LCP's Stewardship Report 2024

Highlights of our stewardship and responsible investment activities

October 2024

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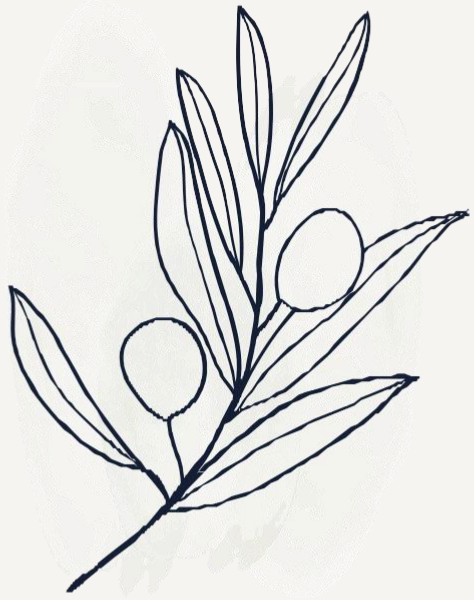


FOREWORD

Zuhair Mohammed
Head of Investment

This is our fourth UK Stewardship Code report which covers the year to 31 March 2024. It outlines the key activities we have taken to support “the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, environment and society”*.

Responsible Investment (RI) continues to be an important focus for LCP and is a growing part of our business. Consideration of environmental, social and governance (ESG) factors, particularly climate change and net zero alignment, is integrated into our investment consulting services and the research that underpins them. I am delighted to share this update on our work in this important area.

The report has been prepared by people from our responsible investment and business development teams, with input from other colleagues on specific areas. To ensure it is fair, balanced and understandable we have sought feedback from a range of individuals across the firm, including: our Head of Investment, Head of Defined Contribution (DC) and Financial Wellbeing, Head of Corporate Social Responsibility (CSR), Investment Professional Committee (ProfCo) and Conflicts and Ethics Committee. It has been reviewed and approved by our Executive Committee (ExCo) and Board.

* Definition of stewardship from the Financial Reporting Council’s (FRC) UK Stewardship Code 2020

SECTION 1: INTRODUCTION

Our CEO's lightbulb moment

This year our CEO Aaron Punwani had what he refers to as his 'lightbulb moment' which led to a shift in emphasis for our stewardship work, with greater focus on systemic risks and policy advocacy, and Aaron's personal involvement in that work.

This took place during some external climate training for our partners in July 2023, which highlighted how climate change poses a real and significant threat to the stability of the financial system on which our clients (and wider society) depend. Specifically, that in higher warming scenarios consistent with the current trajectory of greenhouse gas emissions, the level of social and economic disruption in the second half of this century would be so high that financial systems would be unable to function effectively. This led to a discussion about the significant and urgent action needed to avert such scenarios, focusing on the need for changes to the policy and regulatory framework in which our clients operate, and the important role that LCP and our clients have in securing such change.

Aaron concluded that if pension scheme assets are going to be part of the climate change and energy transition solution, trustees' fiduciary duty will need to be reinterpreted to allow them to consider a longer time horizon and take into account the real-world impact of their investment decisions. Since then, Aaron has been leading industry thinking around how pension scheme trustees can have more ownership and responsibility for driving real world impact when it comes to climate change (see section 9). He also became a more visible supporter of our climate change work internally, starting by encouraging other partners to watch the recording of the training session:

> *My level of understanding of what needs to change, and how we can influence it, has moved on leaps and bounds through that single session. I'd strongly encourage everyone to watch the video if you weren't there.*

We made the video available to the whole firm and it quickly clocked up well over 100 views.

Our responsible investment philosophy

Our increased focus on systemic risks and policy advocacy, which followed from that training session, built on the responsible investment philosophy that we launched publicly in March 2023. This is designed to focus attention on concrete actions to address systemic risks posed by issues such as climate change and inequality. We are trying to be clearer and bolder in our advice to clients, getting them to think about the impact that their investment decisions have on the real world, not just the impact that the real world has on their investments. Increasingly, we set out our preferred approach, rather than simply suggesting a range of options. This reflects our desire to have greater real-world impact through our advice, given the seriousness of the systemic risks we face.

We have been placing greater emphasis on engagement with managers, asking searching questions and pushing against the status quo to move towards more progressive and innovative solutions. Since Aaron's lightbulb moment, we have significantly expanded our engagement with policy makers, regulators and other stakeholders on addressing systemic risks through changes to the rules and policies that shape the financial system. We firmly believe this is aligned with our clients' best financial interests, as long-term investors, as well as being of broad societal value.

Climate change continues to be the priority topic for our stewardship work, and we have integrated net zero alignment into our investment consultancy services. We continue to encourage clients to align their investment strategy with net zero emissions by 2050 (see section 8)[1].

[1] By "align their investment strategy with net zero emissions by 2050", we mean investing in assets which have targets and credible plans to reduce greenhouse gas emissions in line with achieving net zero global emissions by 2050. For our clients, this typically means seeking to invest in products with targets and credible plans to achieve net zero emissions by 2050.

SECTION 2: HIGHLIGHTS OF THE YEAR

Increased our focus on systemic risk, with personal involvement of our CEO (section 1)

Developed five asks to guide our climate policy advocacy (Box 9.1)

Established ICSWG Influence workstream to engage policymakers proactively (section 9)

Advocated for reforms to enable better use of DB pension assets (Box 4)

Launched Monitor, including climate dashboard, to enhance clients' portfolio oversight (Box 8)

Developed stewardship dashboard to support clients' voting analysis (section 7)

Updated our net zero and stewardship expectations for investment managers (sections 7 and 8)

Expanded the educational sessions we offer clients with our inaugural Investment Conference (section 4)

Carried out in-depth research into the stewardship of five key managers (Boxes 7.1 and 7.2)

Conducted our third assessment of bulk annuity insurers' responsible investment practices (Box 5)

Researched LDI managers' climate policy advocacy and developed best practice principles (Box 9.2)

Launched LCP Transform to support investment in the energy transition (Box 6)

SECTION 3: OUR FIRM'S PURPOSE, STRATEGY, CULTURE AND PEOPLE

LCP's purpose

At LCP, our purpose is at the heart of everything we do – we fuse human expertise with powerful analytics to shape a more positive future. It's the guiding light for why we do what we do, and it helps us make the right decisions strategically as a firm, for our people, our clients and wider society.

We harness a powerful combination of people, skills and technology across a range of sectors and believe we have an opportunity and responsibility to challenge the status quo by looking closely at what data is telling us and advocating for change.

