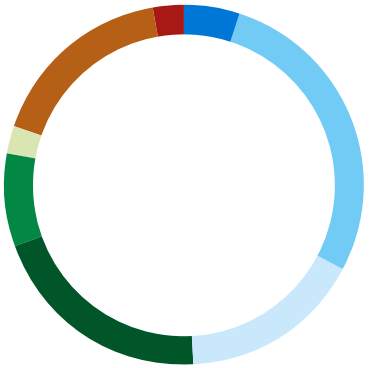
- No. of companies where we supported management
- No. of companies where we voted against management

LGIM voted against at least one resolution at 64% of Asia Pacific companies over the quarter.

Emerging markets - Q4 2022 voting summary

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	0	0	0
Capitalisation	843	68	0
Directors related	926	205	153
Remuneration related	63	213	0
Reorganisation and Mergers	662	265	0
Routine/Business	538	109	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	32	2	0
Shareholder Proposal - Directors Related	217	31	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	0	0	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	36	3	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	3317	896	153
Total resolutions	4366		
No. AGMs	46		
No. EGMs	522		
No. of companies voted	548		
No. of companies where voted against management /abstained at least one resolution	268		
% no. of companies where at least one vote against management (includes abstentions)	49%		

Votes against management



- Anti-takeover related - 0
- Capitalisation - 68
- Directors related - 358
- Remuneration-related - 213
- Reorganisation and Mergers - 265
- Routine/Business - 109
- Shareholder Proposal - Compensation - 0
- Shareholder Proposal - Corporate Governance - 32
- Shareholder Proposal - Directors related - 217
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 0
- Shareholder Proposal - Other/Miscellaneous - 0
- Shareholder Proposal - Routine/Business - 36
- Shareholder Proposal - Social/Human Rights - 0
- Shareholder Proposal - Social - 0

Number of companies voted for/against management

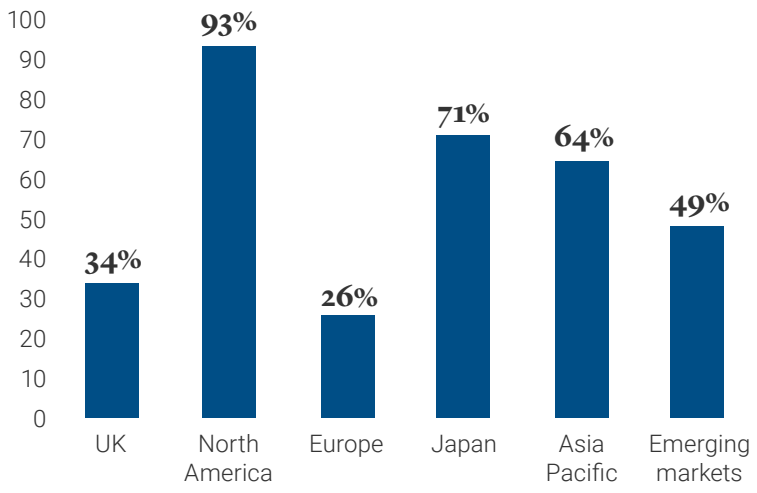
- No. of companies where we supported management
- No. of companies where we voted against management

LGIM voted against at least one resolution at 49% of emerging market companies over the quarter.

Global - Q4 2022 voting summary

Proposal category	Total for	Total against	Total abstentions	Total
Anti-takeover related	76	0	0	76
Capitalisation	1146	90	0	1236
Directors related	2106	433	156	2695
Remuneration related	353	342	0	695
Reorganisation and Mergers	738	268	0	1006
Routine/Business	941	145	1	1087
Shareholder Proposal - Compensation	0	0	0	0
Shareholder Proposal - Corporate Governance	32	2	0	34
Shareholder Proposal - Directors Related	225	37	0	262
Shareholder Proposal - General Economic Issues	0	0	0	0
Shareholder Proposal - Health/Environment	10	5	0	15
Shareholder Proposal - Other/Miscellaneous	2	4	0	6
Shareholder Proposal - Routine/Business	37	11	0	48
Shareholder Proposal - Social/Human Rights	1	1	0	2
Shareholder Proposal - Social	1	2	0	3
Total	5668	1340	157	7165
Total resolutions				7165
No. AGMs				282
No. EGMs				610
No. of companies voted				858
No. of companies where voted against management /abstained at least one resolution				436
% no. of companies where at least one vote against management (includes abstentions)				51%

% of companies with at least one vote against (includes abstentions)



Number of companies voted for/against management

- No. of companies where we supported management
- No. of companies where we voted against management

Global engagement summary

At the time of publishing, the engagement data on this page excludes communications in relation to our deforestation and dual-class shares campaigns.

In Q4 2022, the Investment Stewardship team held

891 engagements **with** **665** companies

(vs. 137 engagements with 114 companies last quarter)

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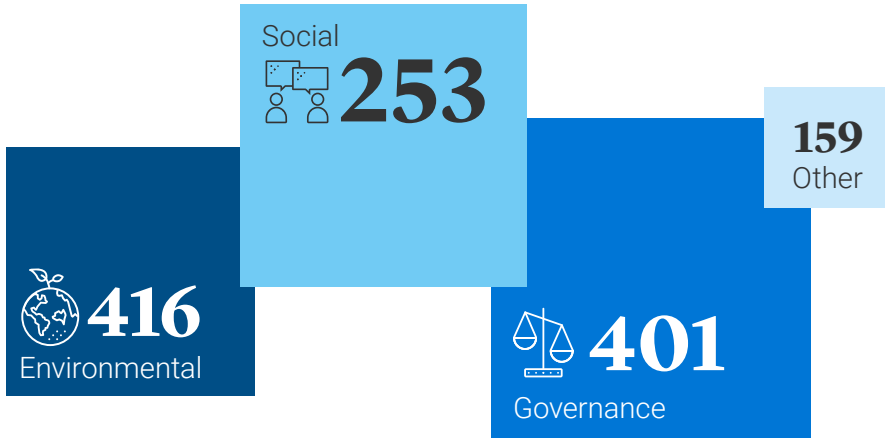
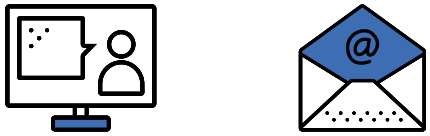
Breaking down the engagement numbers - Q4 2022

At the time of publishing, the engagement data on this page excludes communications in relation to our deforestation and dual-class shares campaigns.

Breakdown of engagement by themes



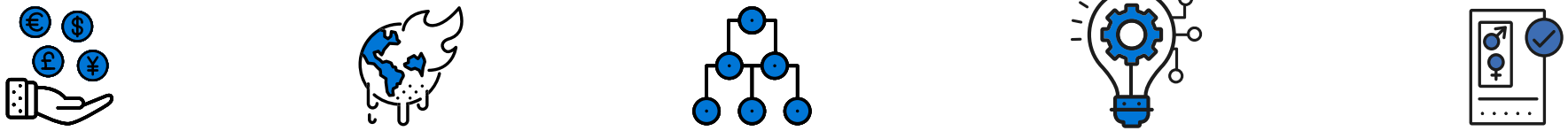
Engagement type



295
Company meetings

596
Emails / letters

Top five engagement topics*



234
Remuneration

407
Climate change

94
Board composition

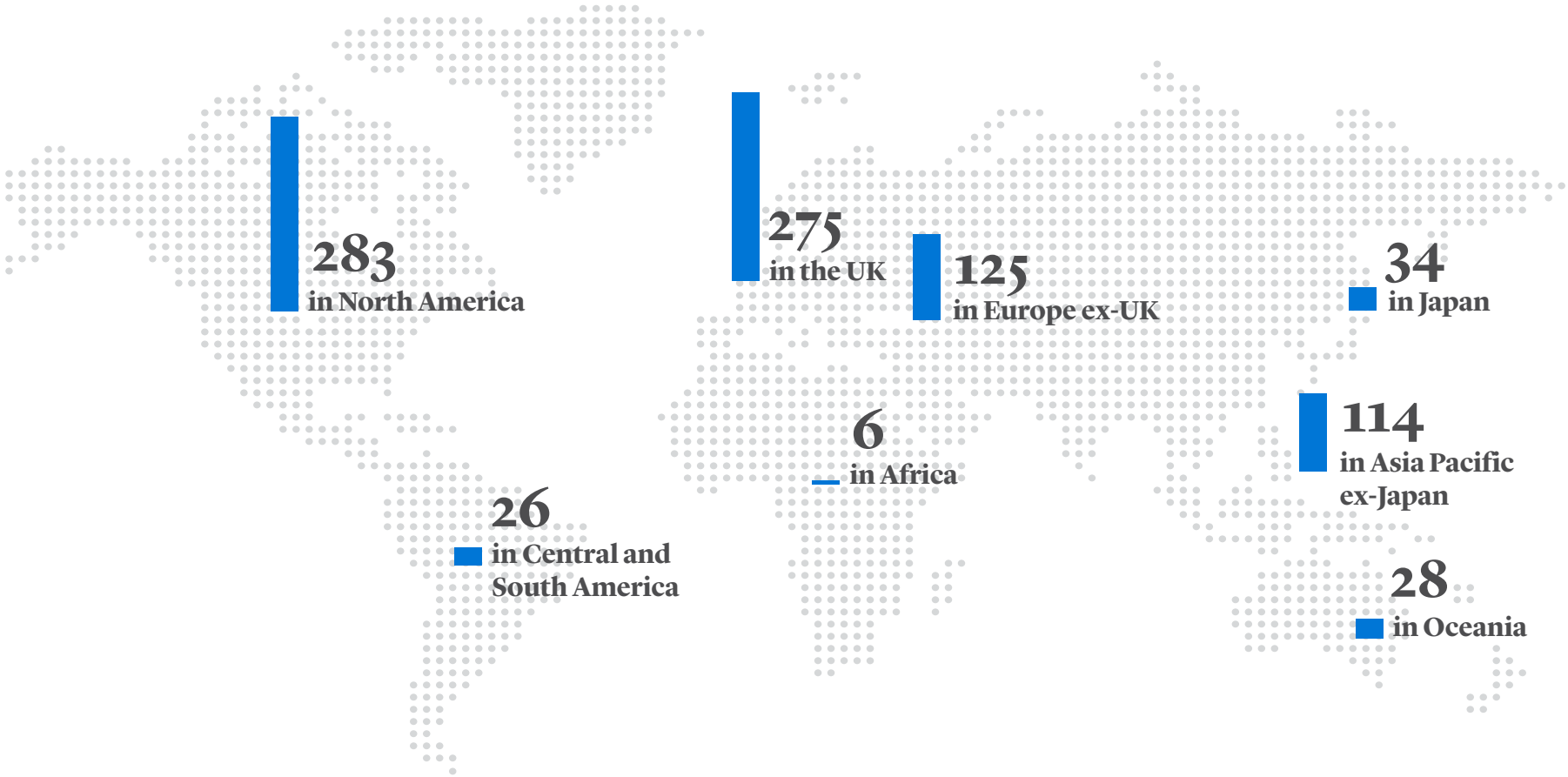
92
Strategy

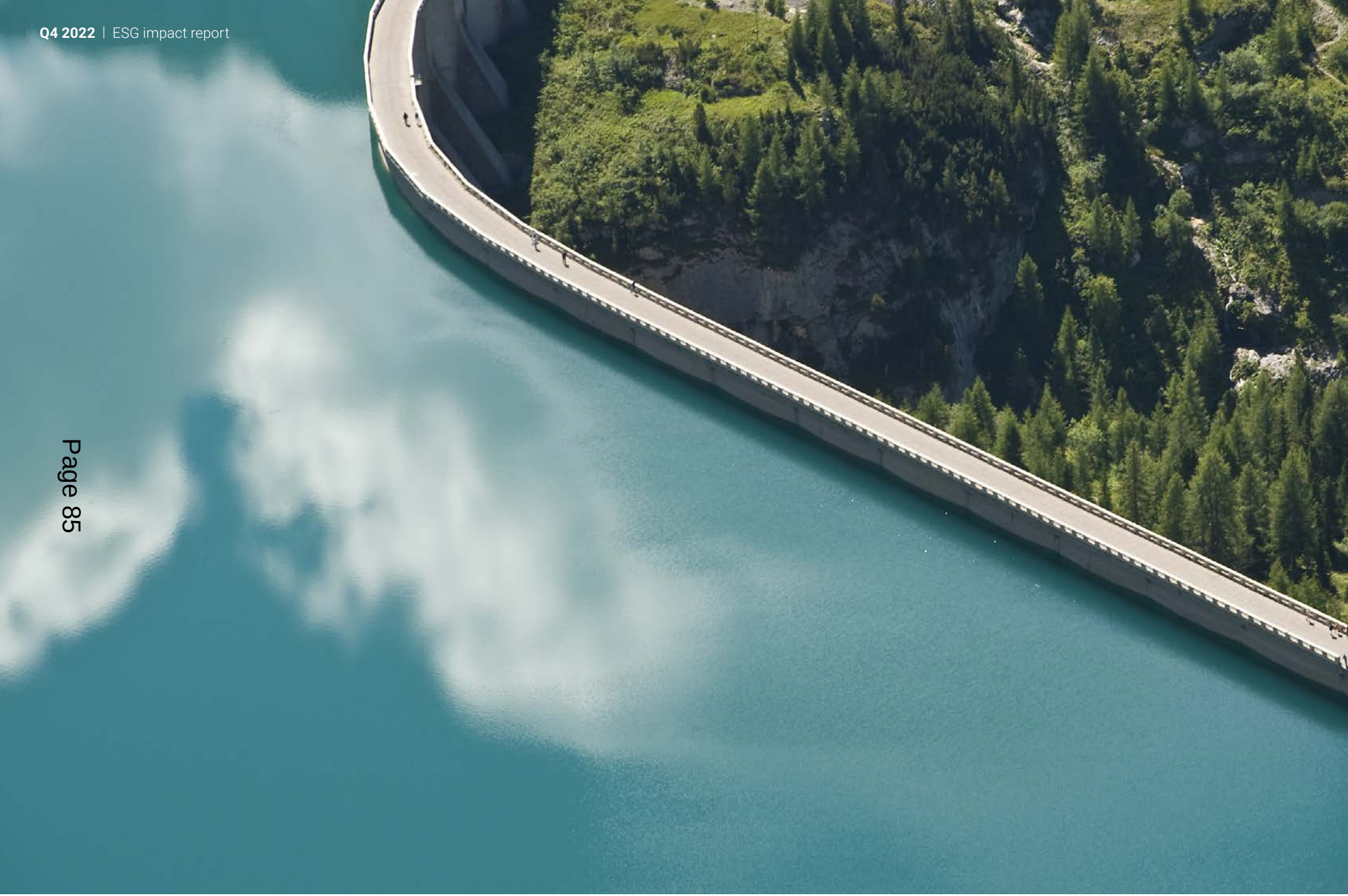
174
Gender diversity

*Note: an engagement can cover more than a single topic

At the time of publishing, the engagement data on this page excludes communications in relation to our deforestation and dual-class shares campaigns.

Regional breakdown of engagements





Contact us

For further information about LGIM, please visit lgim.com or contact your usual LGIM representative

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Non-Executive Report of the: **Pensions Committee** Monday, 13 March 2023	TOWER HAMLETS
Report of: Caroline Holland, Interim Corporate Director, Resources	**Classification:** unrestricted
Pensions Administration and LGPS Quarterly Update – December 2022	

The report was not published five clear days in advance of the meeting. Therefore, before this item can be considered at this meeting, the Chair of the Board would need to be satisfied that it is necessary to consider Quarterly Administration and LGPS updates at this meeting, the Board may also take the view that it is important that there should not be an extended period without any member oversight.

Originating Officer(s)	Miriam Adams
Wards affected	(All Wards)

Executive Summary

To provide Members with information relating to the administration and performance of the Fund over the last quarter as well as update on key LGPS issues and initiatives which impact the Fund.

Recommendations:

The Pensions Committee is recommended to:

1. Note and comment on the contents of this report and appendix

1. REASONS FOR THE DECISIONS

1.1 This Committee need to receive this report on a regular basis to discharge its duty.

2. ALTERNATIVE OPTIONS

2.1 There are no alternative options to this report.

3. DETAILS OF THE REPORT

ADMINISTRATION UPDATE
Scheme Membership at 31 December 2022.

3.1 A core part of running the pension fund is the maintenance of scheme membership records that enable scheme benefits to be calculated in addition to dealing with new members joining and members leaving the scheme. This activity is carried out in house. The team also deals with employer related issues, including new employers and cessation. Task outstanding reported last quarter slightly moved since reported due to reopening of a few frozen and pensioner cases since quarter end report.

Membership Numbers	Active	Deferred	Undecided	Pensioner	Frozen
LGPS	7,699	8,386	144	7,074	2,759
% of Membership	29.54	32.18	0.55	27.14	10.59
Change from last quarter	7	-11	61	-5	242

Membership Category	**At 30/09/22**	**+/- Change (%)**	**At 31/12/2022**
Active	7,692	0.09	7,699
Deferred	8,397	-0.13	8,386
Undecided	83	73.49	144
Pensioner (incl spouse & dependant members)	7,079	-0.07	7,074
Frozen	2,517	27.91	2,759
Total	**25,767**	**2.57**	**26.062**

3.2 The table below shows tasks completed and outstanding on 31 December 2022.

Casetype	**Cases Outstanding Sept 2022**	**New Cases**	**Cases Closed**	**Cases Outstanding Sept 22**
Transfer in quotes	8	43	32	19
Transfer Out quotes	8	82	72	18
Employee estimates	9	70	69	10
Retirement quotes	10	105	102	13
Preserved benefits	39	87	100	26
Opt out	23	206	204	25
Refund Calculations	18	116	125	9
Refund Payments	9	101	95	15
Death in payment or in service	116	101	148	69
Actual Transfers In	7	36	33	10
Actual Transfers Out	5	62	56	11

Others	38	499	435	102
Starters	5	522	527	0
Leavers	46	144	147	43
Total Case	**341**	**2,174**	**2,145**	**370**

3.3 The above tables exclude most tasks received via the pension team inbox and telephone queries. Most queries are currently actioned immediately without logging them to avoid further delay to existing backlog. Some queries like refunds, opt outs, death notifications, leavers, retirement quotes are logged as tasks and allocated to members of the team to action.

3.4 2022 Triennial Valuation Update
The Fund held its employer forum on 11 January 2023, the scheme actuary presented the whole fund results, valuation process, draft Funding Strategy Statement in the first half of the Forum after which employer 1-2-1 sessions took place providing employer with opportunity to discuss individual results with the scheme actuary.
Additional 2022 valuation reporting requirement include explicit statements about how climate change risk has been factored into the valuation and clear information on any contribution prepayments have been calculated.

Life Certificates 2023

3.5 All overseas pensioners and dependents are required to complete a Life Certificate each year which serves as an existence check. The 2023 Life Certification process commenced in February. Overseas pensioners who do not return Life Certificates after 2 remainders will have their pensions suspended.

Update on workflows

3.6 All workflows have now been completed for all key pension administration tasks. A total of 42 workflows were produced, this helps ensure consistency, monitoring and KPI's.

Workflow Name/Description	Workflow Name/Description
AHRETA - Retirement (Actual)	AHIHRETQ - Ill Health Retirement (Quote)
AHRETQ - Retirement (Quote)	AHFLXRQ - Flexible Retirement (Quote)
AHRFNDA - Refund (Actual)	AHEARLYQ - Early Retirement (Quote)
AHRFNDF - Refund frozen	AHLATERQ - Late Retirement (Quote)
AHDEFLV - Deferred Leaver	AHREDUNQ - Redundancy Retirement (Quote)
AHDVRCA - Divorce (Actual)	AHADDRES - Change of Address
AHDVRCQ - Divorce (Quote)	AHNOMIN - Nomination

AHTVIQ - Transfer in (Quote)	AHNEWST - New Starter
AHTVOQ - Transfer Out (Quote)	AHDBPAYA - Deferred into Payment (Actual)
AHDEATH - Death	AHDBPAYQ - Deferred into Payment (Quote)
AHDINSA - Death in Service (Actual)	AHMEMENQ - Member Enquiry
AHDDEFA - Death from Deferred (Actual)	AHBENEST - Benefit Estimate (Quote)
AHDDEPA - Death of Dependant (Actual)	AHAGG - Aggregation
AHDINSQ - Death In Service (Quote)	OVERPAYM - Recovery of Overpayment
AHDDEFQ - Death From Deferred (Quote)	AVCREQ - AVC Request
AHDDEPQ - Death of Dependant (Quote)	AVCCNFM - AVC Process
AHIHRETA - Ill Health Retirement (Actual)	APCREQ - APC Request
AHFLXRA - Flexible Retirement (Actual)	APCCNFM - APC Process
AHEARLYA - Early Retirement (Actual)	BANKCHGE - Change of Bank Details
AHLATERA - Late Retirement (Actual)	OPTOPRT1 - Opt out Forms
AHREDUNA - Redundancy Retirement (Actual)	OPTPRT2 - Opt Out Process
	BACSRTN - BACS Return

3.7 A review of letters have since commenced to ensure only letters which have the most up to date regulations are in use. Once completed these letters would be linked to specific workflows. The use of barcode letters is also underway to ensure that posts are easily scanned to tasks.

3.8 The table below shows performance against CIPFA suggested timelines. Some tasks such as transfers in and out as well as processing of deaths and retirements require initial responses from 3rd parties, other pension funds, lawyers or scheme members which sometimes take time.

			July	August	September
Retirements	**Altair Workflow Ref**	**CIPFA Target Days**	**% Within Target**	**% Within Target**	**% Within Target**
Voluntary	AHEARLYA	15	80.00	100.00	45.45
Redundancy	AHREDUNA	15	50.00	-	100
Medical	AHIHRETA	15	100.00	100.00	-
Late	AHLATERA	15	50.00	33.33	100
Flexible	AHFLEXRA	15	100.00	100.00	100
Deferred into Payment	AHDBPAYA	15	30.00	44.44	34.62
Transfers					
Transfer In - Quotes	AHTVIQ	10	63.64	37.50	69.23
Transfer Out - Quotes	AHTVOQ	10	72.73	24.00	50
Transfer In - Actual	IFAIN03 & TVIN03	0	Workflows now completed. Reporting to commence		
Transfer Out - Actual	IFAOUT02 & TVOUT02	0	Workflows now completed. Reporting to commence		
Refunds					
Refund Calculations	AHRFNDF	10	58.49	58.54	81.18
Refund Payments	AHRFNDA	10	78.79	50.00	64.52
Estimates					
Voluntary	AHBENEST & AHEARL	15	88.24	75.00	57.89
Redundancy	AHREDUNQ	15	100.00	100.00	60
Medical	AHIHRETQ	15	100.00	100.00	0
Late	AHLATERQ	15	50.00	100.00	80
Flexible	AHFLEXRQ	15	100.00	100.00	100
Deferred into Payment	AHDBPAYQ	15	81.63	66.67	83.33
Deferred					
Deferred Calculations	AHDEFLV	30	77.46	96.67	89.87
Opt Out					
Opt Out	OPTOUT	2	Workflows now completed. Reporting to commence		
New Starters					
New Starters	AHNEWST	40	100.00	42.97	54
Nominations					
Nomination Changes	AHNOMIN	10	66.67	50.00	100
Address					
Address Changes	AHADDRES	15	86.36	88.89	86.36
Bank Account					
Bank Accoun Change	BANK-01	0	Workflows now completed. Reporting to commence		
General Enquiry					
General Enquiry	AHMEMBER	10	67.16	51.28	73.91
Deaths					
Death Cases - General	AHDEATH	15	59.52	73.08	77.14
		Average	**75.49**	**71.07**	**71.79**

EMPLOYER UPDATES

3.9 Employers with active members on 31 December 2022.

Administering Authority	**Scheduled Bodies**
London Borough of Tower Hamlets	Attwood Academy (Ian Mikardo School)

Admitted Bodies	Boleyn Mult-Academy Trust
Age UK East London	Bishop Challoner
Atlantic Cleaning Services	Canary Wharf College
Compass Contract Services Limited	City Gateway
East End Homes	Cyril Jackson Academy
Greenwich Leisure Limited	East London Arts & Music
Juniper Ventures Ltd	Gateway (Bethnal Green & Vic)
Mediquip	Letta Trust (Stebon and Bygrove Schools)
Olive Dining	London Enterprise Academy
One Housing Group (formerly Island Homes)	Mulberry Academy
Phoenix Trust – closed scheme	Paradigm Trust (Culloden, Old Ford and Solebay Primary Schools)
Purgo Supplies Services Ltd	Sir William Burrough
Tower Hamlets Community Housing Limited	St. Pauls Way Community School
Taylor Shaw	Tower Hamlets Homes Limited
Vibrance (formerly Redbridge Community Housing Limited)	Wapping High School
Wettons Cleaning Limited	

Employer Data Quality

3.10 The following employers - Council, Tower Hamlet Homes, Mulberry Academy Trust, East End Homes and Bowden House School all of which use the internal payroll service of the council are yet to commence uploading of monthly payroll data to the pensions iconnect system.