About LCP

Across LCP, we advise over 1,300 institutional clients. We do not serve retail clients. Our clients are distributed by type as shown opposite (top chart):

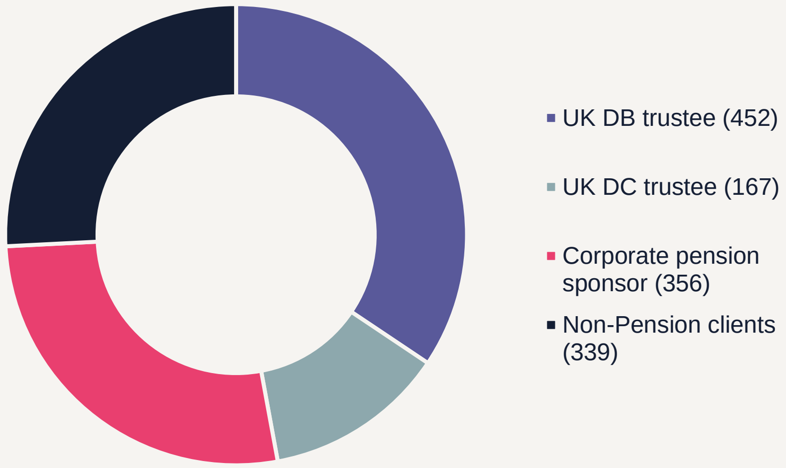
Our investment business serves DB and DC pension schemes, companies, central banks, sovereign wealth funds, charities, endowments, insurers and wealth managers.

Our investment clients have combined assets over £700bn at the end of 2023. The geographic distribution of our clients, by assets, is shown opposite (bottom chart).

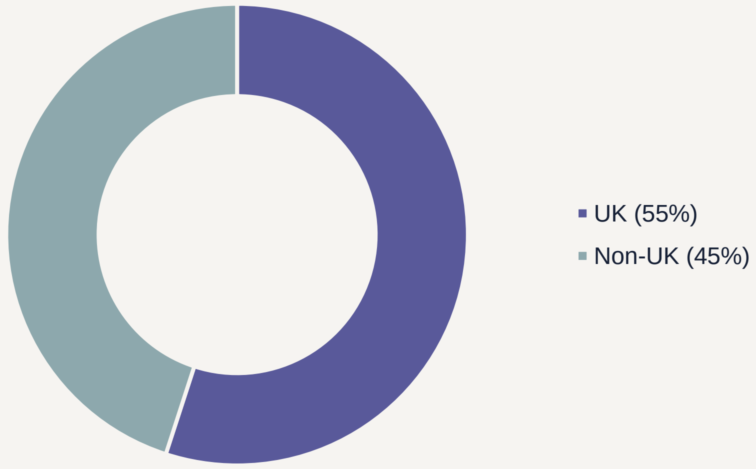
While our clients may be institutions, organisations or government bodies, our advice ultimately impacts wider society – we fully recognise that in helping our clients meet their own financial and wider goals, we are ultimately allowing them to deliver on the obligations they have to the individuals they serve. Thus, while we have hundreds of clients, millions of people are impacted by our advice.

Because we are involved with such important issues, we think it's incredibly important to make sure that we are accountable not just to our clients but to our people, communities and planet.

Client type by number



Client location by asset value



Our governance structure

LCP was founded over 75 years ago and has grown steadily to be the largest[2] independent, owner-managed pensions consultancy in the UK and Ireland, as well as an organisation now offering a wide range of financial and analytical services to a broad mix of clients. We are structured as a Limited Liability Partnership which plays an important part in our culture and the experience of our clients since the leaders of our business are also our lead advisers.

Our governance structure gives us the freedom to focus on what our clients need and value. The partners own the majority of the business, with a minority non-controlling stake held by Charterhouse, a private equity firm. An Executive Committee (ExCo), appointed from our 168 partners, manages the business day-to-day and reports to the firm's Board. A Risk Committee (RiskCo) addresses firmwide risks and works with our various professional subcommittees (ProfCos) in overseeing the professional activities of the firm.

Our business model and strategy

Our approach to building a long-term sustainable business is through steady growth across all the areas we work in. We are focusing on:

- Developing our people, by taking an agile approach to career pathways;
- Developing our offerings, making sure that our services are relevant for what our clients need both today and, in the future – at an individual, organisational and societal level; and
- Developing our relationships, strengthening those we have with our existing clients and continuing to build a broader client base.

We plan to continue to grow the business to create long-term career development opportunities, enabling us to attract and retain the most talented people in our markets.

We aim to achieve this growth by focussing on:

- Building on our strong reputation within the defined benefit (DB) buy-in / buy-out market, where significant opportunities have arisen as a result of the general improvement in pension scheme funding levels;
- Growing our share of the DB pensions market, in particular for the very largest schemes and ensuring that we are the partner of choice to take these schemes to their endgame or long-term run-on;
- Building on our strong pensions expertise in defined contribution (DC) pensions and financial wellbeing consulting;
- Continuing to build a broader client base through our investment consulting services to charities, endowments, sovereign wealth funds, central banks and insurance companies on the responsible allocation of their capital to meet their investment objectives;

[2] As measured by revenue.

- Increasing the range of services offered to existing clients, for example, within our Energy and Health Analytics departments;
- Continuing to develop our technology to enable us to deliver a highly efficient and differentiated service to all types of institutional investors;
- Providing clear, unbiased advice across all service areas; and
- Ensuring that we provide career opportunities in broader areas in which our consultants can deploy their analytics skills. Examples include consulting to insurance companies on reserving and capital modelling, and working with energy companies on investment decisions. Aside from generating direct revenues, this work gives talented colleagues time and freedom to apply their abilities to other sectors. This is a highly effective differentiator in our recruitment policies. We believe that if we focus on growing a talented and engaged workforce then continued business growth will follow as a natural consequence.

Innovation

This is an area where our clients tell us we stand out. We are widely recognised for our practical consulting approach and the use of technology in a pragmatic way to help support our advice and clients' decision making, as well as to improve the cost efficiency of our work.

It's also a key part of our strategy; we therefore devote significant resources to evolving and improving our technology in response to our clients' needs and to deliver a highly efficient and differentiated service to all types of institutional investors.

All our key analytical tools are developed in-house by our specialist development team with no offshoring or subcontracting of systems or calculations – this means our offerings are bespoke to our clients' needs and wants, providing our clients with maximum flexibility. This allows us to continue to innovate how we use technology to support the advice we give our clients as their needs evolve.

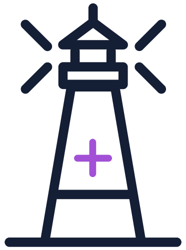
Keeping clients up-to-date is really important. Our job is to do this in a way that channels to clients our new ideas and innovations that are relevant to their situation, for example, new investment opportunities, legislative changes or changes in investment conditions.

Our values and culture

Our purpose and 'powering possibility' vision are underpinned by our four values. Each one on its own is important, but it's the combination of the four that guides us in how we interact, make decisions and treat each other. They are core behaviours we believe will maintain our culture as we grow.

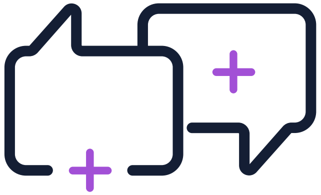
Curious

We question the status quo by looking at the data and analysing different angles and possible outcomes. This helps us to try and provide solutions to complex societal problems.



Accountable

The way we work, and the decisions we are involved in, impact people, the world we live in and our collective future. We approach our work with this responsibility in mind.



Connected

We strive to create human connection in everything we do. We participate fully in the wider world around us, both across our professional landscape and with our local communities.

Agile

The world is evolving quickly, and we adapt to changing social and environmental needs, making sure our people and communities are supported.

We ensure that we live our values day-to-day. For instance, as part of our "Curious" campaign which ran from March to May 2023, we held a mystery book exchange which everyone across the firm was encouraged to participate in. The books were wrapped in brown paper and placed in communal areas in our offices, with only their genre and a short description written on the cover. The aim was to encourage people to be curious and read something that they wouldn't normally choose.

During October 2023, to highlight our "Accountable" value, we ran our 'Accountability in Action' campaign. People were encouraged to explore and define what accountability means to them as an individual, as a colleague, and as a member of our broader communities, by setting and completing activities and goals that demonstrate that value. This included personal goals, such as supporting their health and wellbeing, self-development, and commitment to their own growth.

Our client promise, LCP CARES

LCP CARES is a key part of our culture; it is the underlying ethos that drives us to go the extra mile for clients, colleagues and our communities. We strive to provide the best possible service, but we know there's always more we can do. We rely on our clients to tell us what we do well, what we need to get better at and what else we can help with, and we take on board their views and feedback to ensure continual improvement.

We commission an independent research agency to conduct our triennial client satisfaction survey. This allows us to find out more about our clients' circumstances, which helps us to understand the best way to advise them.

The results of our 2022 survey showed an increase in overall satisfaction from 8.4 to 8.6 out of 10 compared to the previous survey. In addition to this, we saw our net promoter score increase (by 26 points) to +64.

Of the 270 clients who responded to the 2022 survey:

- 68% considered LCP's client experience to be better than our peers; and
- 71% believed the individuals they work with are better than those at other firms.

Following the 2022 client survey, we implemented several initiatives to ensure we were acting on the specific insights received, including:

- Clients told us they value proactive and tailored communication and advisers who put themselves in their shoes to make their lives easier. As a result, we allocated a designated 'Client Care Leader' on many client teams to help keep the client up-to-date with relevant material, events and developments that affect them.
- We improved certain processes where we had specific feedback. One of these was to involve clients more in decisions regarding team changes, whether these come about as a result of internal restructuring or departures. We subsequently follow up to ensure things are going well with the new team.
- We've increased the number of clients we see for client care and made sure we cover a cross section of clients at various stages of their relationship with us. To do this, we've added extra personnel to the client care team.
- We've also given clients the ability to provide ad hoc feedback either via our website or a link included on email signatures.

Our People

Our seven "People Principles" illustrated below are core elements of LCP's business strategy. As well as continuing to attract the brightest and best across all the sectors we work in, we want to foster and nurture our people and allow them to grow; this is at the very heart of our People Principles.

Over the reporting year, our workforce grew to 1,200 people, promoting 16 new partners (1 April 2023) and 20 new principals (1 August 2023). By summer 2025, we're expecting to have 150 more people in the business, including over 60 new graduates.

We care for our people - LCP is somewhere where they can develop their career and have opportunities to evolve and develop their skills. That's why the key focus of our people strategy this year has been incorporating our value of agility into our career pathways through learning, development and upskilling opportunities. The changes we make and programmes we run come from the engagement we have with our people and the changes that they want to see. For example:

- During this reporting year, we launched extracurricular courses open to all people across the firm. The first courses were on Python coding, an introduction to health analytics and a deep-dive into the Microsoft Power Platform.
- In February 2024, we developed a new Learning Management System, LCPLearn. It's a one-stop shop for all learning needs, empowering our people with skills they need now and into the future.

One of the key ways we look for feedback is through LCP Voice, our firm wide engagement survey, which helps us to understand how individuals feel about working for LCP. We completed an employee survey at the end of 2023 to gauge sentiment. We received an 88% engagement score. This is 11% above our industry benchmark and a 1% increase over 2022's equivalent exercise. We were awarded People Insight's 'Outstanding Workplace Award' for a second year running, which commends organisations who achieve a top-quartile engagement score in their People Insight employee engagement survey. The award recognises organisations building outstanding workplace cultures and acting on employee feedback to spark positive change.

Retaining skills and knowledge within our business

LCP is a true partnership – our partners own our business, and this results in low partner turnover, including within our investment team. This has two key benefits:

- We can provide our clients with long-lasting relationships, ensuring continuity of advice, and smooth journeys towards achieving the outcomes they're seeking for their beneficiaries.
- Our knowledge and skills are retained within LCP (and ultimately passed on to our clients as part of advice). Many of our partners have decades of experience constructing investment portfolios, selecting investment managers and more.

35

Investment partners, reflecting the size of our business and demand from investors for our advice

13+

The number of years our average investment partner has been at LCP

0

The number of our investment partners that have left to join one of our competitors in the past five years

We have enjoyed working with the same team at LCP for over 15 years. The consistency of personnel has been terrific but also their approach to helping us solve our current issues has been highly refreshing. **- Client feedback**

More generally, we strive to make LCP a great place to work for our people, which results in not only high retention but also the LCP CARES willingness to go the extra mile for our clients. We think this is shown in the fantastic feedback we receive from clients, and we've provided an example below of how clients recognise our efforts in this area:

I am always very impressed with the people from LCP. I think the general observation I would make having worked with people both in London and in Winchester, and having visited both offices, is that the thing that sets them apart from some of their competitors is that pretty much everybody who works at LCP seems to enjoy it. I think that's a really important thing. **- Client feedback**

Our commitment to diversity, equity and inclusion

Prioritising diversity, equity and inclusion (DEI) is the right thing to do, and it's also the smart thing to do. We embrace diversity of thought, background and experience, harnessing new and existing talent to strengthen the excellent service we offer.

Nurturing a people-first workplace supports us in providing our clients with the best possible service as our people want to deliver exceptional work. We believe that:

- A diverse, equitable and inclusive organisation is a better place to work, creating an environment where everyone can thrive.
- Organisations with inclusive leaders from diverse backgrounds are better at decision making and thought leadership.
- Achieving greater diversity and equity is important to many of our clients, to reflect their values and those of their employees.
- A diverse, equitable and inclusive business will ultimately be more successful.

Our DEI strategy is led by our DEI Committee, who report directly to the LCP Board on our goals, successes and plans. The group works closely with our four DEI networks (LGBTQ+, Wellbeing, Women's and Multicultural networks) which have continued to facilitate a dynamic range of events and initiatives.

- Our networks collaborate with each other and with others across the industry to promote awareness and increase engagement with DEI matters.
- There are monthly catch-up sessions with representatives from each network and our Communities Group to strengthen relationships and understanding, and to help us consider all perspectives in our initiatives.
- We collaborate on a number of professional initiatives and working groups including Link (the insurance industry's LGBTQ+ Network), the Diversity Action Group of the Institute and Faculty of Actuaries (IFoA), the Diversity Project, O:Pen, Project AMP (the mentoring scheme launched by the IFoA, designed to improve diversity at senior levels of the actuarial profession) and other industry working parties.
- We are also working with TIDE (a cross-industry group working to improve DEI across the energy industry).

For a truly inclusive and diverse workplace, we need to take action that will move the dial, hand in hand with raising awareness. That's why we have taken an innovative, multi-layer approach, involving training and awareness, and collecting data to measure progress.

Highlights over the year include:

- Senior sponsorship from our CEO, Aaron, who has reconfirmed his commitment as executive responsible for DEI – this accountability means that DEI is given the business spotlight it needs to deliver change.
- LCP partners on our Board and ExCo have formalised roles as executive sponsors to our DEI networks.
- We published our first ethnicity pay gap report in April 2024 alongside our annual gender pay gap report. It is encouraging to see that our mean and median ethnicity pay gap as at 5 April 2023 was 2%, indicating that we have balanced representation of those from diverse ethnic backgrounds across departments and levels of seniority amongst our employees.