The Pensions Admin Team in respect of these employers continues to extract monthly payroll data for populating pension system from council resource link system pending when the payroll team takes on this responsibility. Data extracted still remain incomplete and inaccurate in some instances.

Admission of New Employers

3.11 A number of employer admissions are currently in the pipeline. These include Accent Catering CH&CO and COMPASS.

Employer Cessation

3.12 Last active employee of Gateway Housing Association (formerly Bethnal Green and Victoria Park Housing Association) left in September 2022. This process triggers a cessation. The actuary has been informed and cessation calculations are underway.

LGPS SCHEME and LEGISLATIVE UPDATES

Contribution Employee Contribution Bands

3.13 The table below sets out the employee contribution bands effective from 1 April 2023. These are calculated by increasing the 2022/23 employee contribution bands by the 1 September 2022 CPI figures of 10.1 per cent and then rounding down the result to the nearest £100.

Band	Actual pensionable pay for an employment	Main section contribution rate for that employment	50/50 section contribution rate for that employment
1	Up to £16,500	5.50%	2.75%
2	£16,501 to £25,900	5.80%	2.90%
3	£25,901 to £42,100	6.50%	3.25%
4	£42,101 to £53,300	6.80%	3.40%
5	£53,301 to £74,700	8.50%	4.25%
6	£74,701 to £105,900	9.90%	4.95%
7	£105,901 to £124,800	10.50%	5.25%
8	£124,801 to £187,200	11.40%	5.70%
9	£187,201 or more	12.50%	6.25%

Annual Allowance for tax year 2021/ 2022

3.14 The issue of Pensions savings statements to scheme members who exceeded their annual allowance in the 2021/22 tax year is ongoing. The process has been delayed in part by data issues and Hymans turnaround time.

McCloud update Progress

3.15 LGPS guidance on McCloud is expected at the end of February which is Expected to set out options administering authorities in England and Wales May consider if they are unable to collect the data needed to implement the McCloud remedy. It is expected to also cover both missing data and data the Fund is not confident as accurate.

McCloud Legislative Update
Teachers Pensions McCloud remedy and the LGPS implementation of the McCloud remedy in the Teachers' Pension Scheme (T P S) means that some teachers will be retrospectively eligible for the L G P S for the period from 1 April 2015 to 31 March 2022. The Department for Education (D f E) is in the process of identifying affected members. Officials from D f E will, in some cases, need to confirm the employment status of members during the remedy period with their employer. DFE will contact relevant schools. To confirm, affected T P S members are those with a part time employment in addition to a full time employment who are being rolled back into the legacy scheme as part of the McCloud remedy.

3.16 The process of data collection from employers is still ongoing templates were issued to employers in July 2022. 30% of employers returned data. However, others are yet to return include Council. The table below provides the current action and future actions in the next quarter.

Consideration is being given on data collection for employers with no active scheme members.

Completed Tasks	**Responsible for**
The following activities have been completed so far: • Kick off call/Employer survey (Fund/ • Run reports and identify all in scope members • Employer contact details supplied • 3rd chaser sent to employers	 • LBTH/Heywood • Heywood • LBTH • Heywood
Slippage and remediation actions	
• Fund looking into possibility of extracting data from historic payroll records in Resource Link payroll system and transferring over to datasheet. • Implementation study **Risks** • Review time scales	• LBTH • Heywood • LBTH/Heywood

TPR Issues New Version of Transfer Guidance

3.17 On 12 January 2023, TPR published a new version of the Dealing with transfer requests guidance, with updates made to the “Direct members to mandatory guidance from MoneyHelper’ section. The guidance assists pension schemes when applying the Occupational and Personal Pension Schemes (Conditions for Transfers) Regulations 2021. Schemes are required to sign post members to receive guidance about scams from MoneyHelper, schemes should make it clearer that members must book a MoneyHelper safeguarding guidance appointment rather than the previous Pension Wise advice line.

The guidance also asks pension schemes to advice members who are transferring multiple pensions to wait until they have requested all transfers before booking their MoneyHelper safeguarding guidance appointment. The LGA on 30 January issued a new version of the non-Club transfers out guide to reflect these changes. The team has since updated its procedures to reflect these changes.

Member Self Service (MSS) Roll Out

3.18 The role out of Member Self Service (MSS) continues although take up remains Low.

4. EQUALITIES IMPLICATIONS

4.1 There are no specific equalities implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration.

5. OTHER STATUTORY IMPLICATIONS

5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 There are no direct financial implications arising from the contents of this report.

7. COMMENTS OF LEGAL SERVICES

7.1 The Pensions Committee is required to consider pension matters and ensure that the Council meets it statutory duties in respect of the Fund. It is appropriate having regard to these matters for the Committee to receive information from the Pensions Administration team about the performance of the administration functions of the pension fund and updates on the LGPS generally.

7.2 When carrying out its functions as the administering authority of its pension fund, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- NONE

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report

https://ri.lgpsboard.org/items

Officer contact details for documents:
Miriam Adams – Interim Head of Pensions & Treasury Ext.4248
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Email: miriam.adams@towerhamlets.gov.uk

Appendix 1

Monthly Data Submission on 31 December 2022

(Employer data submission is not a guarantee that correct data was submitted)

Employer Name	Employer Code	Employer Type	Payroll Provider	Data Submitted to
Age UK	00045	Admitted Body	In House	31/12/2022
Atlantic Cleaning Services	00037	Admitted Body	In House	31/12/2022
City Gateway	00025	Admitted Body	EPM	31/12/2022
Compass Contract	00027	Admitted Body	Compass Group	31/12/2022
Gateway (Bethnal Green & Vic)	00010	Admitted Body	In House	31/10/2022
Greenwich Leisure Limited	00007	Admitted Body	In House	31/12/2022
Juniper Catering St Saviours	00040	Admitted Body	In House	31/05/2022
Juniper Cleaning St Saviours	00041	Admitted Body	In House	31/12/2022
Medequip	00035	Admitted Body	In House	31/12/2022
Olive Dining	00043	Admitted Body	In House	31/12/2022
One Housing (Toynbee Island)	00011	Admitted Body	In House	31/12/2022
Phoenix Trust (Closed Scheme)	00051	Admitted Body	EPM	30/09/2022
Purgo Supply Cyril Jackson	00039	Admitted Body	In House	31/12/2022
Purgo Supply St Paul's	00042	Admitted Body	In House	31/12/2022
REDBRIDGE CHL (Vibrance)	00004	Admitted Body	In House	31/12/2022
THCH (Closed Scheme)	00003	Admitted Body	In House	31/12/2022
THCH (Open Scheme)	00008	Admitted Body	In House	31/12/2022
Taylor Shaw - Catering	00036	Admitted Body	Elior	31/12/2022
Wettons Cleaning Services Ltd	00034	Admitted Body	In House	31/12/2022
Bowden House	00129	Main Scheme	In House	31/12/2022
Cayley Primary School	00130	Main Scheme	Strictly Education	31/12/2022
TH EPM MPP	00001	Main Scheme	EPM	31/12/2022
Bishop Challinor Catholic Federation of Schoo	00131	Scheduled Body	SGW Payroll	31/12/2022
Canary Wharf College	00021	Scheduled Body	Peter Young	31/12/2022
Clara Grant - Boelyn Trust	00046	Scheduled Body	Access Group	31/12/2022
Cyril Jackson Academy	00044	Scheduled Body	Midland HR	31/12/2022
East London Arts & Music	00030	Scheduled Body	Day One Trust	31/12/2022
Ian Mikardo Academy	00029	Scheduled Body	EPM	31/12/2022
LETTA Trust	00028	Scheduled Body	Access Group	31/12/2022
London Enterprise Academy	00023	Scheduled Body	Strictly Education	31/12/2022
Olga Primary School	00128	Scheduled Body	In House	31/12/2022
Paradigm Trust	00033	Scheduled Body	Neo People	31/12/2022
Sir William Burrough Academy	00018	Scheduled Body	Data Plan	31/12/2022
Stepney Green -Mulberry Trust	00047	Scheduled Body	EPM	31/12/2022
St Pauls Way Trust Academy	00019	Scheduled Body	Midland HR	31/12/2022
Wapping High School	00024	Scheduled Body	In House	31/08/2022
Internal Upload by Pensions Team				
Tower Hamlets LBC	00001	Main Scheme	LBTH	31/12/2022
Itres (Fortnightly Payroll)	00001	Main Scheme	LBTH	27/03/2022
Central Foundation	00001	Main Scheme	LBTH	31/12/2022
East End Homes	00006	Admitted Body	LBTH	31/12/2022
Mulberry Academy	00026	Scheduled Body	LBTH	31/12/2022
Tower Hamlets Homes	00013	Scheduled Body	LBTH	31/12/2022

Appendix 2

Performance Stats detail – December 22

			Oct-22				Nov-22				Dec-22			
Retirements	**Altair Workflow**	**Target days**	**Cases at Start**	**New Cases**	**Cases Processed**	**Cases Outstanding**	**Cases at Start**	**New Cases**	**Cases Processed**	**Cases Outstanding**	**Cases at Start**	**New Cases**	**Cases Processed**	**Cases Outstanding**
Voluntary	AHEARLYA	15	6	7	7	6	6	8	7	7	7	6	6	7
Redundancy	AHREDUNA	15	0	3	3	0	0	3	1	2	2	1	2	1
Medical	AHIHRETA	15	0	4	3	1	1	2	0	3	3	1	0	4
Late	AHLATERA	15	4	6	6	4	4	3	5	2	2	5	2	5
Flexible	AHFLEXRA	15	1	2	3	0	0	2	2	0	0	0	0	0
Deferred into Payment	AHDBPAYA	15	13	15	9	19	19	13	22	10	10	17	10	17
			24	**37**	**31**	30	**30**	**31**	**37**	24	**24**	**30**	**20**	34
Transfers														
Transfer In - Quotes	AHTVIQ	10	6	9	2	13	13	9	12	10	10	5	4	11
Transfer Out - Quotes	AHTVOQ	10	5	32	18	19	19	20	26	13	13	8	11	10
Transfer In - Actual	IFAIN03 & TVIN03		7	7	7	7	7	15	18	4	4	14	8	10
Transfer Out - Actual	IFAOUT02 & TVOUT02		5	13	5	13	13	28	32	9	9	21	19	11
			23	**61**	**32**	**52**	**52**	**72**	**88**	**36**	**36**	**48**	**42**	**42**
Refunds														
Refund Calculations	AHRFNDF	10	18	40	41	17	17	45	53	9	9	31	31	9
Refund Payments	AHRFNDA	10	9	45	37	17	17	32	28	21	21	26	30	17
			27	**85**	**78**	34	**34**	**77**	**81**	30	**30**	**57**	**61**	26
Estimates														
Voluntary	AHBENEST & AHEARLYQ	15	9	31	25	15	15	25	32	8	8	14	12	10
Redundancy	AHREDUNQ	15	2	1	1	2	2	4	5	1	1	1	1	1
Medical	AHIHRETQ	15	2	1	1	2	2	4	3	3	3	2	1	4
Late	AHLATERQ	15	2	4	3	3	3	4	4	3	3	5	6	2
Flexible	AHFLEXRQ	15	2	0	1	1	1	3	3	1	1	1	1	1
Deferred into Payment	AHDBPAYQ	15	2	17	16	3	3	52	53	2	2	6	3	5
			19	**54**	**47**	26	**26**	**92**	**100**	18	**18**	**29**	**24**	23
Deferred														
Deferred Calculations	AHDEFLV	30	39	34	60	13	13	34	34	13	13	19	6	26
Opt Out														
Opt Out	OPTOPRT2	2	23	74	44	53	53	104	110	47	47	28	20	25
New Starters														
New Starters	AHNEWST	40	5	305	194	116	116	120	236	0	0	97	97	0
Nominations														
Nomination Changes	AHNOMIN	10	1	9	8	2	2	9	6	5	5	8	9	4
Address														
Address Changes	AHADDRES	15	4	34	34	4	4	16	13	7	7	15	13	9
Bank Account														
Bank Accoun Change	BANKCHGE	0	0	1	1	0	0	5	5	1	1	6	3	4
General Enquiry														
General Enquiry	AHMEMBER	10	33	123	118	38	38	170	170	38	38	115	64	89
Deaths														
Death Cases - General	AHDEATH	15	116	36	41	111	111	44	49	106	106	21	58	69
			221	**616**	**500**	**337**	**337**	**502**	**623**	**217**	**217**	**309**	**270**	**226**

Non-Executive Report of the: **Pensions Board** Monday, 27 February 2023	TOWER HAMLETS
Report of: Caroline Holland, Corporate Director, Resources	**Classification:**
Actuarial Valuation at 31 March 2022 Initial Results and employer policies (Academies Policy, Cessation Policy and Bulk Transfer Policy)	

The report was not published five clear days in advance of the meeting. Therefore, before this item can be considered at this meeting, the Chair of the Board would need to be satisfied that it is necessary to consider Actuarial Valuation results at this meeting, the Board may also take the view that it is important that there should not be an extended period without any member oversight.

Originating Officer(s)	Miriam Adams
Wards affected	(All Wards);

Executive Summary

This report and appendix provide the Board with a summary of the whole fund results of the 2022 triennial valuation. The London Borough of Tower Hamlets Pension Fund in accordance with the Local Government Pension Scheme (LGPS) regulations undergoes a full actuarial valuation once every three years, the results of which are used to determine contribution rates for each employer within the Fund for the following three years which includes the Council.

The valuation is an assessment of the assets and liabilities of the pension fund which then determines the funding level.
At 31 March 2022, the funding position has improved from the last valuation. The required investment return to be 100% funded is now 3.3% pa (3.9% pa at 2019).

Recommendations:

The Pensions Board is recommended to:

1. Note the results (appendix 1)
2. Note that since the last valuation, the main factor driving the funding position improvement was stronger than expected investment returns. These have more than offset the increase in short to medium-term inflation expectations.

3. Note the employer contribution results for the Council (appendix 2)

4. Note the Academies Policy, Cessation Policy and Bulk Transfer Polciy. (Appendices 3,4 and 5).

1. REASONS FOR THE DECISIONS

1.1 This is a legislative requirement.

2. ALTERNATIVE OPTIONS

2.1 There are no alternatives to the triennial valuation.

3. DETAILS OF THE REPORT

3.1 As part of the Local Government Pension Scheme (LGPS), the Tower Hamlets Pensions Fund is required to undertake a valuation of the Fund's assets and liabilities every three years – this is called Triennial Valuation. The purpose of the valuation is to understand the overall funding level of the Pension Fund (i.e. does it have enough assets to meet its liabilities), to understand the individual funding levels of each employer and to set the contribution rates for all the employers for the next three year period.

3.2 The Pensions Committee approved the process for setting the assumptions to be used in the Valuation process at the June meeting of the Committee.

3.3 The Fund's appointed Actuary, Hymans, received the membership and cashflow data from the Fund as at 31st March 2022, presented the draft whole Fund results to the Pensions Committee in January.

3.4 The valuation will include allowances for the estimated impact of the McCloud remedy, at both a Fund and an employer level, with the approach set out by the DLUHC in 2022. In addition, as required by GAD and set out in the recommendation of tier latest Section 13 report, the report will consider the potential impact of climate risk on the funding strategy, across a number of scenarios.

3.5 Majority of individual employer results have since been finalised and shared with each respective employer in the Fund.

3.6 At 31 March 2022, the funding position has improved from the last valuation. The required investment return to be 100% funded is now 3.3% pa (3.9% pa at 2019).

3.7 To assist employers understanding of their valuation results, employer forum and surgeries was held at the Town Hall on 12 January. These will consisted of presentations from the Interim Head of Pensions and the Actuary to enable employers discuss their specific results and circumstances.

3.8 Employers will be required to agree the primary and secondary contribution rates or the three year period commencing 1 April 2023.

3.9 The final Valuation report, including the rates and adjustment certificate which sets out employer's contribution rates for the three year period to March '26, will be brought back to the Pensions Committee for final approval in March 2023.

Next Steps

3.10 The final Valuation report, including the rates and adjustments certificate which sets out employers' contribution rates for three year period to March '26, will be brought back to the Pensions Committee for final approval in March 2023.

3.11 Pensions Committee to consider and approve the following discretions Policies

- Academies Policy
- Cessation Policy
- Bulk Transfer Policy

4. EQUALITIES IMPLICATIONS

4.1 There are no direct equalities impact.

5. OTHER STATUTORY IMPLICATIONS

5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

Risk Management

5.2 The valuation outcome is sensitive to both the actuarial and financial assumptions made within the valuation and any significant variations to those assumptions could impact upon Fund's financial position. Therefore, a prudent approach is crucial in minimising the key risks involved in managing the Pension Fund.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 The comments of the Corporate Director of Resources have been incorporated as required, throughout this report.

7. COMMENTS OF LEGAL SERVICES

7.1 The Local Government Pension Scheme Regulations 2013, Regulation 62, requires an Administering Authority to obtain an actuarial valuation of its fund at 31 March 2016, and as at 31st March every third year thereafter. The documents obtained by the administering authority must include a report by an actuary in respect of the valuation, and a rates and adjustment certificate provided by the actuary. The report must contain a statement of the demographic assumptions used in producing the valuation, and how these assumptions relate to events which have actually occurred in relation to the scheme membership. These documents must be received before the first anniversary of the valuation date.

7.2 Regulation 66 also requires the Administering Authority to supply copies of any valuation report, rates and contributions certificates to the Secretary of State, employing authorities participating in the Fund and any other bodies liable to make payments to it.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Whole Fund valuation initial results
- Council Contribution Rate Modelling report
- Academies Policy
- Cessation Policy
- Bulk Transfer Policy

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report
List any background documents not already in the public domain including officer contact information.

- NONE

Officer contact details for documents:
Miriam Adams Interim Head of Pensions & Treasury
Email: Miriam.adams@towerhamlets.gov.uk Ext 4248

London Borough of Tower Hamlets Pension Fund

Actuarial valuation at 31 March 2022

Initial results

Barry Dodds FFA

Douglas Green FFA

13 January 2023
For and on behalf of Hymans Robertson LLP

Use the menu bar above to navigate to each section.

Contents

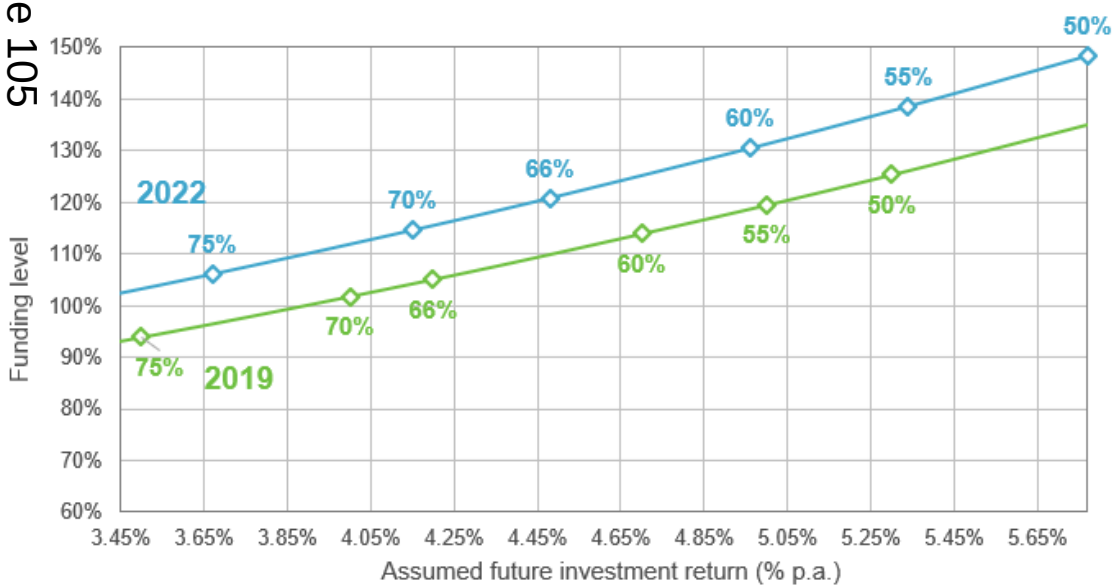
In this report:

A glossary of technical terms used in this report can be found in Appendix 5

Executive summary

Funding position

- As at 31 March 2022, the funding position has improved from the last valuation.
- The required investment return to be 100% funded is now 3.3% pa (3.9% pa at 2019).
- The likelihood of the Fund's investment strategy achieving the required return is 78% (71% at 2019).



Changes since the last valuation

The main factor driving the funding position improvement was stronger than expected investment returns. These have more than offset the increase in short to medium-term inflation expectations.

The Covid-19 pandemic has clearly had a terrible human impact, however it has not had a significant effect on funding at whole Fund level.

	Expected	Actual	Difference	Impact on funding position
Pre-retirement				
Early Leavers	2,134	2,998	864	<£1m
Ill-health retirements	38	37	-1	+£2m
Salary increases	3.1% pa	4.5% pa	1.4% pa	-£13m
Post-retirement				
Benefit increases	2.3% pa	1.8% pa	-0.6% pa	+£23m
Pension ceasing	£3.5m	£3.3m	-£0.2m	<£1m

The valuation process

The valuation process

Initial results

This report:

- presents the funding position of the London Borough of Tower Hamlets Pension Fund ("the Fund") on the valuation date of 31 March 2022
- explains why the funding position has changed since the last valuation in 2019
- show the sensitivity of the funding position

There are two main actions:

1. Understand the fund-level funding position, noting this does not directly drive individual employer contribution rates.

2. Identify risks to explore and consider options for management.

Data and assumptions

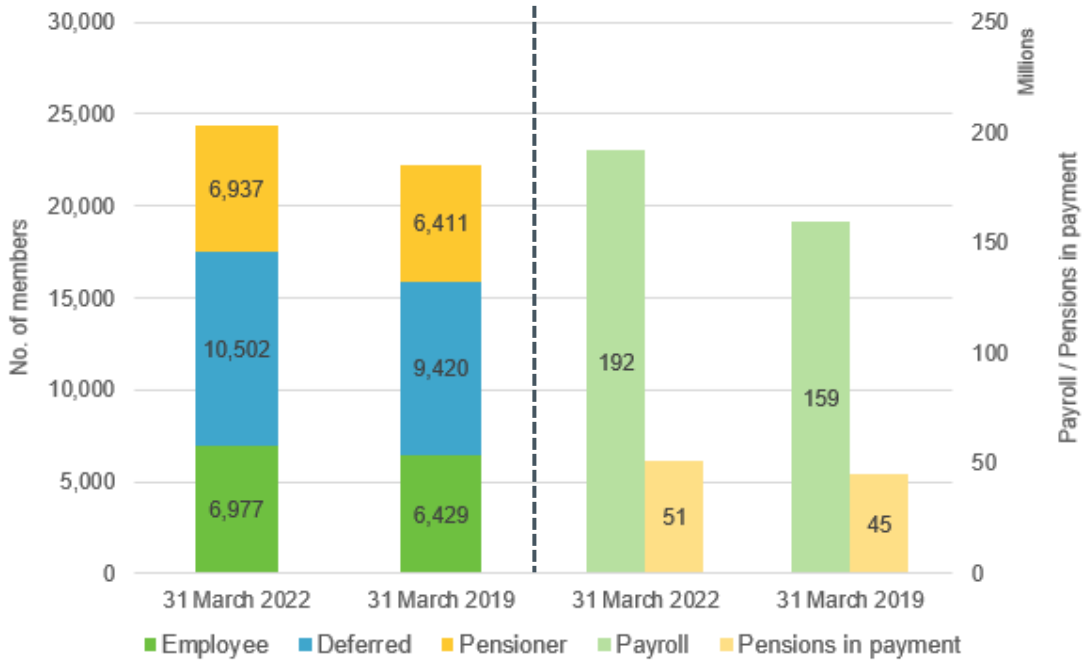
Data

We have used the below data provided by the Administering Authority:

- Membership data uploaded to the DataPortal on 00 January 1900
- Cashflow data uploaded to the DataPortal on 06 October 2022
- Investment data, provided over the intervaluation period

Accurate results depend on good data quality. Based on the DataPortal's validations, we believe the membership data is fit for purpose for these initial results. The data will be reviewed again when we prepare employer-level results at the next valuation stage.