Improving representation

We are pleased to see our efforts on boosting DEI feeding through to a more diverse LCP workforce. Based on the latest available analysis, of those who shared their diversity information with us:

- 12% of partners promoted over the 10 years to April 2024 were from an ethnic minority background
- 28% of new joiners over the year to April 2024 were from an ethnic minority background
- 38% of our 2023 graduate intake were from an ethnic minority background
- Also, as at 1 April 2024, women made up:
  - 27% of our partners;
  - 48% of our total workforce including partners; and
  - 53% of our total workforce not including partners.

Our Board has set a clear ambition to aim for at least 40% representation for women and at least 40% representation for men across our firm, the partnership and our Strategic Leadership Roles (including our board and Executive Committee) by 2032.

How we have ensured our strategy and culture support effective stewardship

We launched our new purpose last year to articulate why we exist as a business and to act as a guiding light for our strategy as we grow. We understand that our work has repercussions far beyond our office walls and we have an opportunity and responsibility to play our part in shaping a more positive future.

Since then, we have made sure to embed our purpose into our day-to-day work. Some examples of how we have brought it to life include:

- Developing proposals for putting £1 trillion of pension scheme assets to better use for the benefit of people and our industry (see Box 4).
- Launching an industry-wide gender pensions gap report, providing recommendations for the government, employers and the pension industry on how to tackle the issue.
- Improving equality of outcomes across health conditions through analysis that helps us to better target efforts to prevent and manage diseases.
- Transforming the way institutional investors support the energy transition (see Box 6).
- Harnessing advanced analytics to help insurers identify emerging risks early, and to protect policyholders.

We believe that taking a long-term view and improving the way we look after our own operations will allow us to generate steady, reliable and sustainable growth, focussed on our clients' best interests. Our culture is open, encouraging and supportive of new ideas and approaches. This ethos is reflected across all our services, including investment and specifically in our approach to stewardship.

With our long-term client focus, we devote significant resource to stewardship which we see as something that must be addressed in a systematic long-term manner. Over the year, we have, for example:

- Helped our clients understand the carbon footprint of their investments with the launch of a climate dashboard as part of Monitor (see Box 8).
- Created a stewardship dashboard which uses a comprehensive external database of voting information to help identify potentially significant votes for our clients (see section 7).
- Held external climate training for our partners, prompting our CEO Aaron Punwani's 'lightbulb moment', which led to a shift in emphasis for our stewardship work, with greater focus on systemic risks and policy advocacy, and Aaron's personal involvement in that work (see section 1).

- Trained all of our investment people on stewardship matters, such as ESG, voting and engagement, and made this information available to new joiners via LCPLearn, reflecting the transparent nature of our culture (see section 4).
- Produced training and educational material for clients, for example, training slides on the importance of stewardship, recent climate change developments, and aligning investment portfolios with net zero (see section 5).
- Delivered a presentation at our annual DB pensions conference describing systemic risks and the influence the pensions industry can wield in addressing them, and a presentation at our inaugural investment conference on investing in the energy transition (see section 4).
- Engaged with investment managers in a variety of ways – via face-to-face or virtual meetings (annually for most funds our clients invest in), through an annual forum and questionnaires – to understand and challenge how they incorporate stewardship into their investment process (see section 6).

BOX 3: CLIENT CARE PROGRAMME

Our Client Care programme offers our clients the opportunity to discuss with a senior partner (who is not on their client team) the service we provide. These discussions, a significant number of which take place each year, help us to tailor our existing (and develop new) services and tools for our clients.

Over the year to 31 March 2024, we spoke to 146 clients and received an average satisfaction score of 8.5 out of 10 and a 9.2 average recommendation score.

Feedback and actions from each meeting are provided to the client consulting team and periodic summaries of overarching messages are shared with the firm. These summaries cover our clients’ views on topics such as: what makes a good consultant; the difference between good and exceptional service; what annoys clients about consultants in general; their expectations about getting value for money; and how they perceive LCP relative to competitors. This helps us address the “little big things” that make a real difference to client satisfaction as well as continuing to do the things that are working well.

Case study: responding to client care feedback

In 2023, a client care partner met the chair of trustees of a pension scheme to which we provide consulting services, including climate change reporting. They fed back that the board’s established approach of discussing all climate-related matters at board level was no longer aligned to the board's priorities: these matters felt increasingly routine and, following a significant improvement in funding level, the board wanted to focus more attention on de-risking the scheme’s assets and liabilities within a shorter timeframe than previously expected. Following this feedback, we proposed a change in approach, whereby most climate-related matters would be discussed at sub-committee level, with decisions referred to the board for approval. Strategic matters, such as consideration of climate change when choosing an insurer, would still be discussed by the board. The board agreed this proposal at its following meeting in early 2024. We started to implement it straight away and initial feedback has been positive.

SECTION 4: OUR INVESTMENT DEPARTMENT

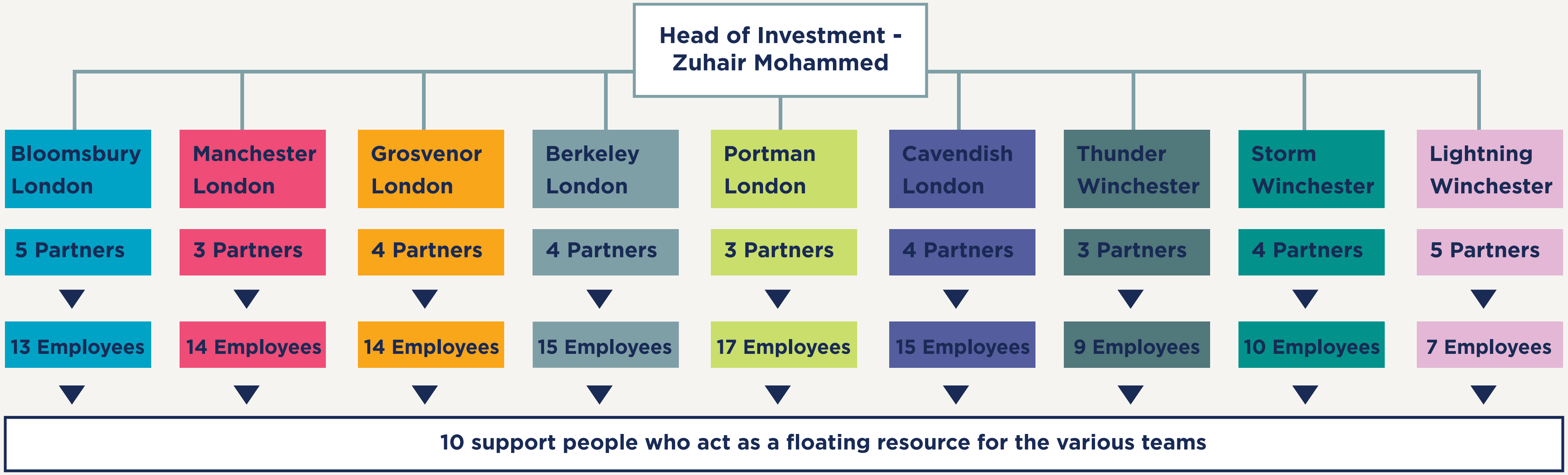
Our independence

LCP's investment department is independent, by which we mean that we don't manage money directly for our clients or offer our own investment funds. This has several notable benefits for our clients, including:

1. Avoiding conflicts of interest when advising our clients on which investment products to employ. We aren't biased towards our own products, and don't restrict our research coverage.
2. We're free to negotiate and drive down management fees as far as practical. We put a great deal of effort in helping our clients get attractive fee rates.

Our investment department governance and resources

The image below illustrates the structure of our investment department as of 31 March 2024 for the purpose of administration, governance and the monitoring of our people's capacity levels. In total, there were about 160 people in the department, split between our London and Winchester offices.



The structure helps us to make the best use of our resources, ensuring we deliver analysis and insights to clients on time, enabling them to make informed decisions (and by extension demonstrate effective stewardship) regarding the assets they're responsible for.

Each team is kept relatively small and includes people with a mix of expertise (including client advisory, manager and asset class research, quantitative analysis and more). This blend of skillsets is intentional, with weekly team meetings providing an opportunity to share ideas, expertise and keep everyone informed of ongoing developments. They also act as a formal check-in to monitor people's capacity levels.

Each team has two designated team leaders, who form part of a wider investment staffing committee. This staffing committee discusses overall capacity levels on, at least, a weekly basis, with more formal and in-depth reviews occurring monthly. This process ensures we're able to quickly re-allocate resources as needed to meet client and business needs.

All investment professionals are involved in our stewardship activities, because stewardship is integrated into our client advice and manager research. In almost all cases, consideration of ESG factors, voting and engagement is undertaken by the same client-facing consultants and manager researchers who are responsible for delivering our traditional investment services. They are supported in this by our responsible investment experts (see section 5). Members of our RI team typically lead where advanced RI knowledge and skills are required, such as deep dives into the stewardship practices of key managers (see Boxes 7.1 and 7.2) or providing advice to RI-only clients.

Our DC professionals

In addition to the above, as at 31 March 2024 we had 34 investment professionals working within our DC and Financial Wellbeing department who specialise in advising UK DC pension schemes on their investments.

Our DC department, which includes people with a range of backgrounds and roles, is structured and operates in a manner very similar to our investment department. Our DC investment professionals attend the investment department's training sessions where relevant, in addition to DC-specific training.

Our approach to long-term resourcing

To support longer-term resourcing, we conduct an annual, in-depth review of the projected resourcing needs for each of our clients for the coming years. This data is analysed centrally, helping us to understand the department's longer-term needs and act accordingly.

This projection and analysis (alongside new business wins) resulted in us hiring a total of 15 new graduates over the year for our investment and DC departments. We have a well-established and rigorous training graduate training programme, which we cover in more detail on the next page.

More generally, when assessing whether to pitch for new business, a key criterion is our ability to resource the new client team and the potential impact on our existing clients. We decline a number of invitations to tender each year, with staffing impact (ie our ability to continue to provide all of our clients with a high level of service) being one key factor that influences these decisions.

How we structure incentives for our people

The ultimate aim for all of us – from junior analysts to senior partners – is to deliver on each client's objectives, in a way that is aligned to our culture and values. A key part of this is providing our clients with proactive, high quality and insightful analysis and advice, with the goal of helping them get the best outcomes for the ultimate beneficiaries.

We structure our remuneration packages in a manner that reflects our client-focused culture. At all levels, an element of remuneration comes from a performance-related bonus linked to the quality and quantity of services delivered to clients.

We also have a standing aim of providing upper-quartile remuneration to all employees (assessed against our peers in the industry), supporting the retention of skills and knowledge within the LCP business and ultimately our ability to support our clients.

Training and qualifications

We believe in lifelong training and as a firm make a wide range of ongoing training options available to our people to help them stay up to date with developments and new ideas in their subject area and beyond.

The significant resources that we allocate to training are designed to make sure that our people are suitably qualified and knowledgeable to advise our clients on the responsible allocation, management and oversight of their assets.

Qualifications

We encourage all of our team members to study for appropriate qualifications and provide both financial support and time off to do so.

Our investment team has a range of qualifications, with most being either qualified actuaries (FIA), investment professionals (CFA) or both. At 31 March 2024, our investment and DC departments had 48 qualified actuaries and 45 CFA charter holders in total.

We are happy to support our people in studying for more specialised, additional qualifications where these benefit the firm and clients, such as the CFA Certificates in ESG, and Climate and Investing. In addition, several of our investment team members are Chartered Enterprise Risk Actuary (CERA) qualified.

Training programme for our investment graduates

Our graduates pass through an intensive programme, designed to impart the technical knowledge and skills needed to start supporting the provision of analysis and advice to our clients. This includes training sessions on both ESG topics and stewardship.

This programme is also intended to ensure graduates understand what we do as a business, how we work (including our rigorous review processes) and our client-focussed culture.

Ongoing training sessions

Department-wide investment training is delivered via two main streams:

- **Monthly technical trainings** for the investment department. This typically consists of two one-hour sessions, one internal (covering multiple topics) and one external (covering a single topic). Throughout the training sessions, people are given the opportunity to ask questions and engage in discussion. Over the year, many of the topics covered at these monthly sessions were directly focussed on ESG and stewardship and included:
    - An internally led session on systemic stewardship, covering our latest thinking in this area and potential pathways for our clients to engage with this topic.
    - An externally led session on the energy transition, giving our department an alternative perspective on how this opportunity can be assessed.
    - An internally led session on impact investing, giving an overview of the resources we've allocated to this space, the investment options available to our clients and our preferred managers for implementing mandates (based on our research programme).
- **Bitesize training sessions**, mostly half an hour long, are available to all on an optional basis and offer a deep dive on a specific topic. Over the year, six of these sessions focussed on ESG and stewardship topics, supporting the onward delivery of this advice to our clients, including:

- A session on Beacon, a newly developed LCP tool designed to help pension scheme stakeholders engage with and understand climate-related risks and opportunities for the scheme's sponsoring employer.
- A case study session, sharing analysis and insights from an energy transition project we worked on for the trustees of an energy company's pension scheme.
- A session on the climate change module of Monitor (see Box 8) and LCP's climate policy asks (see Box 9.1).
- A session on the Pension Regulator's General Code: Actions and opportunities for everyone (with specific focus on climate change and stewardship).

In addition, individuals undertake soft skills training based on the stage of their career and any specific development needs.