Membership summary



The figures in this report are based on our understanding of the benefit structure of the LGPS in England and Wales as at 31 March 2022. Details can be found at http://www.lgpsregs.org/.

Assumptions

To set and agree assumptions for the valuation, the Administering Authority commissioned an assumption setting paper and the assumptions in that paper were agreed by the Pensions Committee on 27 June 2022. The assumptions represent the 'best estimate' of future expectations – that means we estimate there is a 50% likelihood that future events will be better or worse than the assumption. The discount rate is the exception, as it includes the margin of prudence required by the LGPS Regulations.

Financial assumptions

Summary of assumptions used for measuring the funding level, compared to last valuation on 31 March 2019

Assumption	31 March 2022	Required for	31 March 2019
Discount rate	4.6% pa	To place a present value on all the benefits promised to scheme members at the valuation date. The Fund's assets are estimated to have a 65% likelihood of returning at least this discount rate.	4.0% pa (based on a 70% likelihood)
Benefit increases/CARE revaluation	2.7% pa	To determine the size of future benefit payments.	2.3% pa
Salary increases	2.7% pa	To determine the size of future final-salary linked benefit payments.	2.5% pa

Assumptions

Demographic assumptions

Longevity

Whole fund average life expectancies from age 65, with 2019 comparison.

	31 March 2022	31 March 2019
Male pensioner	21.8 years	21.5 years
Male non-pensioner	23.3 years	22.6 years
Female pensioner	24.4 years	23.5 years
Female non-pensioner	26.2 years	25.0 years

Pensioners are assumed to be aged 65 at the respective valuation date and non-pensioners are assumed to be aged 45.

Other demographic assumptions

Death in service	See sample rates in Appendix 2
Retirements in ill health	See sample rates in Appendix 2
Withdrawals	See sample rates in Appendix 2
Promotional salary increases	See sample rates in Appendix 2
Commutation	60% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits
50:50 option	0.5% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option
Retirement age	The earliest age at which a member can retire with their benefits unreduced
Family details	A varying proportion of members are assumed to have a dependant at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. The dependant of a male member is assumed to be 3 years younger than him and the dependent of a female member is assumed to be 3 years older than her.

Further information on these assumptions can be provided upon request.

Assumptions

Benefit structure

Results are based on our understanding of the benefit structure of the LGPS in England and Wales on 31 March 2022 – see www.lgpsregs.org. However, there are areas of uncertainty and potential change.

McCloud

Benefits accrued by certain members between 2014 and 2022 may increase following the McCloud case, which ruled that transitional protections introduced in 2014 for older members were discriminatory. We've made an allowance for the cost of these potential improvements, based on the guidance issued by Department of Levelling Up, Housing and Communities on 22 March 2022. We expect minimal impact for most employers.

Cost sharing mechanism

Benefits could change because of the 2020 cost cap valuation; the outcome is currently unknown. There is also an ongoing legal challenge to the 2016 cost cap valuation. We have assumed that there will be no changes required to the benefit structure due to cost cap.

Guaranteed Minimum Pension equalisation and revaluation

We have assumed the Fund will pay all increases on GMP for members with a State Pension retirement date after 5 April 2016, as we did in the 2019 valuation.

Other legal cases

Benefits could change as a result of other legal challenges (eg the Goodwin case affecting partner pensions). Given the lack of information about possible benefit changes and their relatively small impact, we have made no allowance for these changes.

Fund-level results

Projected future benefit payments

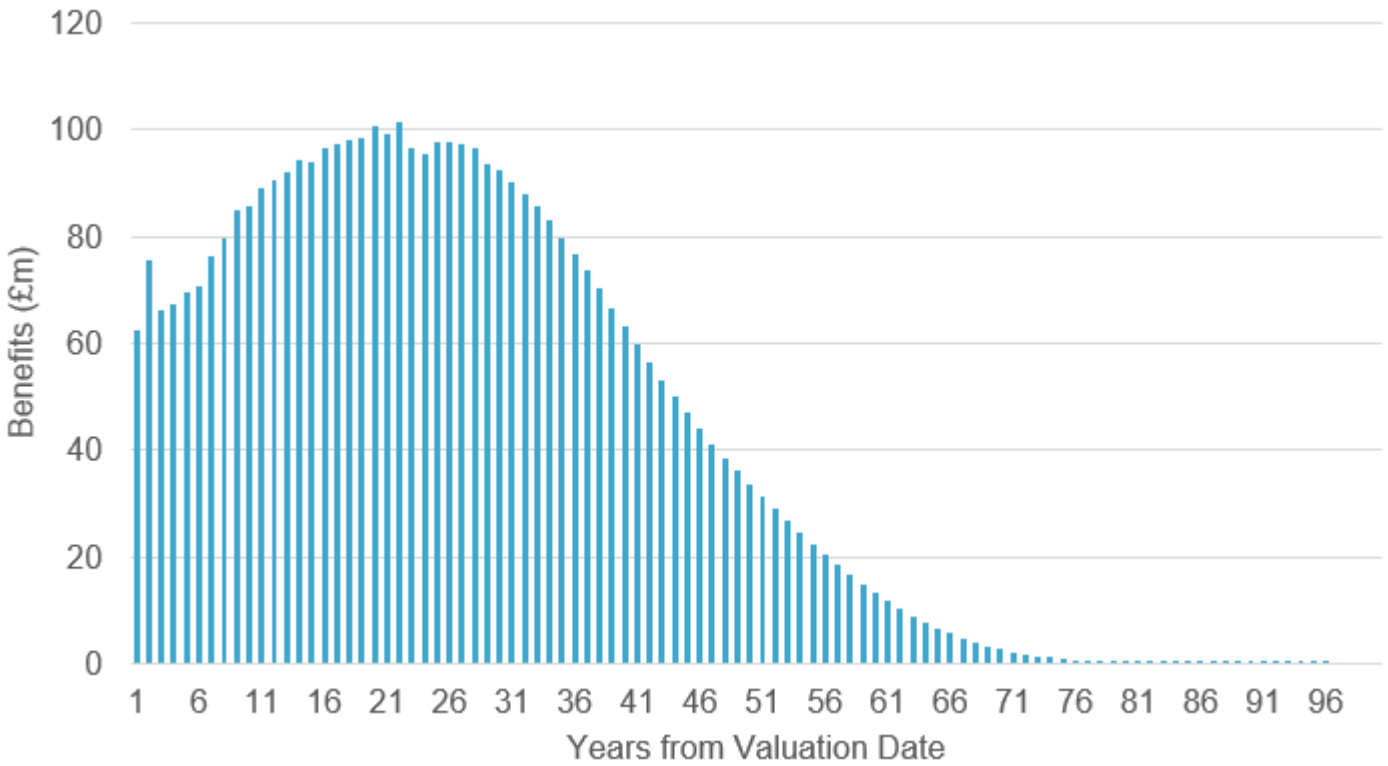
Combining membership data and the assumptions allows us to project future benefit payments for all benefits accrued up to 31 March 2022.

The projection will be different from the last valuation due to:

1. Events between 2019 and 2022 which were different from expectations – reflected in the updated membership data.
2. Estimates of the future which have changed – reflected in the updated assumptions.

Notes about the model:

The cashflow peak in Year 2 is a feature of the cashflow model, which assumes all active members older than their retirement age retire 1 year after the valuation date. The dips in cashflow in years 22 and 23 correspond with changes in state pension age.



The ‘spike’ in year 2 is due to a simplifying assumption that all active members over retirement age will retire after 1 year. The dip in years 23-24 coincides with the change in State Pension Age from 67 to 68. We assume that members retire at age 67 or 68 when in reality the change is more gradual.

Funding position as at 31 March 2022

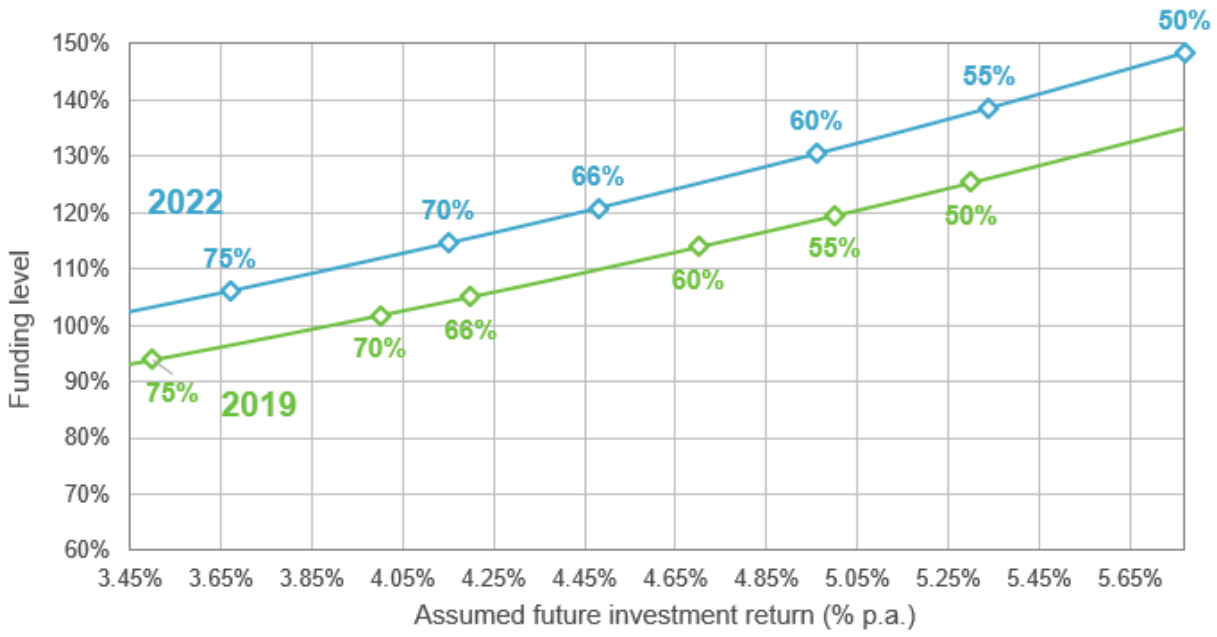
We can place a single value on all the future projected benefit payments for current members, called the liabilities. Comparing the liabilities to the market value of the Fund's assets at the valuation date provides the funding level (assets divided by liabilities).

To calculate the liabilities, we discount the benefit payments with an assumed future investment return (the 'discount rate'). Future investment returns are uncertain, so we calculate the liabilities and funding level across a range of future investment returns.

To help stakeholders better understand funding risk, we also calculate the likelihood of the Fund's investment strategy achieving certain levels of return.

- The funding level is 100% if future investment returns are c.3.3% pa
- The likelihood of the Fund's assets yielding at least this return is around 78%.
- The comparator at 2019 was a return of 3.9% pa which had a likelihood of 71%.
- The funding position at 2022 is stronger than 2019.
- There is a 50% likelihood of an investment return of 5.8% pa. So the best-estimate funding level is 148% at 31 March 2022 (126% at 2019).

Funding level across a range of future investment returns



Figures on each line show the likelihood of the Fund's assets exceeding that return at the valuation date

Single funding position as at 31 March 2022

The chart on the previous page provides stakeholders with a better understanding of the funding position. However, we are still required to report a single funding position at 31 March 2022.

To report a single funding level and funding surplus/deficit for the 2022 valuation, a discount rate of 4.6% pa has been used. There is a 65% likelihood associated with a future investment return of 4.6% pa.

This table details the liabilities, split by member status and the market value of assets at the valuation date. The results at the 2019 formal valuation are shown for comparison (NB at 2019 the reported position used a discount rate with a 70% associated likelihood).

The funding level and surplus/deficit figures provide a high-level snapshot of the funding position on 31 March 2022. There are limitations:

- The liabilities are calculated using a single set of assumptions about the future, so are very sensitive to the choice of assumptions.
- The market value of assets changes daily

Valuation Date	31 March 2022	31 March 2019
Past Service Liabilities	**(£m)**	**(£m)**
Employees	505	452
Deferred Pensioners	352	350
Pensioners	794	723
Total Liabilities	**1,651**	**1,525**
Assets	**2,023**	**1,552**
Surplus/(Deficit)	**373**	**27**
Funding Level	**123%**	**102%**

Important: *the reported funding level does not directly drive employers' contribution rates. Contribution rates consider how assets and liabilities will evolve over time in different economic scenarios and reflect each employer's funding profile and covenant.*

NB figures in table may not sum due to rounding.

Changes since the last valuation

Events between 2019 and 2022

Financial

	Expected	Actual	Difference	Impact on funding position
Investment returns				
3 year period	12.5%	30.6%	18.1%	+£279m
Annual	4.0% pa	9.3% pa	5.3% pa	

The Fund's expenses (in relation to non-investment activities) over the last 3 years have totalled £5.4m. This figure is equivalent to 1.0% of the Fund's total pensionable pay. This is higher than last valuation (0.5%). Unless otherwise instructed, we will make allowance for the Fund's expenses by including an allowance of 1.0% of pay to employer contribution rates from 1 April 2023.

Membership

	Expected	Actual	Difference	Impact on funding position
Pre-retirement				
Early leavers	2,134	2,998	864	<£1m
Ill-health retirements	38	37	-1	+£2m
Salary increases	3.1% pa	4.5% pa	1.4% pa	-£13m
Post-retirement				
Benefit increases	2.3% pa	1.8% pa	-0.6% pa	+£23m
Pension ceasing	£3.5m	£3.3m	-£0.2m	<£1m

The most significant external event since the last valuation was the Covid-19 pandemic. The experience analysis shows that the impact on the funding position has been small, likely due to the age profile of the deaths and the level of pension. Further information on the Fund's mortality experience can be found in the latest Club Vita reports.

Changes since the last valuation

Future expectations

Factor	What does it affect?	What's changed?	Impact on liabilities
Future investment returns	The rate at which future benefit payments are discounted back, ie the discount rate assumption	Future investment returns slightly higher at 2022 than at 2019. The expected return is now 4.6% pa vs. 4.0% pa at 2019.	Decrease of £162m
Inflation	The rate at which pensions in payment and deferment and CARE pots increase	Significant increase in short-term future inflation expectations.	Increase of £113m
Salary increases	The rate at which future salaries increase. This affects benefits that are still linked to final salary, ie accrued before 1 April 2014	No material change since last valuation given competing factors e.g. tighter budgetary conditions vs. strong job market and pressure from National Living Wage increases.	Decrease of £3m
Current life expectancy	How long we expect people to live for based on today's current observed mortality rates.	Slight reduction in life expectancy based on current observed data (not allowing for Covid-related excess deaths)	Decrease of £4m
Future improvements in life expectancy	How we expect life expectancies to change (increase) in the future.	Uncertainty about effectiveness of mitigations against life expectancy increases in the LGPS i.e. State Pension Age increases and Cost Cap. Need to better reflect wider pension and insurance industry long-term expectations.	Increase of £10m

Reconciling the overall change in funding position

The tables below provide insight into the funding position changes between 31 March 2019 and 31 March 2022. Firstly, the changes we expect to happen, which relate mostly to items on the asset side. Then the impact of actual experience, which mainly affects the liabilities.

Expected development

Change in the surplus/deficit position	Assets	Liabilities	Surplus / Deficit
	£m	£m	£m
Last valuation at 31 March 2019	**1,552**	**1,525**	**27**
Cashflows			
Employer contributions paid in	146	0	146
Employee contributions paid in	38	0	38
Benefits paid out	(186)	(186)	0
Net transfers into / out of the Fund			
Other cashflows (e.g. Fund expenses)	0	0	0
Expected changes			
Expected investment returns	193	0	193
Interest on benefits already accrued	0	188	(188)
Accrual of new benefits	0	156	(156)
Expected position at 31 March 2022	**1,743**	**1,683**	**60**

* We have insufficient data to value the impact on the liabilities as a result of transfers in/out

Impact of actual events

Change in the surplus/deficit position	Assets	Liabilities	Surplus / Deficit
	£m	£m	£m
Expected position at 31 March 2022	**1,743**	**1,683**	**60**
Events between 2019 and 2022			
Salary increases greater than expected	0	13	(13)
Benefit increases lower than expected	0	(23)	23
Early retirement strain (and contributions)	0	8	(8)
Ill health retirement impact	0	(2)	2
Early leavers more than expected	0	0	0
Commutation less than expected	0	0	0
McCloud remedy	0	1	(1)
Other membership experience	0	20	(20)
Higher than expected investment returns	279	0	279
Changes in future expectations			
Investment returns	0	(162)	162
Inflation	0	113	(113)
Salary increases	0	(3)	3
Longevity	0	6	(6)
Other demographic assumptions	0	(5)	5
Actual position at 31 March 2022	**2,023**	**1,651**	**373**

Numbers may not sum due to rounding

Sensitivity and risk analysis

Valuation results depend on actuarial assumptions made about the future. By their nature, these assumptions are uncertain which means it's important to understand their sensitivity and risk levels.

Financial assumptions

How results vary with the assumed future investment return is set out on page 14. Future inflation is currently very uncertain, the impact of varying levels is set out below.

CPI Assumption	Surplus/ (Deficit)	Funding Level
% pa	(£m)	%
2.5%	419	126%
2.7%	373	123%
2.9%	324	119%

Regulatory, Administration and Governance risks

Potential risks include changes in central government legislation which may affect the future cost of the LGPS; failures in administration processes leading to incorrect data; and inaccuracies in actuarial calculations. These risks should be included in the Fund's risk register and monitored and managed as part of its ongoing risk management framework.

Demographic assumptions

The main demographic risk is that people live longer than expected. The table below shows the impact of longevity rates improving at a faster rate (1.75% pa vs 1.5% pa used in the results).

Long term rate of improvement	Surplus/ (Deficit)	Funding Level
% pa	(£m)	%
1.5%	373	123%
1.75%	361	122%

Climate change risk

Results may materially change due to the impact of climate change, because of transition and physical risks. We have not quantified the risk exposure here as the Fund has carried out analysis when considering its funding and investment strategy via an in-depth asset-liability modelling exercise.

Initial employer results

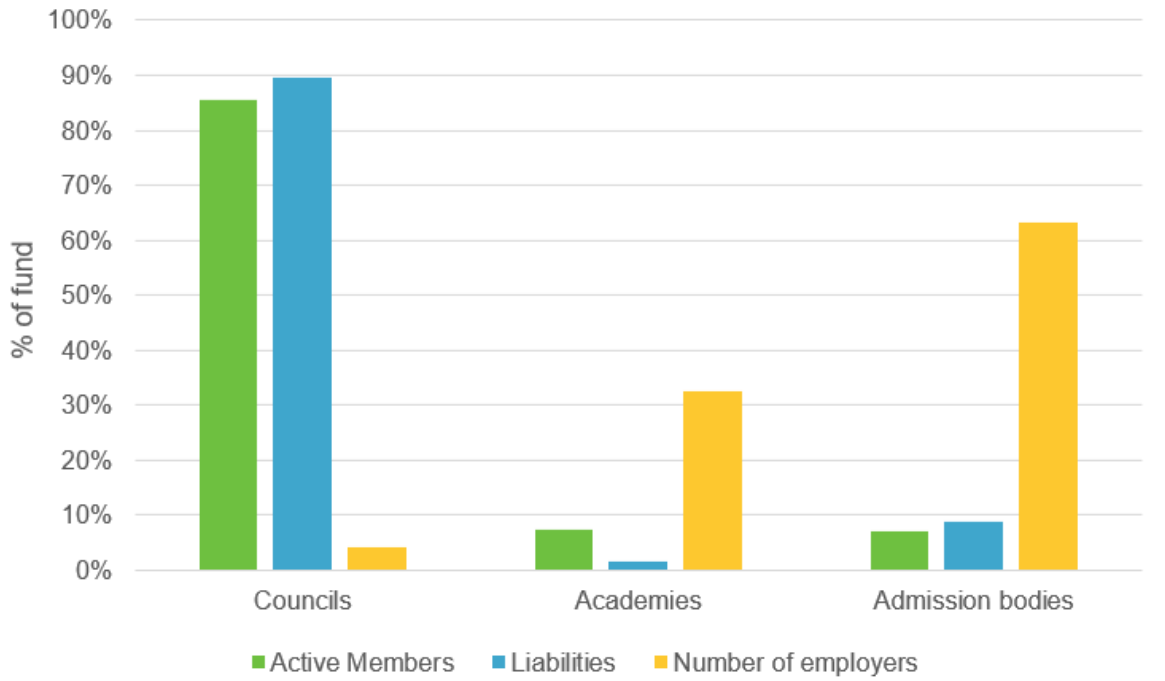
Focusing on employers

Whole-fund level results give a useful overview of the Fund's health but are not the valuation's most important output.

In reality, the Fund is funded at individual employer level. Each employer is responsible for funding the benefits earned by their current and ex-staff. As at 31 March 2022 there are around 45 individual employers in the Fund.

The next stage of the valuation is to prepare funding positions and review contribution rates for each individual employer in the Fund. There is a significant range and diversity of employers, so we will work with the Fund to make sure the funding strategy recognises this diversity and is flexible enough to cater for employers' differences.

Fund employers by type



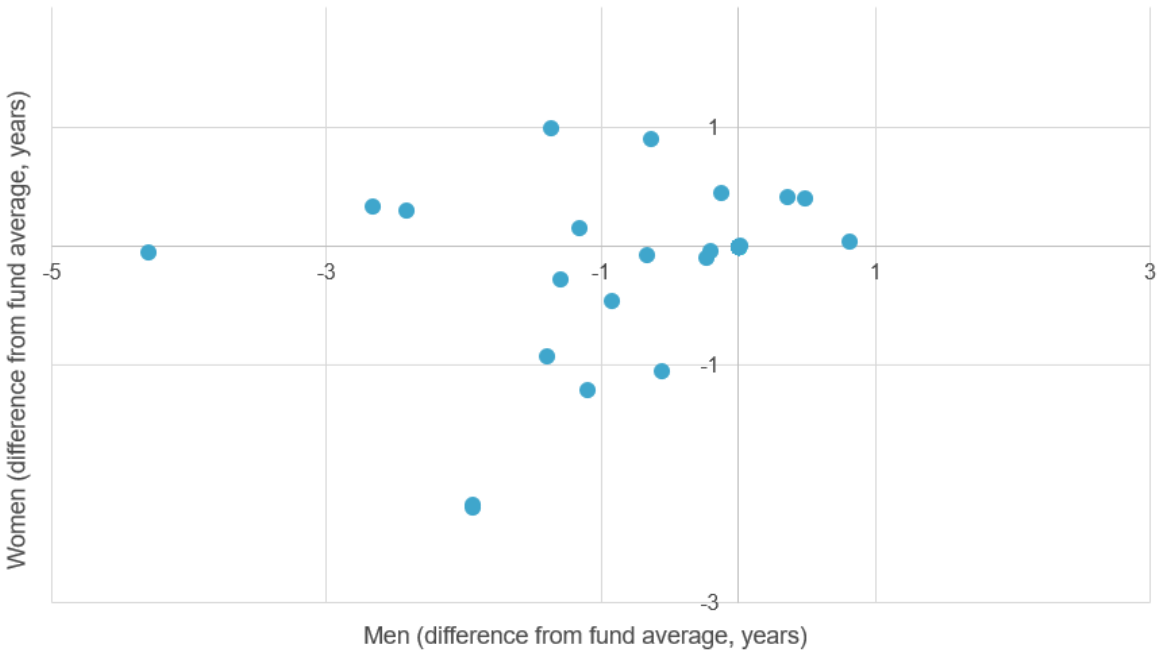
Results are based on initial draft employer results. These may change during the employer results preparation stage of the valuation.

Capturing the diversity in funding calculations

Employer diversity is not restricted to type and size – even for smaller employers, there are significant differences in funding positions and contribution rates. This may be due to previous decisions, for example early retirement experience, pay awards, level of contributions paid, or because the membership varies.

Life expectancy is a good example of the diversity of membership. Studies show it can vary between members due to factors like socio-economic status and retirement health. Using Club Vita to set a baseline life expectancy assumption captures this individual member variation. That means the liabilities and contribution rates better reflect the Fund's, and each employer's, membership.

Difference in average life expectancy (from fund average) at employer level



Most employers are grouped around a central cluster; outliers will have a relatively larger proportion of members in higher/lower socio-economic groups.

Results are based on initial draft employer results. These may change during the employer results preparation stage of the valuation.

Individual employer funding levels

The Fund is composed of around 45 employers, each of which has its own funding position and contribution plan. The Fund's overall funding position is the combination of all these employers' results.

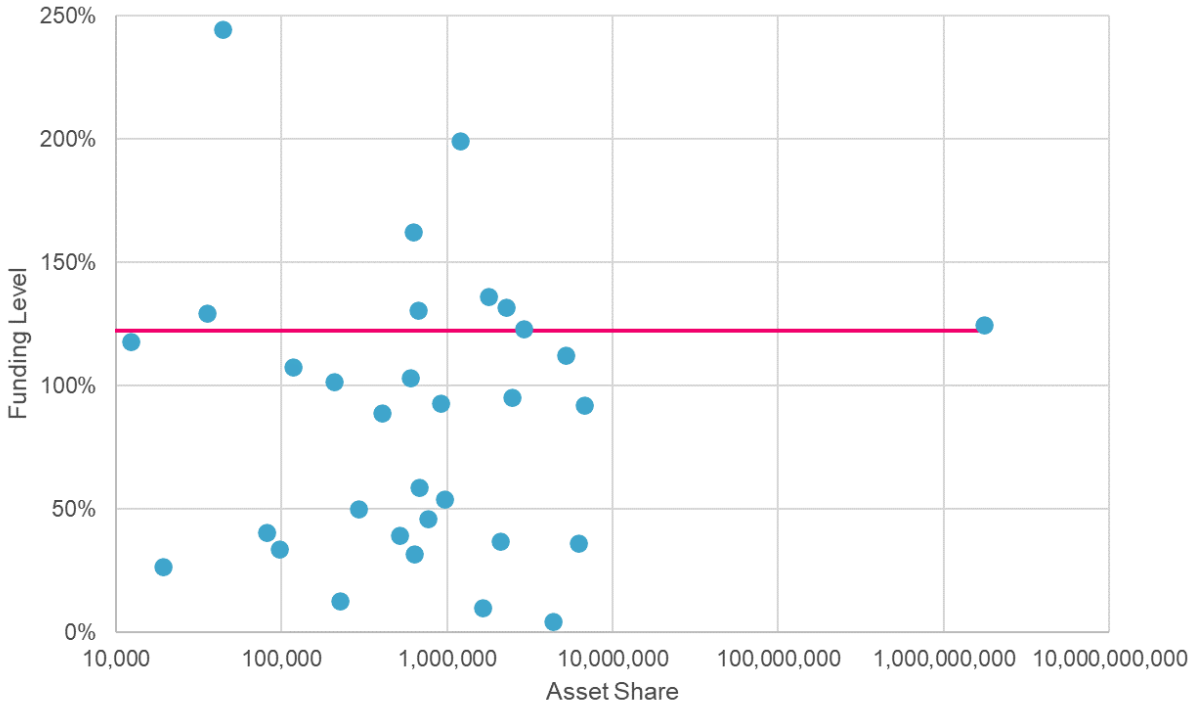
This chart shows the range of employer funding positions. Each dot represents an employer (some employers included in pools are not shown) and shows:

- The employer's share of the Fund assets, horizontal scale (NB this is a logarithmic scale, to accommodate the great range in size of employer from smallest to largest).
- The employer's funding level on 31 March 2022, vertical scale.

The red line is the Fund's overall funding level and shows that it does **not** relate to the average of the employer results. Instead, the whole Fund position is driven by the largest employer (the Council, at the right-hand side of the chart).

This shows the importance of considering individual employer results as well as the whole Fund position.

Employer funding level vs asset share



Results are based on initial draft employer results. These may change during the employer results preparation stage of the valuation.

HYMANS ROBERTSON

Decisions and next steps

Decisions and next steps

1. Discuss funding risks and agree any further exploration or consideration.

2. Confirm that no changes are needed to valuation data or assumptions.

3. Prepare individual employer valuation results for discussion with Officers.

Appendices

APPENDIX 1

Deriving future investment return likelihoods

To derive the distribution of future investment returns and obtain associated likelihoods, we use the Fund's long-term investment strategy and our Economic Scenario Service (ESS) model. The ESS uses statistical models to generate a future distribution of year-on-year returns for each asset class, eg UK equities. The ESS reflects correlations between asset classes and wider economic variables (eg inflation). In the short-term (first few years), the models are fitted with current financial market expectations. Over the longer-term, models are built around our views of fundamental economic parameters, for example equity risk premium, credit-spreads and long-term inflation.

Fund's long-term investment strategy

Asset class	Allocation
Overseas equities	47.5%
UK equities	2.5%
Infrastructure equities	3.0%
Private equity	3.0%
Property	12.0%
Diversified Growth Fund	20.0%
Multi Asset Credit	6.0%
Long Index Linked Gilts	6.0%
Total	100.0%

ESS individual asset class return distributions at 31 March 2022

		Annualised total returns								
		Index Linked Gilts (long)	UK Equity	Private Equity	Property	Listed Infrastructure Equity	Diversified Growth Fund (low equity beta)	All World ex UK Equity in GBP Unhedged	Multi Asset Credit (sub inv grade)	Inflation (CPI)
10 years	16th %'ile	-3.1%	-0.4%	-1.2%	-0.6%	-1.1%	1.4%	-0.4%	1.7%	1.6%
	50th %'ile	-0.7%	5.7%	9.4%	4.4%	4.9%	3.2%	5.8%	3.5%	3.3%
	84th %'ile	2.0%	11.6%	20.1%	9.5%	10.9%	5.1%	11.9%	5.2%	4.9%
20 years	16th %'ile	-2.6%	1.7%	2.4%	1.4%	1.2%	2.1%	1.8%	2.8%	1.2%
	50th %'ile	-0.9%	6.2%	10.0%	5.0%	5.6%	3.8%	6.3%	4.4%	2.7%
	84th %'ile	0.8%	10.6%	17.6%	8.9%	10.1%	5.7%	11.1%	6.0%	4.3%
40 years	16th %'ile	-1.1%	3.2%	4.7%	2.6%	2.6%	2.5%	3.4%	3.6%	0.9%
	50th %'ile	0.3%	6.7%	10.3%	5.5%	6.1%	4.4%	6.8%	5.3%	2.2%
	84th %'ile	1.9%	10.2%	16.1%	8.8%	9.8%	6.5%	10.4%	7.1%	3.7%
	Volatility (Disp) (1 yr)	9%	18%	30%	15%	18%	5%	18%	6%	3%

APPENDIX 2

Sample rates for demographic assumptions

Males

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.17	606.46	1,000	0	0	0	0
25	117	0.17	400.59	751.84	0	0	0	0
30	131	0.2	284.23	533.36	0	0	0	0
35	144	0.24	222.07	416.68	0.1	0.07	0.02	0.01
40	150	0.41	178.79	335.37	0.16	0.12	0.03	0.02
45	157	0.68	167.94	314.94	0.35	0.27	0.07	0.05
50	162	1.09	138.44	259.32	0.9	0.68	0.23	0.17
55	162	1.7	109.02	204.31	3.54	2.65	0.51	0.38
60	162	3.06	97.17	182.02	6.23	4.67	0.44	0.33
65	162	5.1	0	0	11.83	8.87	0	0

Females

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.1	563.88	514.11	0	0	0	0
25	117	0.1	379.42	345.88	0.1	0.07	0.02	0.01
30	131	0.14	318.05	289.9	0.13	0.1	0.03	0.02
35	144	0.24	274.51	250.12	0.26	0.19	0.05	0.04
40	150	0.38	228.47	208.09	0.39	0.29	0.08	0.06
45	157	0.62	213.2	194.16	0.52	0.39	0.1	0.08
50	162	0.9	179.75	163.52	0.97	0.73	0.24	0.18
55	162	1.19	134.12	122.13	3.59	2.69	0.52	0.39
60	162	1.52	108.09	98.31	5.71	4.28	0.54	0.4
65	162	1.95	0	0	10.26	7.69	0	0

APPENDIX 3

Inflation expectations

Current inflation is significantly above the Bank of England target (2% pa) and recent norms. It is likely this will mean a high 2023 pension increase (based on September 2022 CPI inflation).

Current expectations are that inflation pressures will be short-term and move back to normal in the longer-term. The inflation assumption we have used reflects this pattern and allows for the short-term spike – see the blue line on the chart.

The assumption noted in this report is an average of the blue line over the approximate duration of the Fund's liabilities.

Increased uncertainty and risk

There is a lot of uncertainty around both the level of future short-term inflation and how long the period of higher inflation will last. We will continue to work with the Fund to monitor actual and future expected inflation as more information emerges.

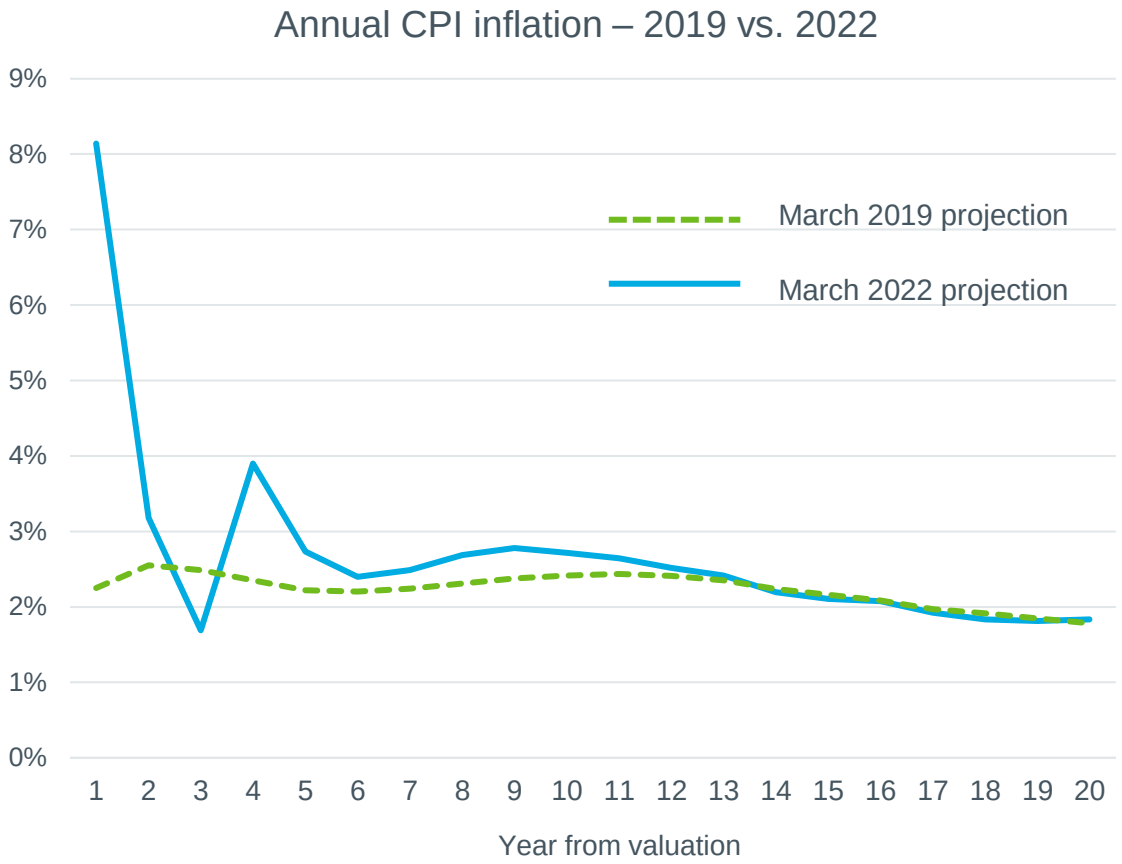


Chart shows median expected annual CPI inflation from ESS model.

APPENDIX 4

Reliances and limitations

We have been commissioned by London Borough of Tower Hamlets ("the Administering Authority") to carry out a full actuarial valuation of the London Borough of Tower Hamlets Pension Fund ("the Fund") as at 31 March 2022 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 ("the Regulations").

This paper is addressed to the Administering Authority. It has been prepared by us as actuaries to the Fund and is solely for the purpose of:

- presenting the current funding position using a range of actuarial assumptions
- explaining why the funding position has changed since the previous valuation in 2019
- showing the sensitivity of the funding position.

It has not been prepared for any other purpose and should not be used for any other purpose.

The Administering Authority is the only user of this advice. Neither we nor Hymans Robertson LLP accept any liability to any party other than the Administering Authority unless we have expressly accepted such liability in writing. The advice or any part of it must not be disclosed or released in any medium to any other third party without our prior written consent. In circumstances where disclosure is permitted, the advice may only be released or otherwise disclosed in its entirety fully disclosing the basis upon which it has been produced (including any and all limitations, caveats or qualifications).

This information can be used by the Administering Authority to support the development of the funding strategy and to identify and understand areas of potential risk that it may wish to explore or mitigate during the valuation process.

Technical Actuarial Standards apply to this advice, and have been complied with where material and to a proportionate degree. They are:

- TAS100; and
- TAS300.

Note that this report does not comply with paragraphs 12 (b) or (c) of TAS 300, regarding future projections of funding level and its volatility. The figures in this report provide a notification of the whole Fund funding position, rather than individual employer positions. Therefore, we do not believe the exclusion of the information under these paragraphs is material.

APPENDIX 5

Glossary

Term	Explanation
50:50 option	An option for LGPS members to pay half contributions and earn half the retirement benefit (pre-retirement protection benefits are unreduced).
Baseline longevity	The rates of death (by age and sex) in a given group of people based on current observed data.
Club Vita	A firm of longevity experts we partner with for longevity analysis. They combine data from thousands of pension schemes and use it to create detailed baseline longevity assumptions at member-level, as well as insight on general longevity trends and future improvements.
Commutation	The option for members to exchange part of their annual pension for a one-off lump sum at retirement. In the LGPS, every £1 of pension exchanged gives the member £12 of lump sum. The amounts that members commute is heavily influenced by tax rules which set an upper limit on how much lump sum can be taken tax-free.
CPI inflation	The annual rate of change of the Consumer Prices Index (CPI). The CPI is the UK government's preferred measure of inflation and is the measure used to increase LGPS (and all other public sector pension scheme) benefits each year.
Demographic assumptions	Assumptions concerned with member and employer choices rather than macroeconomic or financial factors. For example, retirement age or promotional salary scales. Demographic assumptions typically determine the timing of benefit payments.
Discount rate	A number used to place a single value on a stream of future payments, allowing for expected future investment returns.
ESS	Economic Scenario Service - Hymans Robertson's proprietary economic scenario generator used to create thousands of simulations of future inflation, asset class returns and interest rates.

APPENDIX 5

Glossary

Term	Explanation
Funding position	The extent to which the assets held by the fund at 31 March 2022 cover the accrued benefits ie the liabilities. The two measures of the funding position are: • the funding level - the ratio of assets to liabilities; and • the funding surplus/deficit - the difference between the asset and liabilities values.
Inflation	Prices tend to increase over time, which is called inflation. Inflation is measured in different ways, using a different 'basket' of goods and mathematical formulas.
Liabilities	An employer's liability value is the single value at a given point in time of all the benefit payments expected to be made in future to all members. Benefit payments are projected using demographic and financial assumptions and the liability is calculated using a discount rate.
Longevity improvements	An assumption about how rates of death will change in future. Typically we assume that death rates will fall and life expectancies will improve over time, continuing the long-running trend.
Prudence	To be prudent means to err on the side of caution in the overall set of assumptions. We build prudence into the choice of discount rate by choosing an assumption with a prudence Level of more than 50%. All other assumptions aim to be best estimate.
Prudence Level	A percentage indicating the likelihood that a discount rate assumption will be achieved in practice, based on the ESS model. The higher the prudence level, the more prudent the discount rate is.
Withdrawal	Refers to members leaving the scheme before retirement. These members retain an entitlement to an LGPS pension when they retire, but are no longer earning new benefits.

London Borough of Tower Hamlets Pension Fund

Review of Council Contribution Strategy

For Council & Pension Fund officers only
Not for public disclosure or inclusion in public version of Committee Meeting papers

Barry Dodds FFA Douglas Green FFA

January 2023
For and on behalf of Hymans Robertson LLP

Executive summary – 1 of 2 – Main results

- This paper sets out the results of contribution rate modelling for the London Borough of Tower Hamlets for contributions coming into effect from 1 April 2023 (the results will also apply to LEA schools).
- The results are very positive and suggest that the current rate of contributions is broadly the “right level”. We have therefore focused on keeping rates at the current level or looking at a one off reduction in monetary amount (rather than increases)
- Freezing rates for 3 years, and freezing rates for 3 years combined with a £2m reduction in the annual monetary amount, both give acceptable results although it should be appreciated there is a reasonable chance that reductions would need to be reversed later.
- The fixed strategies are shown for comparison purposes and indicate whether increases in rates would be expected in the future.
- Reducing contributions would almost certainly attract a flag from GAD in the next Section 13 valuation, although we shouldn’t let this drive our decision. In any case the results over a shorter horizon of 17 years are still acceptable and we could probably use that to mollify GAD’s concerns.
- In January 2023 the contribution rates to take effect from 1 April 2023 were confirmed by Fund officers, after discussion with Council officers, to be:
- (non-schools) – 18.6% of pay plus £13,650,000 per year, i.e. same as current year, an effective rate of c.29.5% of pay
- (schools) – 24.3% in 2023/24, 25.3% in 2024/25, 26.3% in 2025/26, ie increasing towards non-schools rate as previously agreed.

Executive summary – 2 of 2 – Other issues

- We have generally used the current investment strategy. We modelled two additional strategies being considered, however neither of these alternatives would invalidate any of the conclusions on contributions.
- We have tested the impact of a large investment market shock (10% fall in assets) and this doesn't change any of our conclusions.
- We have stress tested the recommendations under three climate change scenarios which show that the recommended strategies are sufficiently resilient to climate risk.
- We will continue to monitor the impact of the Russian invasion of Ukraine and its impact on inflation and global investment markets, and if necessary carry out additional analysis to ensure the strategy remains appropriate.
- Prepayment of monetary amounts is still an option and can be discussed in more detail if this is of interest.

Addressee, purpose & audit trail

Use the menu bar above to navigate to each section.

Addressee & Purpose

This paper has been requested by, and is addressed to, the London Borough of Tower Hamlets ("the Council") **in its capacity as Administering Authority** to the London Borough of Tower Hamlets Pension Fund ("the Fund").

The modelling results contained within are in respect of the London Borough of Tower Hamlets, **in respect of its participation as an employer** in the Fund.

As part of the 2019 formal valuation of the Fund, the long-term funding strategy for the Council was reviewed. The results of that review were formalised in the Funding Strategy Statement ("FSS") at that time.

The purpose of this report is to carry out a review of the previously agreed funding strategies for the Council to ensure they remain appropriate given the Fund's long term funding objectives, its view of funding and investment risk, and progress against its objectives since 2019.

As contributions and investment returns are the sole sources of funding members' benefits, a long-term funding strategy should be considered in tandem with a long-term investment strategy. Note that this paper has not been prepared for the purpose of reviewing or advising on the Fund's long-term investment strategy; however we have considered potential alternative investment strategies (as provided by Mercer) to ensure that any change would not invalidate the chosen funding strategy.

Any changes to the agreed funding strategy should be documented in the FSS and consulted on in line with Local Government Pension Scheme (LGPS) Regulations and guidance.

This paper may be shared with Council officers and the Council's Pensions Committee. However it should not be disclosed to any other third parties (e.g. advisers to the Fund or Council, other Fund employers) without our prior written permission and then only in full. We accept no liability to third parties and/or for any other purpose than above, unless expressly accepted in writing.

Version Control

Version	Date	Comment
1	16 May 2022	Version to discuss with Fund officers on 16 May 2022
2	25 May 2022	Version following formal peer review by Barry Dodds
3	4 January 2023	Confirms contribution rates agreed between Fund & Council; This version is also for sharing with Pensions Committee

Audit Trail

Date	Decision(s) made	Decision makers
16 May 2022	Results noted	Fund actuary, Fund officers
4 January 2023	Confirmed contribution rates to apply for both schools & non-schools	Fund officers, Council officers

Methodology and inputs

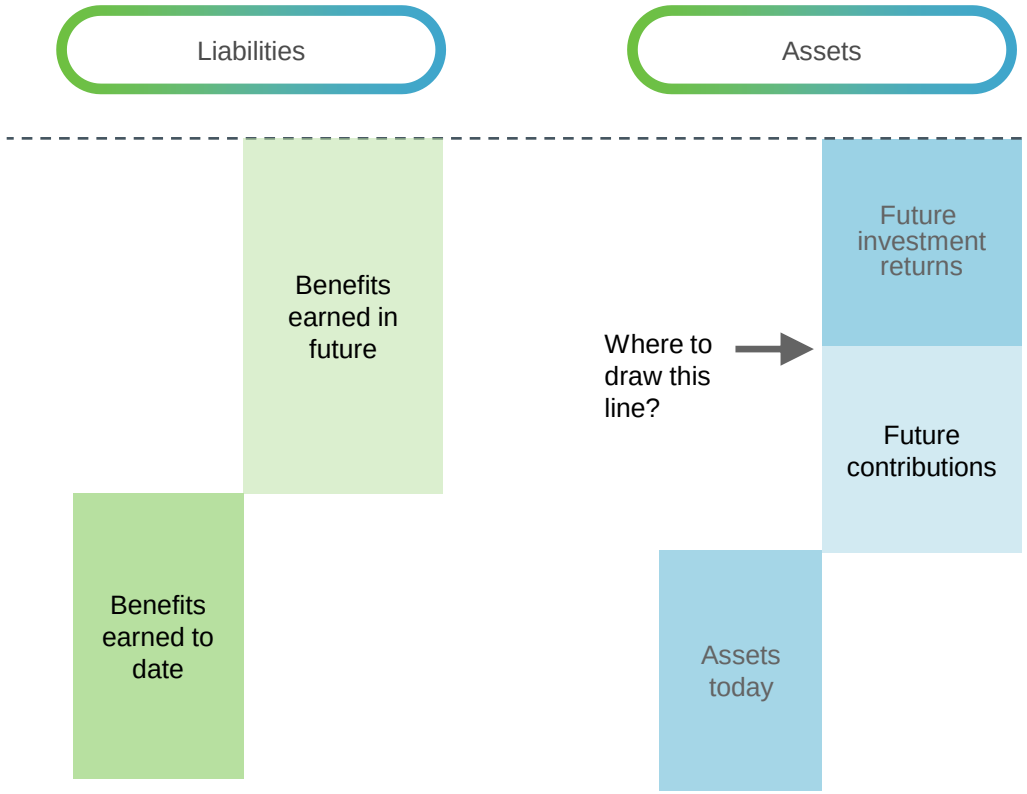
Setting funding strategy

The funding of members' benefits is achieved by a combination of contributions and investment returns.