Maintaining and improving the quality and accuracy of our services

We invest in a range of systems, processes, research and analysis that help us provide high quality investment advice to our clients, and continue to improve our offering:

- **Provision of high-quality advice:** The quality and accuracy of our work is underpinned by our "do, check, review process". This runs throughout all of our work, including the stewardship chain – from strategy and asset allocation, through manager selection and monitoring, as well as generation of new investment ideas. We also have standard processes, checklists and starter materials to support specific types of advice, such as those developed and maintained by Investment ProfCo and DC ProfCo (see section 10).
- **Central publications for our clients**: Throughout the year we continued to produce publications and run webinars and seminars for our investment clients, based on an ongoing review of their needs. This year included the release of our 2023 buy-in Responsible Investment research, assessing the investment climate practices of insurers that operate in the bulk annuity market (see Box 5). We provide more detail on our investment publications later in this section and on some of our ESG and stewardship-specific publications in section 5.
- **Client Care programme:** Our Client Care programme offers our clients the opportunity to provide feedback on our services, enabling us to tailor our existing (and develop new) services and tools for our clients (see Box 3).
- **"CMA" objectives:** Under requirements that resulted from the Competition and Markets Authority's review of the investment consulting industry in 2018, our pension trustee clients must:
  - Set objectives to assess our performance as investment consultants when we are appointed;
  - review the objectives at least every three years and without delay after any significant change in investment policy; and
  - at least every 12 months, review our performance against the objectives set.

  This annual review provides formal feedback on clients' satisfaction with our investment consulting services and highlights any areas for improvement. A central review of the outcomes found that we generally performed well against our objectives, with the main areas for improvement being proactivity and raising new investment ideas with client.
- **Investment research programme:** Built up over more than two decades, our research programme is designed to support the effective deployment and monitoring of capital. Over 50 individuals within LCP, with a diverse range of experience and skills, are directly involved in manager and asset class research. The significant resources we allocate to this (and the focus on ESG and engagement during our research process) reflects our commitment to providing best-in-class advice to our clients. We provide more detail on our research programme in section 6.

- **Macroeconomic research:** Our macroeconomic research team and panel are responsible for deciding on our grades for the broad range of investment asset classes we research at LCP. The core macroeconomic team holds quarterly research calls with expert economists within the industry to discuss the economic outlook and scenarios and their potential asset class impacts. This research, together with analysis from LCP's asset class research teams is presented and discussed at a wider panel meeting, based on which the panel decides on grades for a broad range of asset classes. Views are typically focussed on the short to medium-term, with grades ranging from what might be summarised as "very positive" to "very negative", and there purposely being no neutral view. The team produces a range of output for internal and external use: among the latter is a quarterly investment update for clients which includes details of any key changes to the economic outlook and asset class views.
- **Development of technology**: Over 40 individuals within LCP work full time on developing our technology solutions for our clients. As an example, our flagship Asset Liability Modelling software, Visualise, represents over a decade of continuous development. A more recent tool is Monitor, described in a case study later in this section. We've provided details of some ESG - and stewardship-specific software tools developed over the year in sections 7 and 8. We develop our software in-house, meaning we can quickly adapt it to reflect the evolving needs of our clients and support them in practising effective stewardship over their capital.

CASE STUDY: EXPANDING THE EDUCATIONAL SESSIONS WE OFFER TO OUR CLIENTS

Reflecting feedback from clients, we launched our inaugural annual investment conference in 2023. Topics included educational sessions on the supply/demand imbalances of the gilt market, helping our clients assess an emerging risk, and pathways to investing in the energy transition.

Alongside experts from LCP, speakers included Sir Charles Bean, former Deputy Governor of the Bank of England, Martin Wolf, Chief Economics Commentator for the FT, and many more. We were incredibly pleased with the success of the conference, attended by over 170 individuals, representing more than £3 trillion in assets.

One of the best conferences I have attended. The pace was excellent. The comradery among LCP colleagues was good to see. A great advert for the culture at the firm. Well done. **- Conference attendee**

CASE STUDY: KEEPING OUR CLIENTS INFORMED AND UP TO DATE

Investment Uncut, our flagship podcast, has gathered over 120,000 listens since its launch in 2020, keeping investors in the UK and beyond informed of the latest investment developments. Episodes over the year have included conversations with internal and external experts on COP28, the energy transition, human rights and much more.

Two particular highlights were episodes recorded at the PLSA Investment Conference and our LCP investment conference, where our hosts interviewed some of the attendees, including the Pension Protection Fund's Chief Actuary, the CEO of British Airways Pensions and the Universities Superannuation Scheme Head of Investment Strategy.

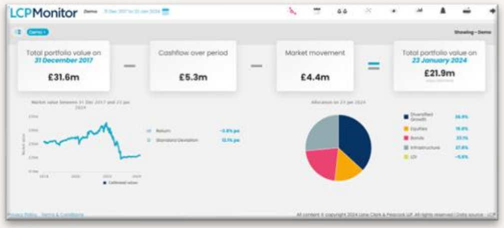
CASE STUDY: EXPANDING OUR TECHNOLOGY SUITE TO ENHANCE PORTFOLIO OVERSIGHT

We continue to develop software to help our clients exercise ongoing oversight of the assets they're responsible for and make informed decisions.

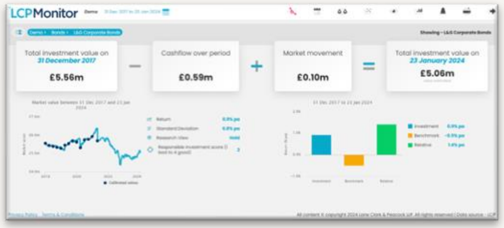
One example of this is Monitor, our asset tracking and reporting software. Key features of Monitor include: up-to-date assessments of over-/underweight allocations; attributions of changes in asset values over time; tracking of risk/return experience at a manager, asset class and overall portfolio level.

For many of our clients, Monitor has begun to replace paper-based reporting, with clients instead reviewing up-to-date information on an ongoing basis and during meetings via our online portal.

Attribution of experience at a portfolio level...



... and at a mandate or asset class level



Performance track records are Immediately accessible...

...alongside longer-term performance statistics

Communicating with our clients

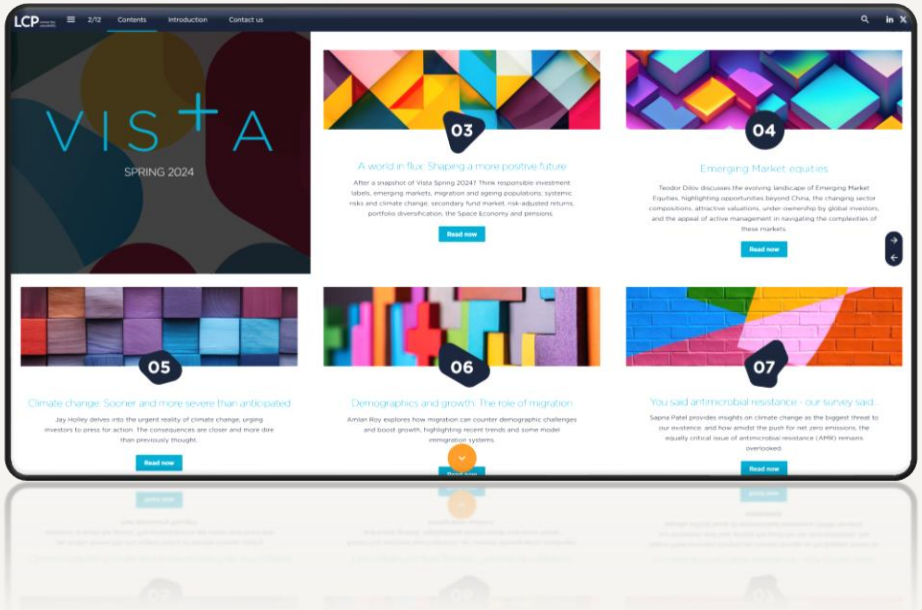
Each LCP client is assigned a dedicated team, available on any given day. We pride ourselves on our proactivity and often reach out to our clients (outside of their normal meeting cycles) when we identify new risks or opportunities, or when there is a wider market development or a notable event relevant for them.