It is therefore critical to consider how much a particular funding strategy (i.e. contribution rates) relies on future investment returns.

This modelling considers four strategies for future contribution rates, and 5,000 scenarios for future investment returns as these are unknown and volatile. It is important to understand how much reliance is being placed on investment returns, and therefore how much risk is involved in the funding strategy, as this may impact on future contribution requirements.

This modelling looks at total contributions required (i.e. primary plus secondary) to meet the funding objective.



Methodology: 5,000 scenarios gives a distribution of outcomes

This modelling is a form of asset-liability modelling ("ALM").

Assets are projected forward from March 2021 using membership data at that date under 5,000 different outcomes for future market and economic conditions. For each outcome (5,000 per scenario), we calculate the funding position annually throughout the projection period.

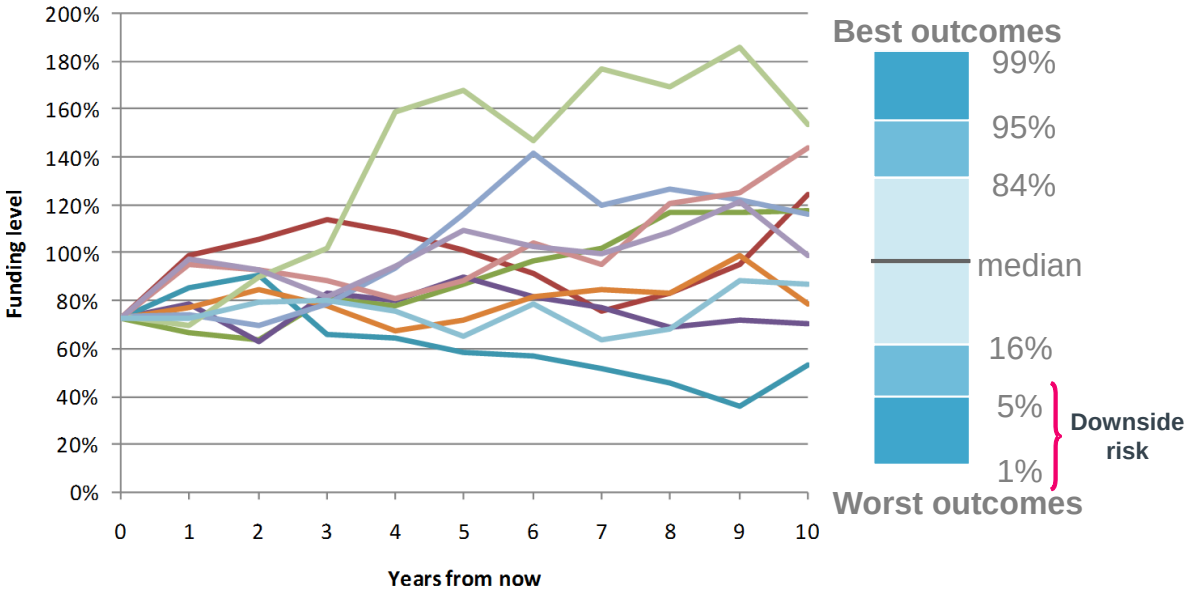
The funding position uses the same methodology as at the 2019 formal valuation.

We then rank the 5,000 outcomes from best to worst and we plot the outcomes graphically (as shown in the following two pages).

We can then compare the range of outcomes with other scenarios.

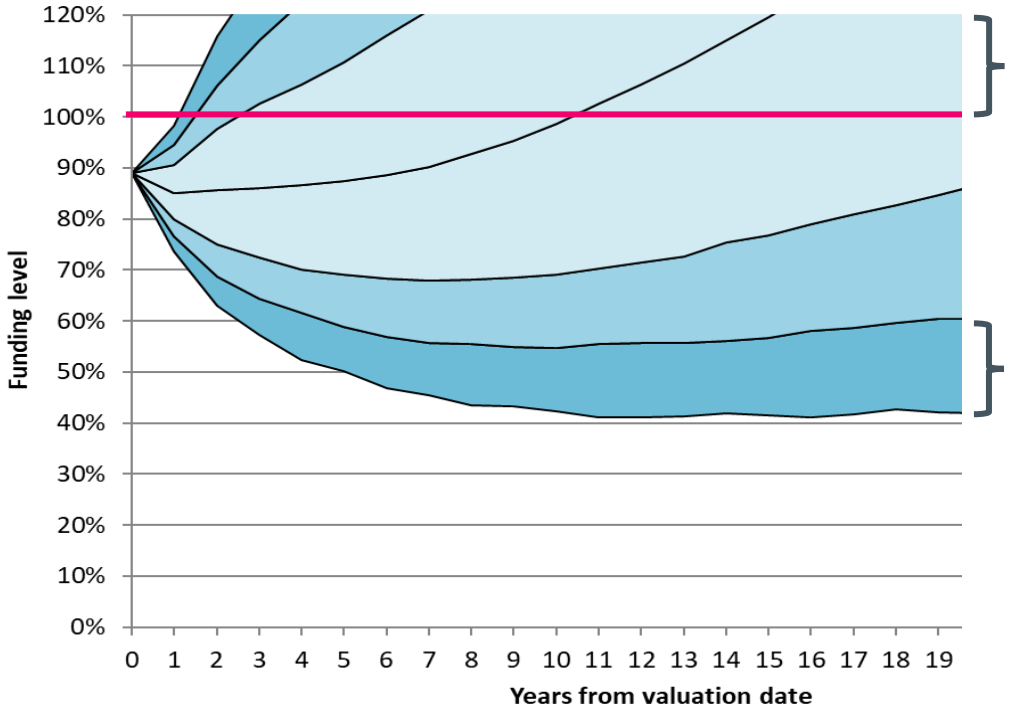
The following likelihoods are adopted for each graph:

- Lightest coloured ranges represent middle 2/3rds of the outcomes
- The range above and below this shows 1 in 6 outcomes each
- This range is further split into 1 in 10 for the next lightest range and 1 in 20 for the darkest range of outcomes
- The best and worst 1% of outcomes are not shown on the graphs



Assess the likelihood of success (LoS) of different outcomes

Methodology: Understanding and comparing risk



Likelihood of success: what proportion of the 5,000 projections achieve full funding at the end of the time horizon

Downside risk: the average of the worst 5% of funding outcomes at the end of the time horizon

(chart shows illustrative results, not London Borough of Tower Hamlets Fund)

Compare and contrast the outcomes (risk measures) for different contribution and investment strategies

Model inputs: Contribution Scenarios

For each scenario, we have modelled the contribution rate expressed as a percentage of pay and monetary amount.

The contributions payable in 2021/22 and 2022/23 are based on the rates certified at the 2019 valuation.

The contribution patterns modelled make no allowance for any changes resulting from the LGPS Cost Cap mechanism.

To explore changes to investment strategy, we have also modelled a fixed contribution rate so that we can isolate the differences in outcomes when investment strategy is varied. This can also be helpful when considering contribution strategy and long-term cost of benefits.

The contribution strategies are detailed on the following slides.

Model inputs: Council contribution patterns

Rate Pattern	2021-22	2022-23	2023-24	2024-25	2025-26	Thereafter
Fixed current	Current contributions exactly as certified in Rates and Adjustments certificate (in 2022-23: 18.6% of pay plus £13,650,000)		18.6% of pay plus £13,650,000	18.6% of pay plus £13,650,000	18.6% of pay plus £13,650,000	Fixed forever
Fixed current less £2m			18.6% of pay plus £11,650,000	18.6% of pay plus £11,650,000	18.6% of pay plus £11,650,000	Fixed forever
Freeze 3y			18.6% of pay plus £13,650,000	18.6% of pay plus £13,650,000	18.6% of pay plus £13,650,000	Allowed to vary by up to +/- 1% of pay each year
Freeze 3y less £2m			18.6% of pay plus £11,650,000	18.6% of pay plus £11,650,000	18.6% of pay plus £11,650,000	Allowed to vary by up to +/- 1% of pay each year

The above relate to non-schools staff: the schools staff rate would be expressed in % terms only, at an equivalent rate. To the extent that the schools rate is lower, the non-schools rate would need to be higher to compensate (and vice versa).

The rates in the table above include expenses of 0.5% of pay. In the model we ignore expenses so the modelled rates are actually 0.5% of pay lower.

Employee contributions are modelled as payable in addition to the above.

We can interpolate between modelled strategies to analyse variants of these scenarios.

Model inputs: Schools/Non School split

Pool name	Total Contribution Rate 2022/2023
London Borough of Tower Hamlets Pool	
London Borough of Tower Hamlets (non-schools)	18.6% plus £13,650,000
London Borough of Tower Hamlets (schools)	23.3%

The rates in the table above reflect the current split of contributions between schools and non-schools. Once we have been provided with the payroll figure for the Council as at 31 March 2022, we can provide further details on the updated split.

Model inputs: member data, assets, liabilities and assumptions

Member data

Benefit projections are based on membership data provided as at 31 March 2021.

Liabilities

The assumptions used to value each of the Employer's liabilities as at 31 March 2021 are shown in Table 1

All future liability values are calculated using the ongoing funding target which uses the financial assumptions as per Table 2 (updated for financial conditions at 31 March 2021) and the same demographic assumptions as applied at the 2019 formal funding valuation.

The liabilities include an allowance for changes to members' benefits resulting from the McCloud case. However, no allowance has been made for the Cost Cap valuation (which currently remains unknown) or any of the recent court cases where we consider the outcome to be immaterial (e.g. Sergeant and Goodwin).

Assets

Asset values are taken from the 31 March 2021 IAS19 Accounting Standard reports.

Table 1 – Assumptions for initial liabilities (for info)

% p.a.	31 March 2019	31 March 2021
Discount rate	4.0%	3.8%
Salary increases	2.5%	2.5%
Pension increases	2.3%	2.3%

Table 2 – Assumptions used in liability projections

	Funding target assumption
Discount rate	2.0% above risk free market rate
Salary increases	Consumer Price Index Inflation plus 0.2%
Pension increases	Consumer Price Index inflation

Model inputs: investment strategies

For the purpose of exploring the contribution rate strategies in this modelling, we have considered the following investment strategies provided by the Fund's investment consultant (Mercer):

- Current Strategy
- Alternative 1 (under consideration)
- Alternative 2 (under consideration)

The table to the right details the asset allocations of the investment strategies we have modelled.

	Current Strategy	Alternative 1	Alternative 2
Overseas equities	47.5%	42.8%	38.0%
UK Equity	2.5%	2.3%	2.0%
Infrastructure equities	3.0%	3.0%	5.0%
Private equity	3.0%	3.0%	5.0%
Commercial Property	12.0%	9.0%	9.0%
Residential Property	0.0%	3.0%	3.0%
Diversified Growth Fund	20.0%	15.0%	15.0%
Multi Asset Credit	6.0%	6.0%	6.0%
Private Debt	0.0%	5.0%	6.0%
Long Index Linked Gilts	6.0%	6.0%	6.0%
Inflation Plus Fund	0.0%	5.0%	5.0%
Total	**100%**	**100%**	**100%**

Figures may not sum exactly due to rounding

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Decision making framework

Decision making framework

Time horizon	We have considered the position after 20 years. 17 years has also been considered as this may be of interest for the 2022 valuation Section 13 valuation by the Government Actuary's Department (GAD).
Likelihood of success (LoS)	What is the "risk" tolerance? i.e. how likely is the employer to be fully funded at the end of the time horizon? Likelihoods are shown as a snapshot at the chosen time horizon.
Downside risk	How "bad" is the worst case scenario? i.e. how low could the funding level get by the end of the time horizon? Threshold is 40% funding level, but ideally 50% at least. We wouldn't "let" funding levels get this bad in practice, but the metric gives us another way to compare different options.
Investment strategy	Unless otherwise stated the contribution patterns have been modelled using the Fund's long-term target strategy – see later for comparison of strategies. The Fund's investment consultants will use these modelling results to consider other investment strategy options at a later date
Wider considerations	
Budgets	What has been budgeted by the Council for the next few years? If contributions are reduced now, will there be difficulty increasing contributions in the future if that is required? Impact on the Fund's cashflow position if contributions are reduced
Stand up to scrutiny?	Choice of funding and investment strategies need to be justified to Pensions Committee as well as external bodies e.g. GAD
Recent legal rulings	Uncertainty around possible benefit changes. Ideally contribution changes should be flexible enough to absorb benefit changes. The liabilities include an allowance for changes to members' benefits resulting from the McCloud case. However, no allowance has been made for the Cost Cap valuation.
Climate risk	We have considered how the results might change in three climate change scenarios as a way of testing the resilience of the funding strategy to climate risk

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Context for results

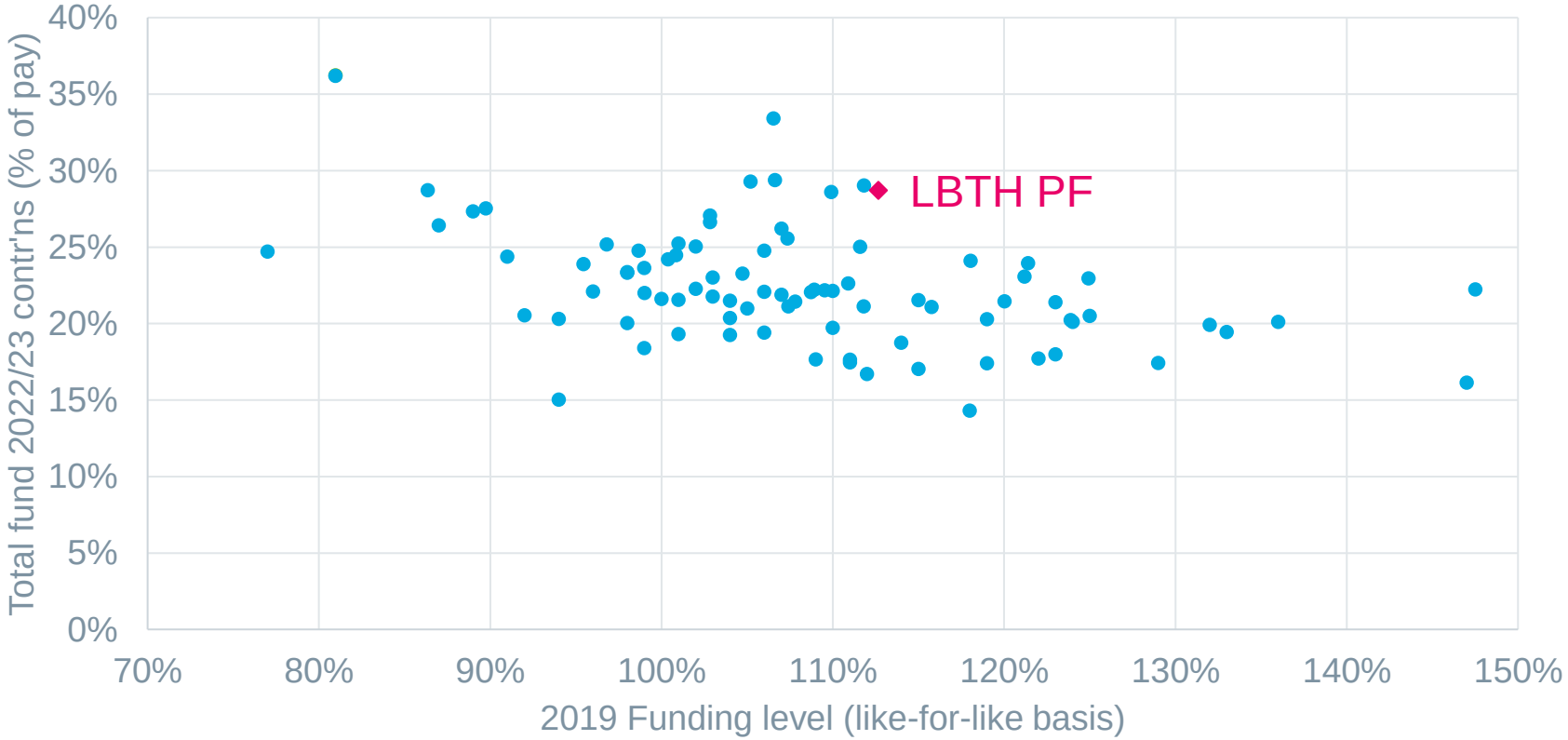
Assets & liabilities

London Borough of Tower Hamlets (£m)	31 March 2019 (last valuation)	31 March 2021 (modelling exercise)
Liabilities		
Actives	386	455
Deferreds	323	322
Pensioners	671	710
Total liabilities	**1,380**	**1,487**
Asset share	**1,359**	**1,705**
Surplus/(deficit)	(21)	218
Funding level	98%	115%

Figures may not sum exactly due to rounding

The initial liabilities and funding level do not directly affect the modelling results but have been shown to give context to the results

LBTH contributions are towards the higher end in the LGPS, resulting in a strong funding position



Improvement in funding position may mean there is scope to reduce rates at this valuation

Based on 2019 valuation Section 13 analysis from GAD

Results

Impact of investment strategy

- We have included three different investment strategies in the modelling which tie in with the ongoing investment strategy review being carried out by Mercer
- We have not considered the strategies in detail, nor are we giving investment advice
- The rest of the results in this paper are based on the **current** strategy
- The two alternative strategies tend to give more favourable results (mainly lesser downside risk) so moving to either of these would not invalidate any of our recommendations

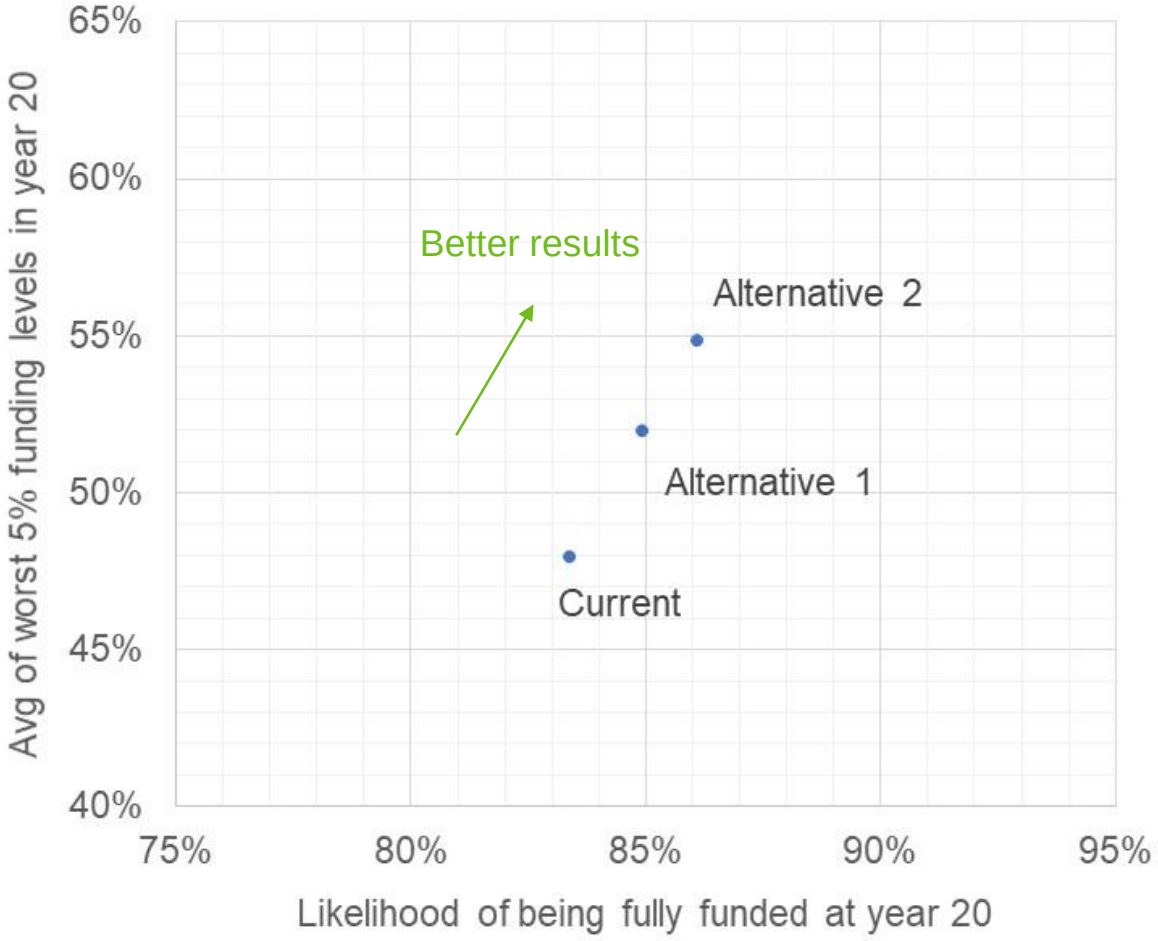


Chart based on current contributions continuing indefinitely

Changes to investment strategy would be viable and support funding plans

Contribution rate options

- Compared to freezing rates at 18.6% plus £13,650,000 for three years, reducing rates (obviously) gives worse results
- The model does expect rates to increase in future years **on average**, as shown by the fact that the two freeze stabilised strategies give better results than the two fixed strategies (fixed strategies shown for comparison)
- This doesn't mean rates actually will increase, especially as the LoS is generally very healthy
- However all four strategies give very healthy results with LoS well in excess of 80% and downside better than 45%
- Either of the freeze strategies is ultimately acceptable at 2022

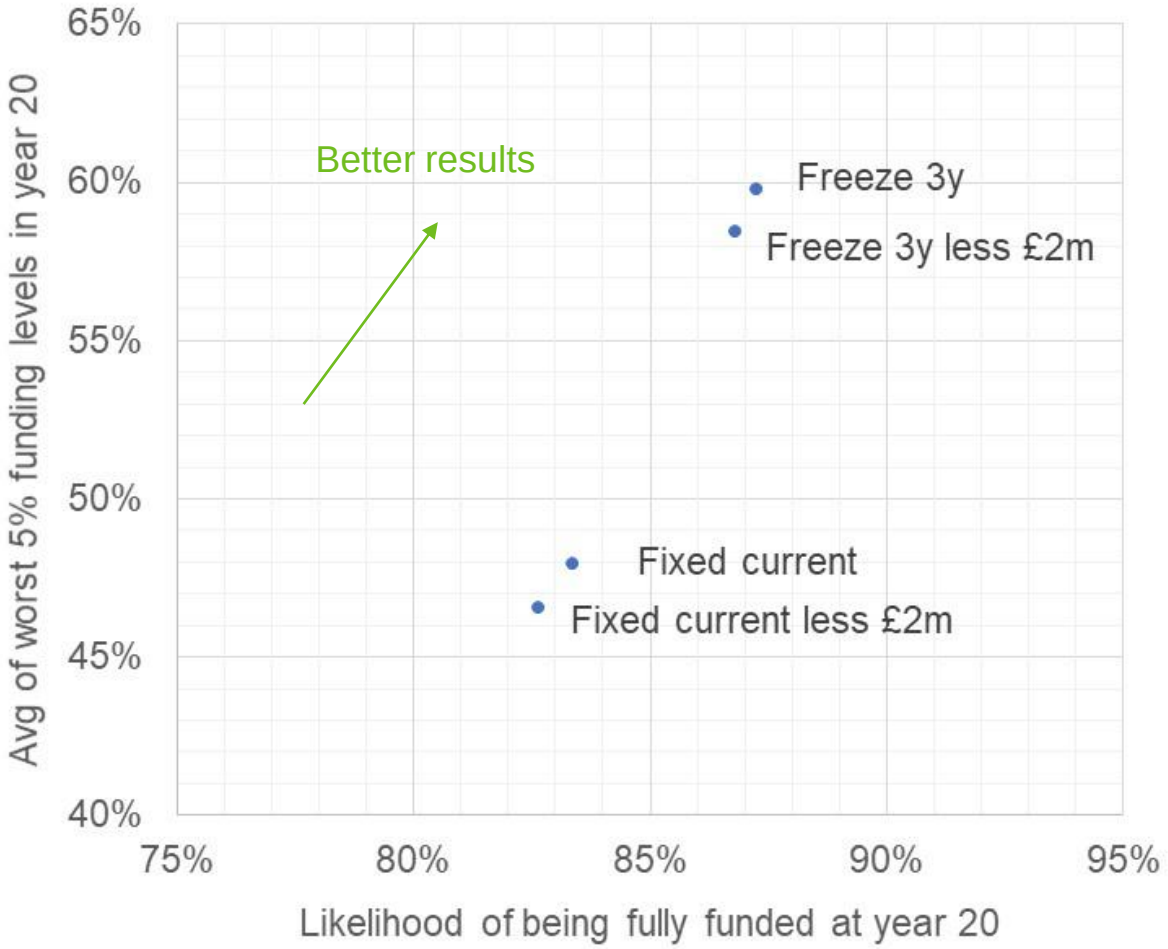


Chart based on current strategy

Modelling results support contribution reductions

Contribution rates at 17 years

- We have considered the results on a 17 year horizon as these may be of interest to GAD as part of their Section 13 review of the 2022 valuations
- We recommend basing funding strategy decisions on the 20 year horizon results
- The 17 year results are not as good as after 20 years, which is expected, e.g. LoS has fallen 3-4%
- However all the strategies still achieve a healthy LoS and downside risk measure, therefore the Fund could justify the continued use of a 20 years time horizon on the basis that applying a 17 year horizon instead would still be sufficiently prudent