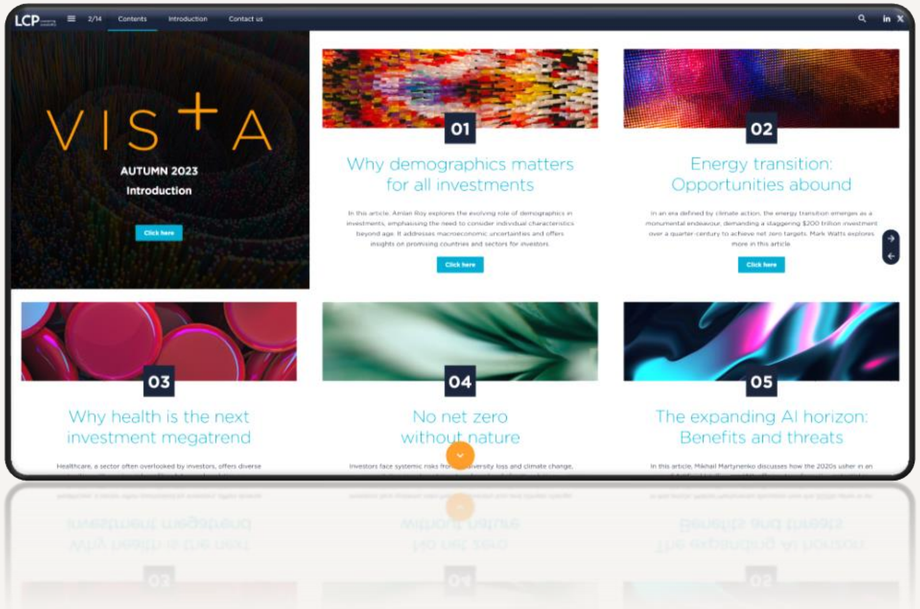
The frequency of formal meetings, and the provision of our business-as-usual tailored advice, is typically dictated by the needs of each individual client. For most of our clients, we attend formal meetings on either a monthly or quarterly basis.

Through online access to our software packages, such as Visualise and Monitor, many of our clients have daily access to updated information on their asset portfolios.

More widely, we communicate to our clients through:

- publications such as our “Markets, macro and strategic portfolios” documents and our Vista magazines;
- our website and by providing them with tailored online access to their own scheme-specific information;
- our insights hub which curates news and content from our experts;
- our weekly pensions bulletin, which summarises and comments on policy, regulatory and other industry news;
- podcasts; and
- events such as webinars and conferences.





Ensuring fees are appropriate for the services provided

We seek to offer transparency and control to our clients in relation to fees. The basis for charging for our investment services is agreed with the client in advance and is generally based on fixed fees or on time cost with budgets. We typically review the fee basis and scope of services on an annual basis with clients. In addition, our services are at times subject to a wider market review.

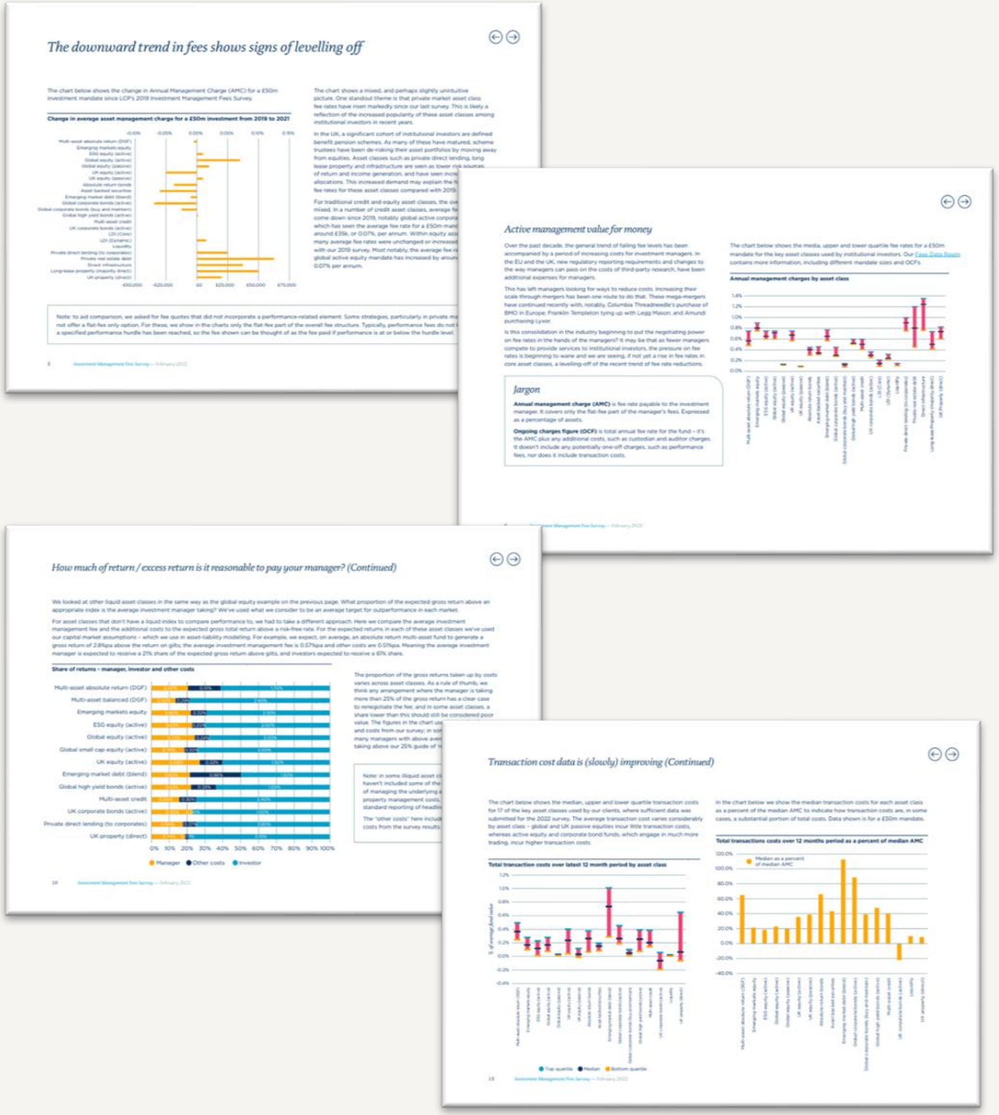
The open and competitive market we operate in means we become quickly aware if our fee levels are out of line with the market, for the value delivered, for example via new business tenders or the conversations we have with various groups such as professional pension trustees.

<u>Getting the best fee deals for our clients</u>

We also help our clients negotiate appropriate fees for the services they source from other providers, helping them exhibit strong oversight over the capital they're responsible for and deliver improved outcomes to the ultimate beneficiaries.