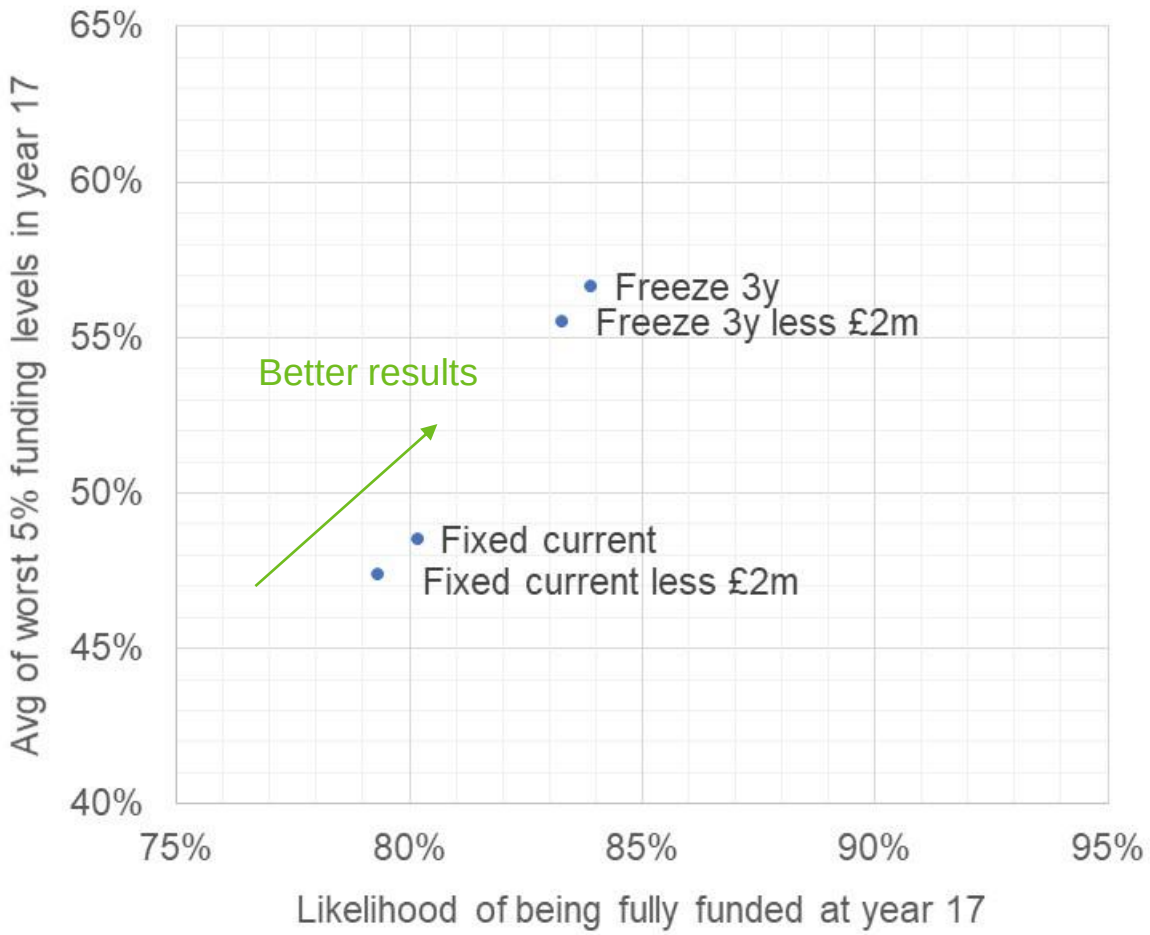


Chart based on current strategy

We would not expect 17 year results to raise concerns from GAD

Impact of an asset shock

- We have recalculated the results of the two freeze scenarios, combined with a 10% reduction to the starting assets, representing a permanent asset re-statement (as opposed to a 10% fall which is recovered soon after)
- In both cases the LoS and downside risk are worse by 3-5%
- However both strategies remain with an LoS above 80% and downside risk still acceptable
- This gives us confidence that our conclusions (from modelling run at 31 March 2021) will not be derailed by recent events such as the invasion of Ukraine, even if that proved to be a permanent market re-statement

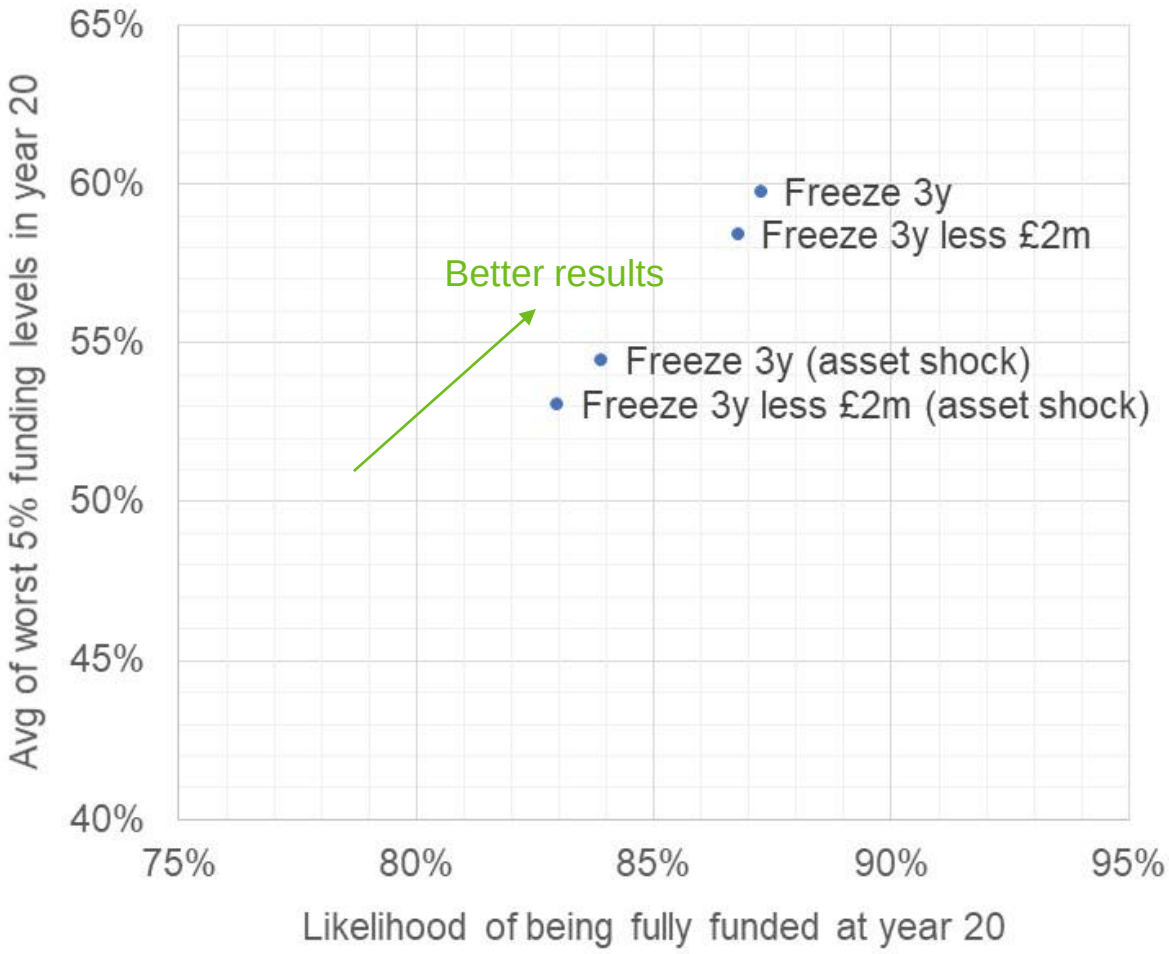


Chart based on current strategy

The stabilised strategies are resilient to a large short-term asset shock

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Exploring climate change risk

Climate change risk

Exploring the impact of climate change risk

Climate change is too uncertain to "build in" to our model directly like we do with e.g. inflation risk.

Instead we see how the results change if we stress the model in three different scenarios.

Given it is a stress test, all three scenarios are "bad". Therefore need to consider all three scenarios to understand the strategy's resilience

Purpose is to test resilience, not re-run all the previous analysis.

Climate scenarios give us extra information to help make our decision, they don't replace existing modelling results

Testing "resilience" (TCFD requirement)

What could this mean?

- Does the chosen strategy still meet the chosen targets under all scenarios?
- Does it miss them by an acceptable margin (they are stress tests after all)?
- Does it satisfy other risk measures (e.g. short term downside risk)?
- Is it still the 'best' option even when compared against other options under the climate scenarios?

Judgement required when deciding how to test resilience

Our scenarios are based on the speed and strength of the response to climate change

Green revolution

- Concerted policy action starting now e.g. carbon pricing, green subsidies
- Public and private spending on "green solutions"
- Improved disclosures encourage market prices to shift quickly
- Transition risks in the short term, but less physical risk in the long term
- High expectation of achieving <2°C

Delayed transition

- No significant action in the short-term, meaning response must be stronger when it does happen
- Shorter and sharper period of transition
- Greater (but delayed) transition risks but similar physical risks in the long term
- High expectation of achieving <2°C

Head in the sand

- No or little policy action for many years
- Growing fears over ultimate consequences leads to market uncertainty and price adjustments
- Ineffective and piecemeal action increases uncertainty
- Transition risks exceeded by physical risks
- Low/no expectation of achieving <2°C

Immediate → Timing of disruption → **10+ years**

High → Intensity of disruption → **Very high**

All three scenarios are difficult – they are not "good, medium and bad" options

In each scenario we assume a disruptive period of high volatility

Our scenarios assume that

- There will be a period of disruption linked either to the response to climate risk (transition risks) or the effects of it (physical risks)
- This disruption will lead to high volatility in financial markets
- The later the period of disruption, the more pronounced it will be

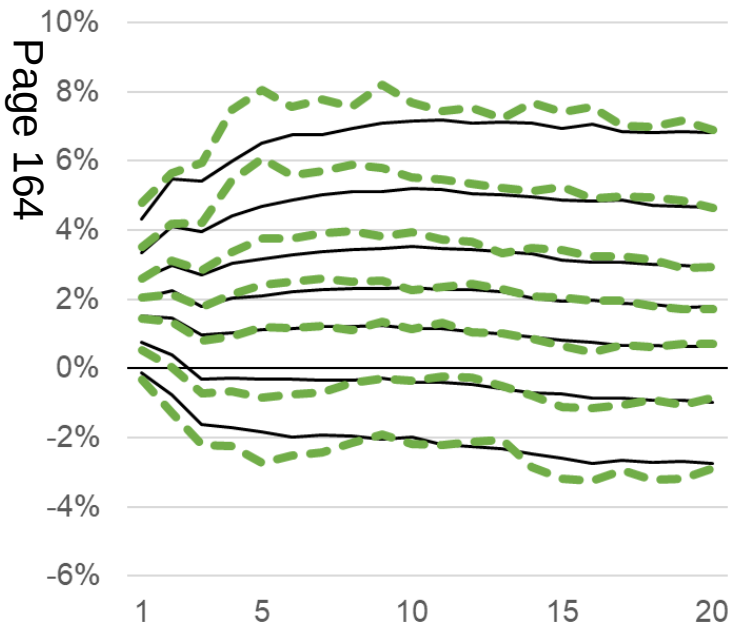
Scenario	Volatility criteria*			
	Years 1-5	Years 6-10	Years 11-15	Years 16-20
Green revolution	Very high	Moderate	Moderate	
Delayed transition		Very high	High	
Head in the sand			High	Very high

*Volatility criteria: Moderate = 60th percentile, High = 75th percentile, Very high = 85th percentile

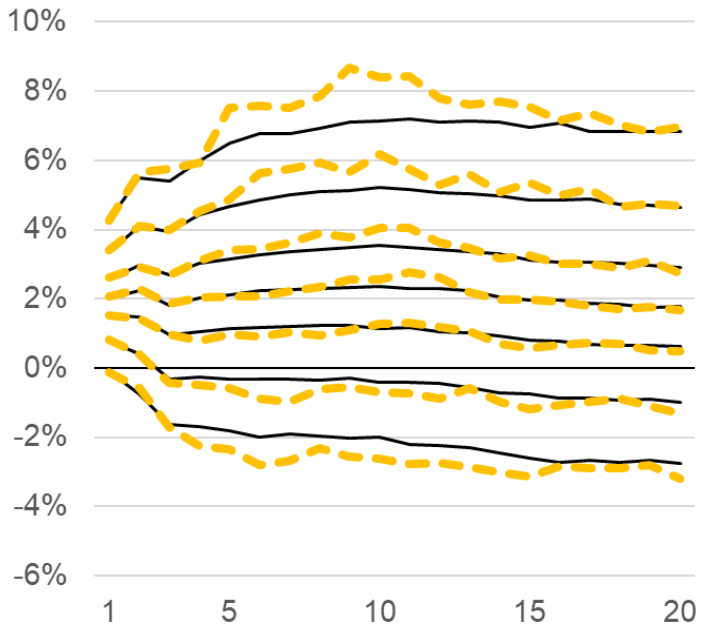
We use volatility criteria to "tilt" the modelling results towards simulations with higher volatility in the periods in question

Example of scenario impact: CPI inflation

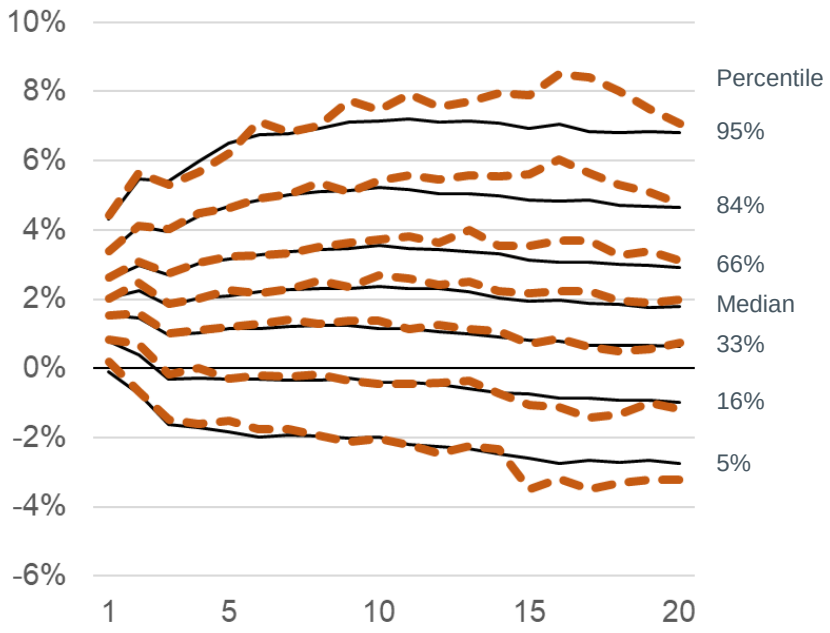
Green revolution



Delayed transition



Head in the sand

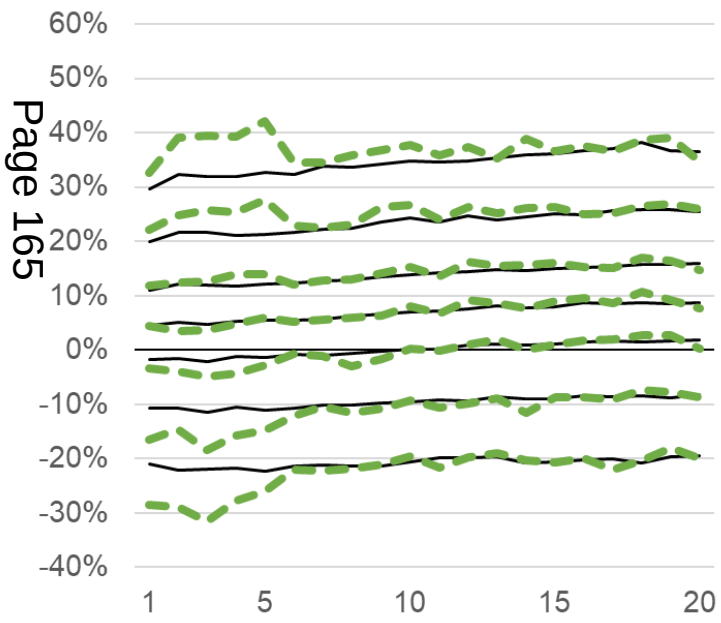


Scenario views widen the distribution of key variables in different time periods

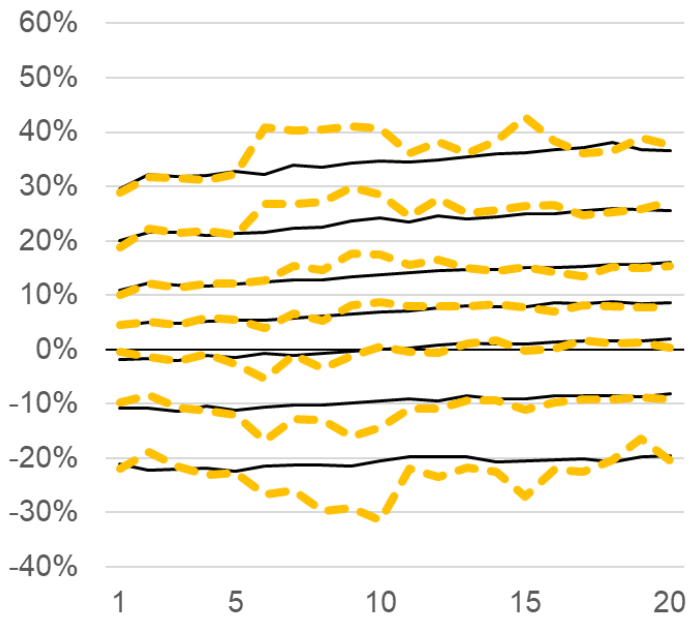
Solid black lines are the unweighted base case

Example of scenario impact: Global equity returns

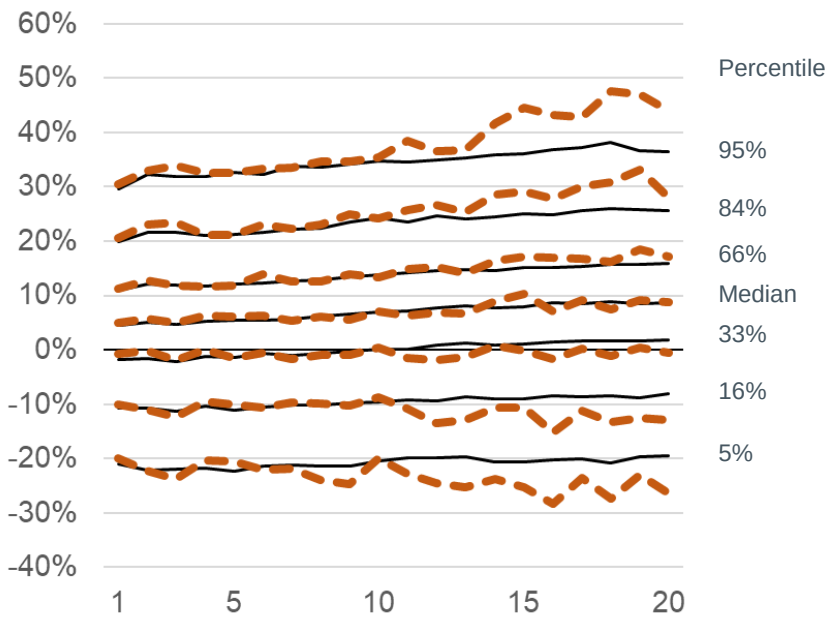
Green revolution



Delayed transition



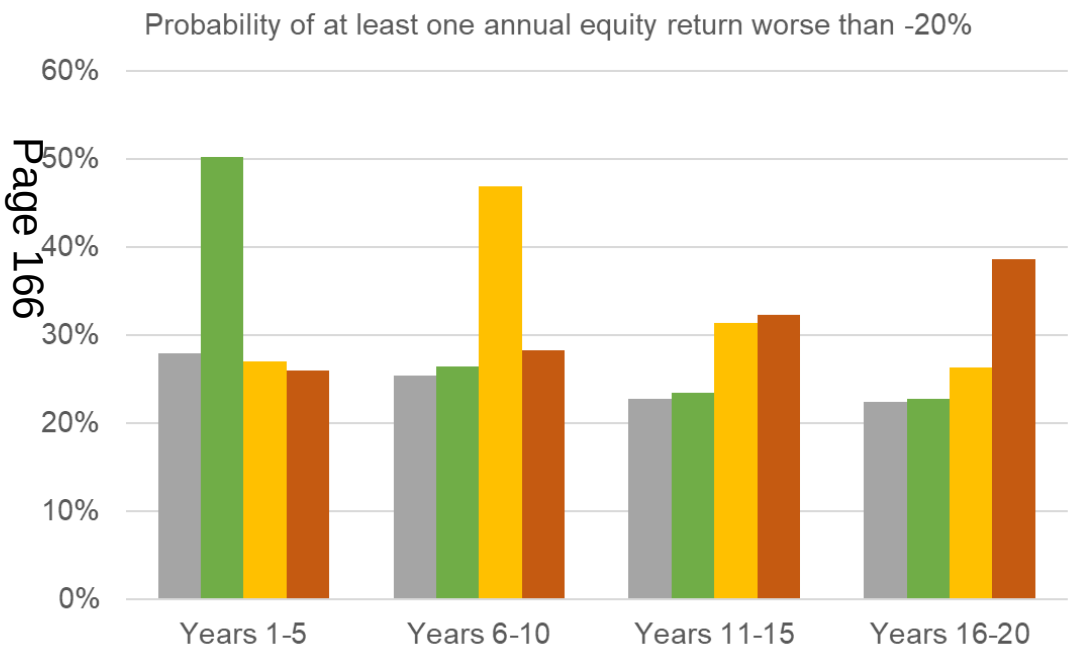
Head in the sand

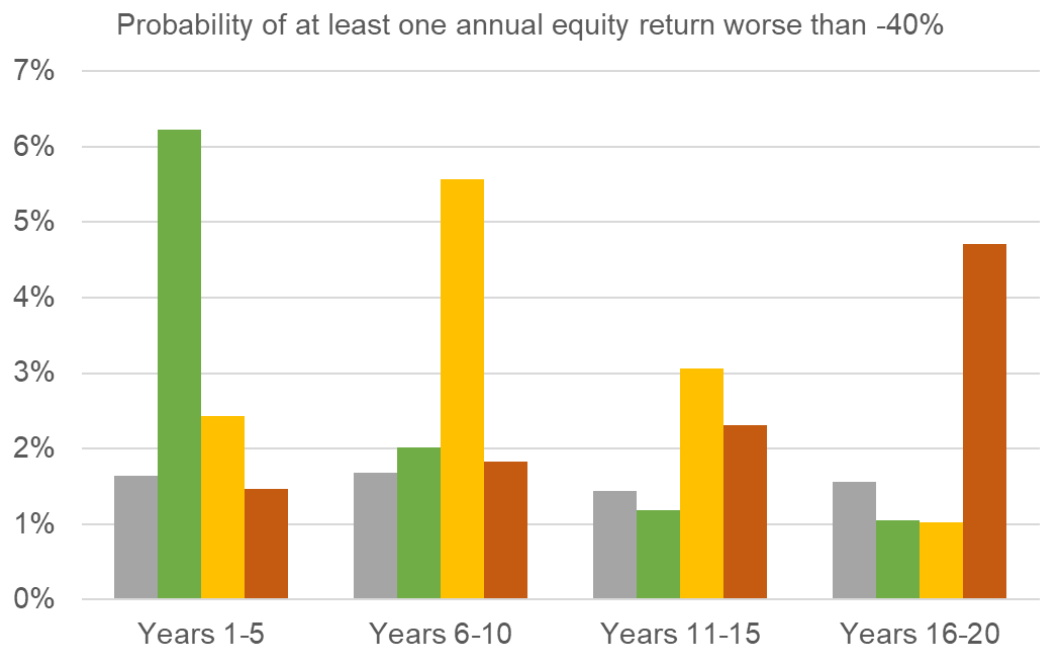


Scenario views widen the distribution of key variables in different time periods

Solid black lines are the unweighted base case

Example of scenario impact: equity shock





Bars from left to right: Unweighted base case (grey), Green revolution, Delayed transition, Head in the sand

Increased volatility gives a much higher chance of significant equity shocks

Climate stress test results

- The LoS is 4% lower in the climate scenarios compared to the unweighted base results
- This is not negligible but the results are still strong enough to support the freeze for 3 years less £2m strategy
- The impact on downside risk is greatest for the Green Revolution scenario which has the most immediate disruption
- Again, the results are still sufficiently strong to suggest that both Step Down strategies are resilient to climate risk
- These results are reassuring – they tell us that the core model does not appear to be significantly underestimating climate risk

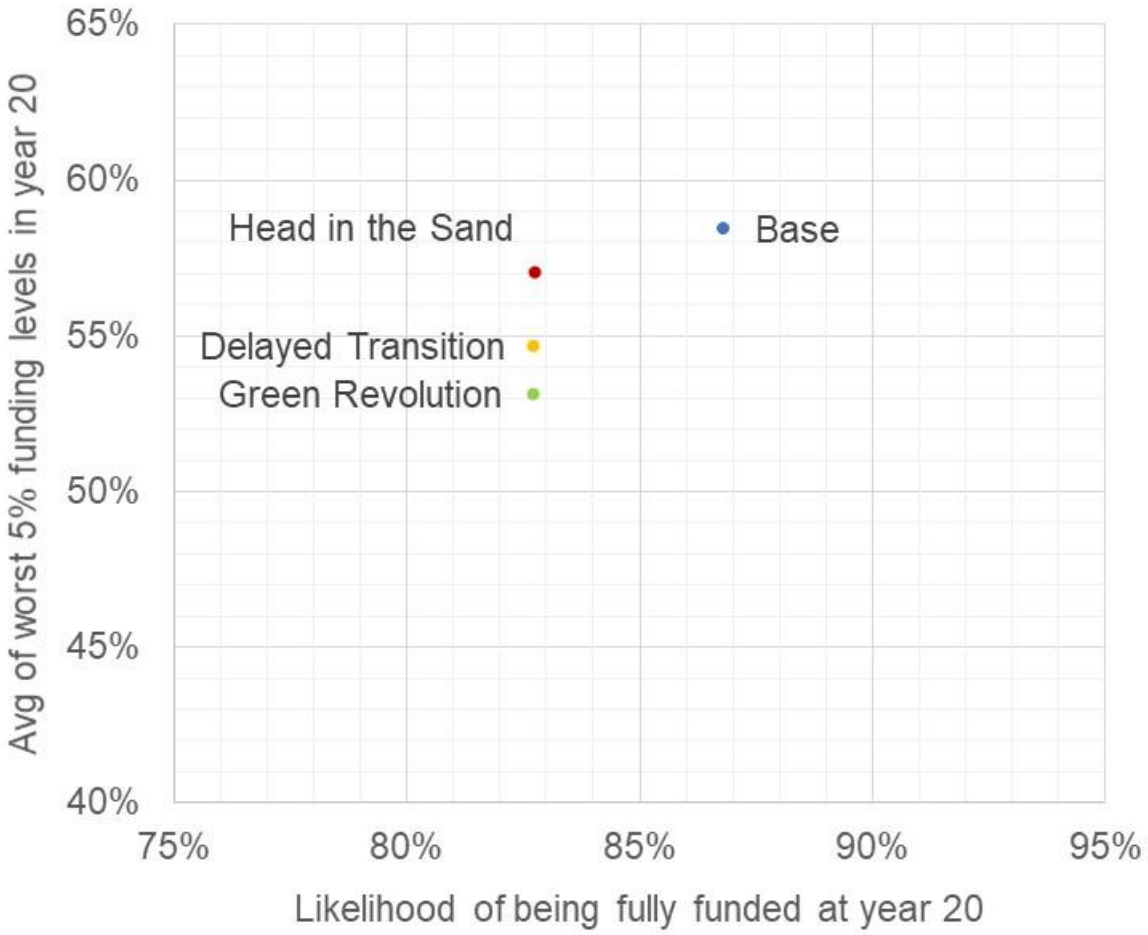


Chart based on current strategy and Freeze 3y less £2m contribution pattern.

The stress test results suggest that the Step Down strategies are resilient to climate risk

Conclusions and next steps

Overall conclusions

The modelling results are very positive and show that the stabilisation mechanism is still fit for purpose. They also support the two potential alternative investment strategies modelled, although we are not giving investment strategy advice here.

The modelling would support a freeze or reduction in Council contribution rates over the next three years. A freeze for the next 3 years or a reduction of £2m pa have been tested and both are acceptable. Note that contributions beyond March 2026 could be higher or lower.

The results are slightly worse when stressed under the three climate scenarios, but the impact is small enough to suggest that the model does not materially understate climate risk and that reducing contributions is an acceptable strategy.

The proposed contribution rates outlined on page 2 are acceptable to the Fund Actuary, Pension Fund & Council.

Next steps

- Advise the Pensions Committee of the modelling process and conclusions.
- Confirm the final rates, including any monetary component, to relevant Council officers & schools by 31 March 2023.
- Include in formal valuation report, within Rates & Adjustments Certificate, to be signed off by 31 March 2023 as required by LGPS Regulations.

Appendices

APPENDIX 1

Economic Scenario Service (ESS)

The ESS uses statistical models to generate a future distribution of year-on-year returns for each asset class e.g. UK equities. This approach is also used to generate future levels of inflation (both realised and expected). The ESS is also designed to reflect the correlations between different asset classes and wider economic variables (e.g. inflation).

In the short-term (first few years), the models in the ESS are fitted with current financial market expectations. Over the longer-term, the models are built around our long-term views of fundamental economic parameters e.g. equity risk premium, credit-spreads, long-term inflation etc.

The ESS is calibrated every month with updated current market expectations (a minor calibration). Every so often (annually at most), the ESS is updated to reflect any changes in the fundamental economic parameters as a result of change in macro-level long-term expectations (a major calibration). The following table shows the calibration at 31 March 2021.

		Annualised total returns														
		Cash	Index Linked Gilts (medium)	Index Linked Gilts (long)	Private Equity	Property	Emerging Market Debt	Infrastructure Equity	Global Equity	Multi Asset Credit (sub inv grade)	Absolute Return Bonds (inv grade)	Inflation (RPI)	17 year real yield (RPI)	Inflation (CPI)	17 year real yield (CPI)	17 year yield
5 years	16th %'ile	-0.3%	-3.2%	-4.4%	-7.1%	-3.5%	-3.3%	-5.0%	-3.4%	0.5%	1.1%	2.0%	-2.4%	1.0%	-2.2%	0.8%
	50th %'ile	0.4%	-0.3%	-0.8%	5.1%	2.5%	1.9%	4.1%	4.5%	3.3%	2.0%	3.6%	-1.6%	2.6%	-1.4%	1.9%
	84th %'ile	1.2%	2.6%	2.9%	18.9%	8.8%	7.2%	14.1%	12.3%	5.2%	2.9%	5.2%	-0.7%	4.1%	-0.4%	3.1%
10 years	16th %'ile	0.1%	-2.5%	-3.7%	-3.1%	-1.3%	-1.3%	-1.8%	-0.8%	1.8%	1.3%	1.9%	-1.8%	1.0%	-1.7%	1.0%
	50th %'ile	1.1%	-0.5%	-1.4%	5.8%	3.2%	2.6%	4.9%	5.1%	3.7%	2.5%	3.5%	-0.5%	2.6%	-0.5%	2.4%
	84th %'ile	2.3%	1.6%	1.2%	15.6%	8.0%	6.6%	12.0%	10.7%	5.3%	3.7%	5.2%	0.7%	4.3%	0.7%	4.1%
20 years	16th %'ile	0.6%	-2.0%	-3.1%	0.4%	0.8%	0.7%	0.9%	1.6%	3.0%	2.2%	1.2%	-0.7%	0.8%	-0.7%	1.3%
	50th %'ile	2.0%	-0.3%	-1.4%	6.8%	4.2%	3.7%	5.9%	5.9%	4.6%	3.6%	2.8%	1.0%	2.3%	1.0%	3.2%
	84th %'ile	3.6%	1.5%	0.4%	13.6%	8.1%	6.9%	11.0%	10.3%	6.3%	5.1%	4.4%	2.7%	3.9%	2.7%	5.7%
	Volatility (Disp) (1 yr)	0%	7%	9%	28%	14%	12%	21%	17%	6%	2%	1%		1%		

APPENDIX 2

Reliances, limitations and additional details

Asset liability modelling

We undertake 5,000 simulations of the future for each scenario. The outcomes of the simulations are ranked from "best" to "worst". The spread of outcomes at a given point in time for a given strategy can be illustrated in charts as follows.

The "median" funding level can be considered to be the average outcome. It should be noted that this is not the same as saying this is the most likely outcome, rather it represents the value with which we would expect all outcomes to have a 50% chance of being above and a 50% chance of being below.

The bottom 16th percentile – approximately 1 outcome in 6 is worse than this level.

The top 16th percentile – approximately 5 outcomes in 6 would be expected to be below this level.

The bottom 5th percentile can be considered a "bad" outcome – 1 outcome in 20 of the simulations is expected to be worse than this.

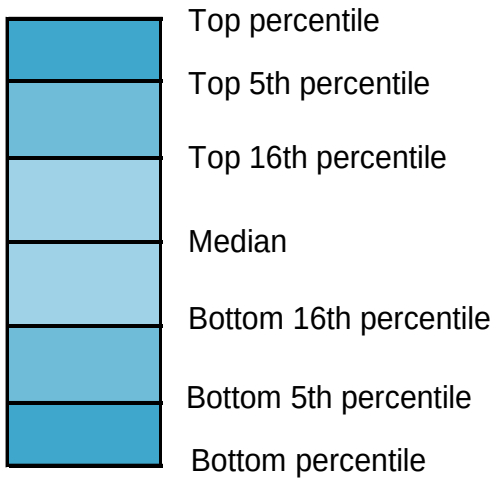
The top 5th percentile can be considered a "good" outcome – 19 outcomes in 20 of the simulations are expected to be below this level.

The bottom percentile can be considered an "extremely bad" outcome, which occurs with a probability of 1 in 100.

The top percentile can be considered an "extremely good" outcome, which occurs with a probability of 1 in 100.

When plotting the distribution of contribution rates, rather than funding levels, the description of any outcome as 'bad' or 'good' is reversed.

In all the charts we consider, there will be some outcomes above and below the highest and lowest levels shown.



APPENDIX 2

Reliances, limitations and additional detail

Data – Cashflows

In projecting forward the evolution of the Fund, we have used estimated cashflows generated using our actuarial valuation system. This is based on the benefits as set out in the LGPS regulations and the demographic assumptions adopted for the 2019 actuarial valuation, with updated financial assumptions based on 2019 methodology as well as updated membership data at 31 March 2021.

Data – ESS

The distributions of outcomes depend significantly on the Economic Scenario Service (ESS), our (proprietary) stochastic asset model. This type of model is known as an economic scenario generator and uses probability distributions to project a range of possible outcomes for the future behaviour of asset returns and economic variables. Some of the parameters of the model are dependent on the current state of financial markets and are updated each month (for example, the current level of equity market volatility) while other more subjective parameters do not change with different calibrations of the model.

Key assumptions include:

- The average excess equity return over the risk free asset and its volatility which affects growth asset returns
- The level and volatility of yields, credit spreads, inflation and expected (breakeven) inflation, which affect the projected value placed on the liabilities and bond returns.
- The gap between CPI and RPI. The market for CPI-linked instruments is not well developed and this is based on our judgement. Target rates for CPI (inflation and inflation expectations) are RPI – 1% p.a. pre 2030, and RPI – 0% p.a. post 2030, which trends towards a long-term CPI assumption of 2% p.a.
- The output of the model is also affected by other more subtle effects, such as the correlations between economic and financial variables.
- We expect that long-term real interest rates will gradually rise from their current low levels. This is based on a selection of yield normalisation levels (which can be interpreted as representing low, medium and high economic growth scenarios) reflecting the fundamental uncertainty around long term average yield levels. Higher long-term yields would mean a lower value placed on liabilities and hence an improvement in the current funding position unless the Fund is fully hedged.

APPENDIX 2

Reliances, limitations and additional detail

Data ESS – continued

While the model allows for the possibility of scenarios that would be extreme by historical standards, including very significant downturns in equity markets, large systemic and structural dislocations are not captured by the model. Such events are unknowable in effect, magnitude and nature, meaning that the most extreme possibilities are not necessarily captured within the distributions of results.

A summary of economic simulations used is included further on in this document. We would be happy to provide fuller information about the scenario generator, and the sensitivities of the results to some of the parameters, on request.

Model

Except where stated, we do not allow for any variation in actual experience away from the demographic assumptions underlying the cash flows. Variations in demographic assumptions (and experience relative to those assumptions) can result in significant changes to the funding level and contribution rates. We allow for variations in inflation (RPI or CPI as appropriate), inflation expectations (RPI or CPI as appropriate), interest rates and asset class returns. Cash flows into and out of the Scheme are projected forward in annual increments, are assumed to occur in the middle of each Scheme year and do not allow for inflation lags. Investment strategies are assumed to be rebalanced annually.

Unless stated otherwise, we have assumed that all contributions are made and not varied throughout the period of projection irrespective of the funding position. In practice the contributions are likely to vary especially if the funding level changes significantly.

Investment strategy is also likely to change with significant changes in funding level, but unless stated otherwise we have not considered the impact of this.

The returns that could be achieved by investing in any of the asset classes will depend on the exact timing of any investment/disinvestment. In addition, there will be costs associated with buying or selling these assets. The model implicitly assumes that all returns are net of costs and that investment/disinvestment and rebalancing are achieved without market impact and without any attempt to 'time' entry or exit.

For the purposes of modelling very low investment risk strategies or matched bond portfolios, we have constructed an LBP (liability benchmark portfolio) that is a hypothetical portfolio that exactly matches the changes in value and cash flows of the liabilities (with a particular allowance for accrual) under all states of the world. It is generally not possible in practice to construct a portfolio with the same high quality of matching as the LBP but major financial and investment risks can be broadly quantified. However, a more detailed analysis is required to understand fully the implications and appropriate implementation of a very low risk or ‘cash flow matched’ strategy.

APPENDIX 2

Reliances, limitations and additional detail

Assumptions

We have estimated future service benefit cash flows and projected salary roll for new entrants after the valuation date such that payroll remains constant in real terms (i.e. full replacement). There is a distribution of new entrants introduced at ages between 25 and 65, and the average age of the new entrants is assumed to be 40 years. All new entrants are assumed to join and then leave service at SPA, which is a much simplified set of assumptions compared with the modelling of existing members. The base mortality table used for the new entrants is an average of mortality across the LGPS and is not client specific, which is another simplification compared to the modelling of existing members. Nonetheless, we believe that these assumptions are reasonable for the purposes of the modelling given the highly significant uncertainty associated with the level of new entrants.

TAS Compliance

The models used to carry out this modelling, and this presentation, comply with Technical Actuarial Standards 100 (Principles for Technical Actuarial Work) and 300 (Pensions).

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London Borough of Tower Hamlets Pension Fund
Policy on academy funding

Effective date of policy	13 March 2023
Date approved	13 March 2023
Next review	December 2025 or change in legislation whichever is earlier

1 Introduction

The purpose of this policy is to set out the administering authority's funding principles relating to academies and Multi-Academy Trusts (MATs).

1.1 Aims and Objectives

The administering authority's objectives related to this policy are as follows:

- to state the approach for the treatment and valuation of academy liabilities and asset shares on conversion from a local maintained school, if establishing as a new academy or when joining or leaving a MAT
- to state the approach for setting contribution rates for MATs
- to outline the responsibilities of academies seeking to consolidate
- to outline the responsibilities of academies when outsourcing

1.2 Background

As described in Section 5.2 of the Funding Strategy Statement (FSS), new academies join the fund on conversion from a local authority school or on creation (eg newly established academies, Free Schools, etc). Upon joining the fund, for funding purposes, academies may become stand-alone employers or may join an existing MAT.

Funding policy relating to academies and MATs is largely at the fund's discretion, however guidance on how the fund will apply this discretion is set out within this policy.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contains general guidance on Scheme employers' participation within the fund which may be relevant but is not specific to academies.

There is currently a written ministerial guarantee of academy LGPS liabilities, which was reviewed in 2022.

Academy guidance from the Department for Education and the Department for Levelling Up, Housing and Communities may also be relevant.

2 Statement of Principles

This Statement of Principles covers the fund's approach to funding academies and MATs. Each case will be treated on its own merits but in general:

- the fund will seek to apply a consistent approach to funding academies that achieves fairness to the ceding council, MATs and individual academies.
- the fund's current approach is to treat all academies within a MAT as separate employers, unless a request to pool them for contribution rate setting purposes is received from the MAT.
- academies must consult with the fund prior to carrying out any outsourcing activity.
- the fund will generally not consider receiving additional academies into the fund as part of a consolidation exercise except actuarial advise is sought.

3 Policies

3.1 Admission to the fund

As set out in section 5.2 of the FSS:

Asset allocation on conversion

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund its deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

Contribution rate

New academy contribution rates are based on the current funding strategy (set out in section 2 of the FSS) and the transferring membership. If a converting academy is joining an existing MAT within the fund then the converting academy will pay their individual calculated contribution rate until the subsequent formal actuarial valuation of the fund, at which point an updated MAT contribution rate will be calculated based on the academies present in the MAT at that point in time.

3.2 Multi-academy trusts

Asset tracking

The fund's current policy is to individually track the asset shares of each academy within the fund. Where a MAT exists, the individual asset shares may be pooled together to provide a pooled funding level or for setting a pooled contribution rate.

Contribution rate

If an existing academy is joining an existing pooled MAT (within the fund), in general, the transferring academy will pay the certified contribution rate of the MAT it is joining.

At the discretion of the fund, a new contribution may be calculated by the fund actuary to allow for impact of the transferring academy joining the MAT.

Academies leaving a MAT

As set out in section 5.2 of the FSS, if an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT. The individual asset share of that academy (as tracked individually) will be transferred to the new MAT in full, noting that this may be more (or less) than 100% of the transferring liabilities.

3.3 Merging of MATs (contribution rates)

If two MATs merge during the period between formal valuations, the new merged MAT will pay the higher of the two certified individual MAT rates until the rates are reassessed at the next formal valuation (NB where one or

both MATs are paying a monetary secondary contribution rate these will be converted to a % of pay for the purposes of determining the new merged contribution rate).

Alternatively, as set out in the fund's contribution review policy and per Regulation 64 A (1)(b) (iii) the MAT may request that a contribution review is carried out. The MAT would be liable for the costs of this review.

3.4 Cessations of academies and multi-academy trusts

A cessation event will occur if a current academy or MATs cease to exist as an entity or an employer in the fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.
- If the MAT is split into more than one new or existing employers within the fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers as described in 3.2 above.
- In all other circumstances, and following payment of any cessation debt, section 7.5 of the FSS would apply.

3.5 Academy consolidations

If an academy or MAT is seeking to merge with another MAT outside of the fund they would need to seek approval from the secretary of state to consolidate their liabilities (and assets) into one LGPS fund. It is the fund preference that academies do not seek to consolidate across different LGPS Funds.

Where a direction has been granted the fund does not generally accept academy consolidations into the fund. The fund will provide the necessary administrative assistance to academies seeking to consolidate into another LGPS fund, however the academy (or MAT) will be fully liable for all actuarial, professional and administrative costs.

3.6 Outsourcing

An academy (or MAT) may outsource or transfer a part of its services and workforce via an admission agreement to another organisation (usually a contractor). The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership.

The contractor will pay towards the LGPS benefits accrued by the transferring members for the duration of the contract, but ultimately the obligation to pay for these benefits will revert to the academy (or MAT) at the end of the contract.

It is the fund's preference for the contractor's contribution rate to be set equal to the letting academy's (or MAT's) total contribution rate.

It is critical for any academy (or MAT) considering any outsourcing to contact the fund initially to fully understand the administrative and funding implications. The academy should also read and fully understand the fund's admissions / pass-through policy.

In some cases, it is necessary to seek approval from Department for Education before completing an outsourcing (including seeking confirmation that the guarantee provided to academies will remain in place for the transferring members).

Where an outsourcing from an LEA school continues in operation after conversion to academy status, the academy will be deemed responsible for the outsourced members at the end of the contract.

3.7 Accounting

Academies (or MATs) may choose to prepare combined FRS102 disclosures (eg for all academies within a MAT). Any pooling arrangements for accounting purposes may be independent of the funding arrangements (eg academies may be pooled for contribution or funding risks but prepare individual disclosures, or vice versa).

4 Practicalities and process

To be considered on a case by case basis

5 Related Policies

The fund's approach to admitting new academies into the fund is set out in the Funding Strategy Statement, specifically "Section 5 – What happens when an employer joins the fund?"

- Contribution review policy
- Cessation policy
- Bulk transfer policy

London Borough of Tower Hamlets Pension Fund

Policy on cessations

Effective date of policy	13 March 2023
Date approved	13 March 2023
Next review	The earlier of December 2025 or change in legislation

1 Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with circumstances where a scheme employer leaves the fund and becomes an exiting employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework (see below) and the fund's discretionary policies (as described in Section 3 - Policies).

1.1 Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- To confirm the approach for the treatment and valuation of liabilities for employers leaving the fund.
- To provide information about how the fund may apply its discretionary powers when managing employer cessations.
- To outline the responsibilities of (and flexibilities for) exiting employers, the administering authority, the actuary and, where relevant, the original ceding scheme employer (usually the council or an academy).

1.2 Background

As described in Section 7 of the Funding Strategy Statement (FSS), a scheme employer may become an exiting employer when a cessation event is triggered e.g. when the last active member stops participating in the fund. On cessation from the fund, the administering authority will instruct the fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists. The fund has full discretion over the repayment terms of any deficit, and the extent to which any surplus results in the payment of an exit credit.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contain relevant provisions regarding employers leaving the fund (Regulation 64) and include the following:

- Regulation 64 (1) – this regulation states that, where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from the exiting employer
- Regulation 64 (2) – where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the exit date. Further, it requires the Rates & Adjustments Certificate to be amended to show the exit payment due from the exiting employer or the excess of assets over the liabilities in the fund.

- Regulation 64 (2ZAB) – the administering authority must determine the amount of an exit credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:
    a) Notify its intention to make a determination to-
        (i) The exiting employer and any other body that has provided a guarantee to the Exiting Employer
        (ii) The scheme employer, where the exiting employer is a body that participated in the Scheme as a result of an admission agreement
    b) Pay the amount determined to that exiting employer within six months of the exit date, or such longer time as the administering authority and the exiting employer agree.

- Regulation (2ZC) – In exercising its discretion to determine the amount of any exit credit, the administering authority must have regard to the following factors-
    a) The extent to which there is an excess of assets in the fund relating to that employer in paragraph (2)(a)
    b) The proportion of this excess of assets which has arisen because of the value of the employer's contributions
    c) Any representations to the administering authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and
    d) Any other relevant factors

- Regulation 64 (2A) & (2B)– the administering authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the fund within the period specified in the suspension notice.

- Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining fund employers may be amended.

- Regulation 64 (4) – where it is believed a scheme employer may cease at some point in the future, the administering authority may obtain a certificate from the fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.

- Regulation 64 (5) – following the payment of an exit payment to the fund, no further payments are due to the fund from the exiting employer.

- Regulation 64 (7A-7G) – the administering authority may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of debt despite having no active members.

- Regulation 64B (1) – the administering authority may set out a policy on spreading exit payments.

In addition to the 2013 Regulations summarised above, Regulation 25A of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations") give the fund the ability to levy a cessation debt on employers who have ceased participation in the fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the fund expects to deal with any such cases.

This policy also reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to employer exits. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

These regulations relate to all employers in the fund.

2 Statement of Principles

This Statement of Principles covers the fund's approach to exiting employers. Each case will be treated on its own merits but in general:

- it is the fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers of the exiting employer.
- the fund's preferred approach is to request the full payment of any exit debt (an exit payment), which is calculated by the actuary on the appropriate basis (as per Section 7 of the FSS and Section 3.1 below). This would extinguish any liability to the fund by the exiting employer.
- the fund's key objective is to protect the interests of the fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of the exit debt.

3 Policies

On cessation, the administering authority will instruct the fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus as defined in Section 4.3 of the FSS.

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The fund's normal policy is that this cessation debt is paid in full in a single lump sum within 28 days of the employer being notified.

However, the fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see 3.2 Repayment flexibility on exit payments below).

In circumstances where there is a surplus, the administering authority will determine, at its sole discretion, the amount of exit credit (if any) to be paid to the exiting employer (see 3.3 Exit credits below).

3.1 Approach to cessation calculations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as described in Section 7.2 of the FSS and summarised below:

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Council	Low risk basis[1]	Shared between other fund employers
Colleges	Low risk basis	Shared between other fund employers
Academies	Low risk basis	DfE guarantee may apply, otherwise see below
Admission bodies (TABs)	Contractor exit basis[2]	Letting authority (where applicable), otherwise shared between other fund employers
Admission bodies (CABs)	Low risk basis	Shared between other fund employers (if no guarantor exists)
Designating employers	Low risk basis	Shared between other fund employers (if no guarantor exists)

[1]Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (e.g. machinery of Government changes), these cessation principles would apply.

[2]Where a TAB has taken, in the view of the administering authority, action that has been deliberately designed to bring about a cessation event (e.g. stopping future accrual of LGPS benefits), then the cessation valuation will be carried out on a low-risk basis.

Cessation of academies and multi-academy trusts (MATs)

A cessation event will occur if a current academy or MATs cease to exist as an entity or an employer in the fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.
- If the MAT is split into more than one new or existing employers within the fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers. The actuary will use their professional judgement to determine an appropriate and fair methodology for this calculation in consultation with the administering authority.
- In all other circumstances, and following payment of any cessation debt, section 7.5 of the FSS would apply.

Further details are included in the fund's Academies Policy.

3.2 Repayment flexibility on exit payments

Deferred spreading arrangement (DSA)

The fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

In this exceptional case, the fund's policy is:

- The agreed spread period is no more than three years, but the fund could use its discretion to extend this period in extreme circumstances.
- The fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.
- The exiting employer may be asked to provide the administering authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The fund will only consider written requests within six months of the employer exiting the fund. The exiting employer would be required to provide the fund with detailed financial information to support its request.
- The fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- The fund proposes a legal document, setting out the terms of the exit payment agreement, would be prepared by the fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.

- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.
- Where appropriate, cases may be referred to the Pensions Committee for consideration and considered on its individual merit. Decisions may be made by the Chair in consultation with officers if an urgent decision is required between Committee meetings.

Deferred debt agreement (DDA)

The fund's preferred policy is for the spreading of payments, as detailed above, to be followed in the exceptional circumstances where an exiting employer is unable to pay the required cessation payment as a lump sum in full. However, in the event that spreading of payments will create a high risk of bankruptcy for the exiting employer, the fund may exercise its discretion to set up a deferred debt agreement as described in Regulation 64 (7A)).

The employer must meet all requirements on Scheme employers and pay the secondary rate of contributions as determined by the fund actuary until the termination of the DDA.

The administering authority may consider a DDA in the following circumstances:

- The employer requests the fund consider a DDA.
- The employer is expected to have a deficit if a cessation valuation was carried out at a current date.
- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the administering authority.

The administering authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing.(including details of the time period of the DDA, the annual payments due, the frequency of review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis and the fund will seek actuarial, covenant and legal advice in all cases.
- Regular monitoring of the contribution requirements and security requirements
- All costs of the arrangement are met by the employer, such as the cost of advice to the fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

A DDA will normally terminate on the first date on which one of the following events occurs:

- The employer enrols new active fund members.
- The period specified, or as varied, under the DDA elapses.
- The take-over, amalgamation, insolvency, winding up or liquidation of the employer.
- The administering authority serves a notice on the employer that the administering authority is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.

- The fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. employer is now largely fully funded on their low risk basis).
- The fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.
- The employer requests early termination of the agreement and settles the exit payment in full as calculated by the fund actuary on the calculation date (i.e. the employer pays their outstanding cessation debt on their cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

3.3 Exit credits

The administering authority's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all employers ceasing their participation in the fund after 14 May 2018. This provision therefore is retrospectively effective to the same extent as provisions of the Local Government Pension Scheme (Amendment) Regulations 2020.

The administering authority may determine the amount of exit credit payable to be zero, however, in making a determination, the administering authority will take into account the following factors.

a) the extent to which there is an excess of assets in the fund relating to the employer over and above the liabilities specified.

b) the proportion of the excess of assets which has arisen because of the value of the employer's contributions.

c) any representations to the administering authority made by the exiting employer, guarantor, ceding acheme employer (usually the letting authority) or by a body which owns, funds or controls the exiting employer; or in some cases, the Secretary of State.

d) any other relevant factors

Admitted bodies

i. No exit credit will normally be payable in respect of admissions who joined the fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per paragraph iii) below. Prior to this date, the payment of an exit credit was not permitted under the Regulations and this will have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/ceding employer. This will also apply to any pre-14 May 2018 admission which has been extended or 'rolled over' beyond the initial expiry date and on the same terms that applied on joining the fund.

ii. No exit credit will normally be payable to any admission body who participates in the fund via the mandated pass through approach. For the avoidance of doubt, whether an exit credit is payable to any admission body who participates in the fund via the "Letting employer retains pre-contract risks" route is subject to its risk sharing arrangement, as per paragraph iii) below.

iii. The fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk,

must be presented to the fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/ceding employer and within one month (or such longer time as may be agreed with the administering authority) of the admission body ceasing participation in the fund.

iv. In the absence of this information or if there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in c), the fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the administering authority.

v. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

vi. If the admission agreement ends early, the fund will consider the reason for the early termination, and whether that should have any relevance on the fund's determination of the value of any exit credit payment. In these cases, the fund will consider the differential between employers' contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.

vii. If an admitted body leaves on a low risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

viii. The decision of the fund is final in interpreting how any arrangement described under iii), v), vi) and vii) applies to the value of an exit credit payment.

Scheduled bodies and designating bodies

i. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

ii. Where no formal guarantor or risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

iii. The decision of the fund is final in interpreting how any arrangement described under i) and ii) applies to the value of an exit credit payment.

iv. If a scheduled body or designating body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.

v. If a scheduled body or resolution body leaves on a low-risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

General

i. The fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.

ii. Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position the fund will generally make an assessment based on the value of contributions

paid by the employer during their participation, the assets allocated when they joined the fund and the respective investment returns earned on both.

iii. The fund will also factor in if any contributions due or monies owed to the fund remain unpaid by the employer at the cessation date. If this is the case, the fund's default position will be to deduct these from any exit credit payment.

iv. The final decision will be made by the S151 officer with responsibility for the fund, in conjunction with advice from the fund's actuary and/or legal advisors where necessary, in consideration of the points held within this policy.

v. The fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the fund will discuss its approach to determining an exit credit with all affected parties. The decision of the fund in these instances is final.

vi. The guidelines above at point v) in the 'Admitted bodies' section, and at points i) and ii) in the 'Scheduled bodies and designating bodies' section, make reference to the fund 'considering the approach to setting contribution rates during the employer's participation'. The different funding approaches, including the parameters used and how these can vary based on employer type, are covered in detail in Table 2 (section 2.2) in the FSS. Considering the approach taken when setting contribution rates of the exiting employer may help the fund to understand the extent to which the employer is responsible for funding the underlying liabilities on exit. For example, if contribution rates have always been based on ongoing assumptions then this may suggest that these are also appropriate assumptions for exit credit purposes (subject to the other considerations outlined within this policy). Equally, a shorter than usual funding time horizon or lower than usual probability of success parameter may reflect underlying commercial terms about how responsibility for pension risks is split between the employer and its guarantor. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.

vii. None of the above should be considered as fettering the fund's discretionary decision, instead it is an indication of how decisions are likely to be made. However it is important to bear in mind that each and every potential exit credit case will be considered by the administering authority on its own merits, and the administering authority will make its discretionary decision on that basis.

Disputes

In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 74-78 of the LGPS Regulations 2013 would apply.

4 Practicalities and process

4.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the fund is likely to come to an end must:

- advise the fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).
- provide any relevant information on the reason for leaving the fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.
- provide all other information and data requirements as requested by the administering authority which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another fund employer, will they cease to accrue benefits within the fund, etc.).

4.2 Responsibilities of Administering Authority

The administering authority will:

- gather information as required, including, but not limited to, the following:
    - details of the cessation - the reason the employer is leaving the fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.
    - complete membership data for the outgoing employer and identify changes since the previous formal valuation.
    - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the fund).
- identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another fund employer, guarantor, etc.).
- commission the fund actuary to carry out a cessation valuation under the appropriate regulation.
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.
- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership.
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

Payment of an exit credit

- If the actuary determines that there is an excess of assets over the liabilities at the cessation date, the administering authority will act in accordance with the exit credit policy above. If payment is required, the administering authority will advise the exiting employer of the amount due to be repaid and seek to make payment within six months of the exit date. However, in order to meet the six month timeframe, the administering authority requires prompt notification of an employers' exit and all data requested to be provided in a timely manner. The administering authority is unable to make any exit credit payment until it has received all data requested.
- At the time this policy was produced, the fund has been informed by HMRC that exit credits are not subject to tax, however all exiting employers must seek their own advice on the tax and accounting treatment of any exit credit.

4.3 Responsibilities of the actuary

Following commission of a cessation valuation by the administering authority, the fund actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy.
- provide actuarial advice to the administering authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation.
- where appropriate, advise on the implications of the employer leaving on the remaining fund employers, including any residual effects to be considered as part of triennial valuations.

5 Related Policies

The fund's approach to exiting employers is set out in the FSS, specifically "Section 7 – What happens when an employer leaves the fund?"

The approach taken to set the actuarial assumptions for cessation valuations is set out in Appendix D of the FSS.

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London Borough of Tower Hamlets Pension Fund
Policy on bulk transfers

Effective date of policy	13 March 2023
Date approved	13 March 2023
Next review	The earlier of November 2025 or date of change in legislation

1 Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with the bulk transfer of scheme member pension rights into and out of the fund in prescribed circumstances.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- Bulk transfers out of the fund do not allow a deficit to remain behind unless a scheme employer is committed to repairing this; and
- Bulk transfers received by the fund must be sufficient to pay for the added benefits being awarded to the members, again with the scheme employer making good any shortfall where necessary.

Bulk transfer requests will be considered on a case-by-case basis.

Transfers of groups of members within the fund (i.e. from one employer within the fund to another employer within the fund) are not considered a "bulk transfer" in this context and are not covered by this policy.

1.2 Background

Bulk transfers into and out of the fund can occur for a variety of reasons, such as:

- where an outsourcing arrangement is entered into and active fund members join another LGPS fund, or leave the LGPS to join a broadly comparable scheme;
- where an outsourcing arrangement ceases and active scheme members re-join the fund from another LGPS fund or a broadly comparable scheme;
- where there is a reorganisation of central government operations (transfers in from, or out to, other government sponsored schemes);
- where there is a reorganisation or consolidation of local operations (brought about by, for example, local government shared services, college mergers or multi-academy trust consolidations); or
- a national restructuring resulting in the admission of an employer whose employees have LGPS service in another LGPS fund, or vice versa.

Unlike bulk transfers out of the LGPS, there is no specific provision to allow for bulk transfers into the LGPS. As a result, any transfer value received into the LGPS, whether on the voluntary movement of an individual or the compulsory transfer of a number of employees, must be treated the same way as individual transfers.

1.3 Guidance and regulatory framework

Local Government Pension Scheme Regulations

When considering any circumstances involving bulk transfer provisions, the administering authority will always ensure adherence to any overriding requirements set out in the Local Government Pension Scheme Regulations 2013 (as amended), including:

- Regulation 98 – applies on transfer out to non-LGPS schemes. It allows for the payment of a bulk transfer value where at least two active members of the LGPS cease scheme membership and join another approved pension arrangement.
- Regulation 99 - gives the LGPS actuary discretion as to the choice of method of calculation used to calculate the bulk transfer value.
- Regulation 100 – allows an individual who holds relevant pension rights under a previous employer to request to be admitted for past service into the LGPS. Members wishing to transfer in accrued rights from a Club scheme (that is schemes with benefits broadly similar to those of the LGPS), who request to do so within 12 months of joining their new LGPS employment, must be granted their request. For members with "non-Club" accrued rights the LGPS fund does not have to grant the request. Any request must be received in writing from the individual within 12 months of active employment commencing or longer at the discretion of the employer and the administering authority.
- Regulation 103 - states that any transfer between one LGPS fund and another LGPS fund (in England and Wales) where 10 or more members elect to transfer will trigger bulk transfer negotiations between fund actuaries.

Best Value authorities

The Best Value Authorities Staff Transfers (Pensions) Direction 2007, which came into force on 1 October 2007, applies to all "Best Value Authorities" in England. Best Value Authorities include all county, district and borough councils in England, together with police and fire and rescue authorities, National Park Authorities and waste disposal authorities. The Direction:

- requires the contractor to secure pension protection for each transferring employee through the provision of pension rights that are the same as or are broadly comparable to or better than those they had as an employee of the authority, and
- provides that the provision of pension protection is enforceable by the employee.

The Direction also requires similar pension protection in relation to those former employees of an authority, who were transferred under TUPE to a contractor, in respect of any re-tendering of a contract for the provision of services (i.e. second and subsequent rounds of outsourcing).

Academies and multi-academy trusts

New Fair Deal guidance, introduced in October 2013, applies to academies and multi-academy trusts. It requires that, where they outsource services, they ensure pension protection for non-teaching staff transferred is achieved via continued access to the LGPS. As a result the fund would not expect to have any bulk transfers out of the LGPS in respect of outsourcings from academies or multi-academy trusts.

Other employers

For all scheme employers that do not fall under the definition of a Best Value Authority or are not an academy (i.e. town and parish councils, arms-length organisations, further and higher education establishments, charities and other admitted bodies), and who are not subject to the requirements of Best Value Direction or new Fair Deal guidance, there is no explicit requirement to provide pension protection on the outsourcing or insourcing of services. However, any successful contractor is free to seek admission body status in the fund, subject to complying with the administering authority's requirements (e.g. having a bond or guarantor in place).

The old Fair Deal guidance may still apply to a specific staff transfer if permitted by the new Fair Deal guidance or if outside the coverage of the new Fair Deal guidance. (If the individual remains in their original scheme then their past service rights are automatically protected). In the absence of a bulk transfer agreement the administering authority would not expect to pay out more than individual Cash Equivalent Transfer Value (CETV) amounts, in accordance with appropriate Government Actuary's Department (GAD) guidance.

2 Statement of principles

This statement of principles covers bulk transfer payments into and out of the fund. Each case will be treated on its own merits alongside appropriate actuarial advice, but in general:

- Where a group of active scheme members joins the fund, the administering authority's objective is to ensure that sufficient assets are received to meet the cost of providing those benefits. Where a group of active scheme members leaves the fund, the administering authority's objective is to ensure that sufficient assets remain to cover any remaining liabilities, whilst being fair in respect of the members leaving.
- Ordinarily the administering authority's default approach for bulk transfers out (or in) will be to propose (or accept) that the transfer value is calculated using ongoing assumptions based on the employer's share of fund assets (capped at 100% of the value of the liabilities). The fund will retain the discretion to amend the bulk transfer basis to reflect the specific circumstances of each transfer – including (but not restricted to):
    - the use of cessation assumptions where unsecured liabilities are being left behind;
    - where a subset of an employer's membership is transferring (in or out), the fund may consider an approach of calculating the bulk transfer payment as the sum of CETVs for the members concerned; or
    - where transfer terms are subject to commercial factors.
- Where an entire employer is transferring in or out of the fund the bulk transfer should equal the asset share of the employer in the transferring fund (less any applicable expenses related to the bulk transfer if not recharged separately) regardless of whether this is greater or lesser than the value of past service liabilities for members.
- There may be situations where the fund accepts a transfer in amount which is less than required to fully fund the transferred in benefits on the fund's ongoing basis (e.g. where the employer has suitable strength of covenant and commits to meeting that shortfall over an appropriate period). In such cases the administering authority reserves the right to require the receiving employer to fund this shortfall (either by lump sum or by increasing ongoing employer contributions) ahead of the next formal valuation.
- Any shortfall between the bulk transfer out payable by the fund and that which the receiving fund/scheme is prepared to accept must be dealt with outside of the fund, for example by a top up from the employer to the receiving fund/scheme or through higher ongoing contributions to that fund/scheme.
- Service credits granted to transferring scheme members should fully reflect the value of the benefits being transferred, irrespective of the size of the transfer value paid or received.

3 Policy

The following summarises the various scenarios for bulk transfers in or out of the fund, together with the Administering Authority's associated policies.

3.1 Inter-fund transfer (transfer between the fund and another LGPS fund)

Scenario	Bulk transfer mechanism	Policy	Methodology
In	< 10 members – GAD guidance	CETVs in accordance with GAD guidance.	On receipt of a transfer value (calculated in line with the CETV transfer out formulae), the fund will award the member a pension credit on a day-for-day basis.
	10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013	Bulk transfer agreement would normally be reached between the fund and the transferring fund (and their two actuaries) via negotiation. **Where all members are transferring (i.e. all actives, deferred and pensioners):** Receive all assets attributable to the membership within the transferring scheme.	The fund's default policy will be to consult with the scheme employer whose funding position will be impacted by the transfer before agreeing to a negotiated bulk transfer arrangement. Pension credits will be awarded to the transferring members on a day-for-day basis.
Out	< 10 members – GAD guidance	CETVs in accordance with GAD guidance.	The transfer value paid to the receiving fund will be calculated in line with the CETV transfer-out formulae.
	10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013	Bulk transfer agreement would normally be reached between the fund and the transferring fund (and their two actuaries) via negotiation. **Where all actives are transferring (i.e. deferred and pensioner members left behind):** Assets will be retained by the fund to cover the liabilities of the deferred and pensioner members calculated using the fund's cessation assumptions. The residual assets will then be transferred to the receiving scheme. **Where all members are transferring (i.e. all actives, deferred and pensioners):** Transfer all assets attributable to the membership to the receiving scheme.	The fund's default policy will be to consult with the scheme employer whose funding position will be impacted by the transfer before agreeing to a negotiated bulk transfer arrangement. Discretion exists to amend this to reflect specific circumstances of the situation.

3.2 Club Scheme

Scenario	Bulk transfer mechanism	Policy	Methodology
In	Club Memorandum	The Club mechanism ensures the pension credit in the fund provides actuarially equivalent benefits.	The pension credit awarded to members transferring in will be calculated in line with the Club transfer-in formulae.
Out	Regulation 98 of the Local Government Pension Scheme Regulations 2013 or Club Memorandum	Where agreement can be reached, the fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to the Club transfer out formulae in accordance with GAD guidance.	The fund's default policy is to offer the receiving scheme transfers out calculated using ongoing assumptions based on the ceding employer's share of fund assets (capped at 100% of the liability value). Discretion exists to amend this to reflect specific circumstances of the situation.

3.3 Broadly Comparable Scheme or non-Club scheme

Scenario	Bulk transfer mechanism	Policy	Methodology
In	GAD guidance	Treated on a case-by-case basis	The pension credit awarded to members transferring in will be calculated in line with the non-Club transfer in formulae.
Out	1 member only – GAD guidance	CETV in accordance with GAD guidance	The transfer value paid to the receiving scheme will be calculated in line with the CETV transfer-out formulae.
	2 or more members – Regulation 98 of the Local Government Pension Scheme Regulations 2013	In line with Regulations, the fund will set the bulk transfer amount.	The fund's default policy is to offer the receiving scheme transfers out calculated in line with the CETV transfer-out formulae. Discretion exists to amend this to reflect specific circumstances of the situation.

4 Practicalities and process

4.1 Format of transfer payment

Ordinarily payment will be in cash.

A deduction from the bulk transfer will be made for any administration, legal and transaction costs incurred by the fund as a result of having to disinvest any assets to meet the form of payment that suits the receiving scheme.

4.2 Impact on transferring employer

Any transfer out or in of pension rights may have an effect on the valuation position of the employer in the fund, and consequently their individual fund contribution rate.

The fund will agree with the transferring employer how this change is dealt with. Though it is likely this will be through adjustments to its employer contribution rate, the fund may require a lump sum payment or instalments of lump sums to cover any relative deterioration in deficit, for example where the deterioration in deficit is a large proportion of its total notional assets and liabilities. Where the transfer is small relative to the employer's share of the fund, any adjustment may be deferred to the next valuation.

4.3 Consent

Where required within the Regulations, for any bulk transfer the administering authority will ensure the necessary consent is obtained from each individual eligible to be part of the transfer.

4.4 Approval process

The fund will normally agree to bulk transfers into or out of the fund where this policy is adhered to.

4.5 Non-negotiable

It should be noted that, as far as possible, the fund's preferred terms on bulk transfers are non-negotiable. Any differences between the value the fund is prepared to pay (or receive) and that which the other scheme involved is prepared to accept (or pay) should be dealt with by the employers concerned outside the fund.

4.6 Costs

Actuarial and other professional costs will be recharged in full to the employer, via the fund invoice.

5 Related Policies

Section 6 of the fund's Funding Strategy Statement.

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PENSIONS BOARD

Work Plan 2022/23

December 22 Quarter

Date of Meeting	Title of Report	In-line with PB Terms of Reference (no.)
February 23		
	Member Training – Update on Hymans Academy	55j
	Administration and LGPS Quarterly Update	55c & 56b
	Review of Risk Management Policy and Risk Register	55b, 5656f
	ESG, Voting, Engagement and Stewardship Update	56j & 56f
	Update on Pension Fund Accounts and Audit Plan (verbal)	55l, 55m & 56e
	Actuarial Valuation whole Fund Result and employer policies (Academies Policy, Cessation Policy, Bulk Transfer policy)	56h
	Asset Allocation – Affordable Housing	55d & 55i
	Carbon Footprint Audit March 2022	55d & 55i
	Business Plan	55i & 55j
	Work Plan	55i & 55j
May 23		
	Member Training – Update on Hymans Academy	55j
	Administration and LGPS Quarterly Update	55c
	Review of Risk Management Policy and Risk Register	55b, 56f
	Quarterly Voting and Engagement Update	56j
	Review Draft Audit Plan	56e & 55i
	Pension Fund Accounts and Annual Report	55l, 55m & 56e
	Discretions Policy	56h
	Cost Management Report	55o
	Pension Fund Work Plan 2022/23	55i & 55j
	Annual Report of Breaches	55e & 55g
	Pensions & Cyber Risk	56f, 56g & 56b
	Business Plan	

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