LCP is an independent investment adviser which means that we don't offer our own investment products (or take a financial interest in products). One of the key benefits of our independence is that we're unconflicted when it comes to negotiating investment management fees on behalf of our clients, and we work hard to get our clients the best fee deals.

Our biannual investment management fee survey, which offers a deep dive into fee trends, is not only informative for our clients, but it also gives us a platform to identify fee negotiation opportunities. We use the insights from this publication (which covers just under a thousand investment funds and offerings) to support negotiations with investment managers.



CASE STUDY: REDUCING A CLIENT'S INVESTMENT MANAGEMENT FEES

In 2020 we started to advise a government pension fund. Since that date we've achieved savings of over USD $10m for the client solely through revisiting mandates, reviewing fee structures and negotiating more competitive terms. Examples of areas where we helped the client save money include:

1. **Fee negotiation exercises**: Running fee negotiation exercises on mandates where we felt the terms were uncompetitive. One such discount achieved is currently saving the client over USD $1,000,000 a year.
2. **Restructuring mandates**: Restructuring mandates to remove legacy service providers that were performing a role that was no longer required. One example of this is currently saving the client over USD $300,000 a year.
3. **Revisiting historic invoices**: Re-running checks of historic invoices and identifying instances where incorrect charging had taken place. In one instance this resulted in a one-off refund of over USD $200,000.

BOX 4: ADVOCATING FOR DB PENSIONS REFORM ON BEHALF OF OUR CLIENTS

We commit considerable time and effort to helping shape the industry that we operate in and drive reform that we believe is in the best interest of our clients and their ultimate beneficiaries.

Over 2022 and 2023, LCP experts, including Sir Steve Webb, Steve Hodder and Laasya Shekaran, have been advocating on behalf of our UK pension clients for the government to put in place reforms designed to enable DB pension schemes to make better use of their assets (in a risk-controlled fashion), providing opportunities to uplift member benefits (especially in the DC area where contributions are widely known to be inadequate) and potentially for sponsors to share in surpluses.

Our advocacy was a key driver of the (then) government's decision to explore this space, with us having held meetings with civil servants and MPs, including meeting directly with the (then) Chancellor to discuss our proposal.

> *I am also immensely grateful to Sir Jon Symonds and Sir Steve Webb for their advice on how to construct this package.* **- Jeremy Hunt, Mansion House speech**

After the initial government announcement, in partnership with the membership network Pensions for Purpose, we wrote to the then Pensions Minister to encourage a focus on sustainability when implementing the Mansion House reforms. You can read our letter here.

Pensions reform is a high priority for the new government and we are continuing to advocate for changes on behalf of our clients.

You can read more about our ideas for DB pension reform here and our policy advocacy on climate change in Box 9.1.

SECTION 5: RESPONSIBLE INVESTMENT AT LCP

Our responsible investment team

Our RI team helps clients to integrate ESG factors into their investment processes and use their influence as investors (for example, through the use of voting and engagement) to achieve better financial outcomes for their beneficiaries. It does this by supporting client teams through the provision of central materials and training, acting as a source of expertise and through advising some clients directly on responsible investment matters.

RI continues to be an important and growing part of our investment services. In the last year, we have increased our spending in this area (as measured by the value of our people's time) by around 20%, an increase in resource supported by the firm's management and senior investment leaders. We expect that our outlay in this area will continue to grow.

RI governance structure, strategy and workforce

As outlined in our last stewardship report, we implemented several changes in our RI governance structure in April 2023, to simplify reporting lines and clarify responsibilities.

Our RI work is managed by a small group of partners, known informally as "RI Central", including our Head of RI who leads on technical matters and advice to our most advanced clients, and our Head of RI Delivery who leads on increasing the effectiveness and take-up of the RI content we develop for clients. They are responsible for the development and execution of our RI strategy and meet the Head of Investment and Head of DC (typically quarterly) and ExCo (typically annually) to provide updates on our RI work and discuss its fit with the wider business strategy. This structure means that senior members of our firm have oversight and accountability for promoting effective stewardship in a proportionate way.

We continue to have small, focussed, nimble teams working on individual RI projects and workstreams. Members of the Core RI Team – which consists of experienced individuals, who spend a significant proportion of their time on RI-related work and/or have years of experience considering RI – are key contributors to many of these projects. Mid-way through the year, we added Simon Coomber to the RI team and RI Central following an internal recruitment process. Simon has been a partner in the firm for over ten years and joined our climate scenario analysis team in 2020, becoming one of our most experienced presenters.

Dozens of other people are also involved in developing and maintaining our ESG and climate-related services, including climate metrics and climate scenario analysis. As at 31 March 2024, eight people held the CFA's Certificate in ESG Investing and five people held its Certificate in Climate and Investing (including some people who held both).

Last year, the RI team became more inclusive in the way we engaged with the wider firm, through the introduction of the RI community. We have grown this community over the year, using monthly meetings and a Microsoft Teams channel to share ideas and generate discussion. This offers ways for a wider group of individuals with an interest in RI, including those outside of the investment department, to get involved and build their expertise. Many of them are directly involved in our RI work, while others are learning and engaging indirectly. We use this group to share new ideas and best practice, to further integrate RI into our client advice.

In April 2022, we refreshed our RI strategy to focus on nine areas, with one workstream for each. By the autumn of 2023, some of these workstreams were coming to a natural end and others were finding that their work increasingly overlapped. We therefore consolidated the nine existing workstreams into three. We also added a new workstream on systemic stewardship to reflect our increased focus on policy advocacy (see section 1). The four resulting workstreams are:

- **RI in manager research** – led by Peter Abrahams. This workstream drives and develops the consideration of RI in our manager research and the incorporation of this research in our client advice. It includes both the consideration of RI aspects of non-RI focused products as well as RI-focused products. For more details, see section 6.
- **Manager stewardship** – led by James Moore. This workstream primarily helps our clients engage with managers, with a focus on the managers' voting and engagement on behalf of clients. For more details, see section 7.
- **Climate change** – led by Simon Coomber. This workstream ensures climate change is embedded in our investment advice and encourages greater engagement from our clients on climate change. For more details, see section 8.
- **Systemic stewardship** – led by Claire Jones, our Head of RI. This recognises the importance of LCP as a firm engaging with policymakers and regulators, to help address systemic financial risk from climate change. For more details, see section 9.

Alongside these changes, we further simplified our governance structure by disbanding our Stewardship Group, with its responsibilities taken over by the manager stewardship workstream.

We rearticulated our RI strategy to reflect the evolution in our priorities and our RI philosophy (see section 1). It confirms that our top priority is managing and mitigating climate risk, as this is critical for the long-term economy on which our clients depend. It focuses on producing engaging, action-focused client advice that makes a real difference and recognises that our advice on managers and funds is key to that. It also acknowledges the importance of using our voice in the industry and working with others since a collective voice is louder.

How we support our clients' stewardship

The way we are organised means that client teams have access to a wide range of centrally produced materials from our RI team and other specialist research teams which they can tailor to their clients' needs.

Our internal communications, which include weekly team meetings and monthly department-wide training sessions, help keep colleagues informed of new projects and provide opportunities for knowledge sharing and for challenge. We also use Microsoft Teams, Viva Engage and our intranet to communicate developments. For example, we've used these channels to announce new and updated regulations, client materials and training materials.

In the case of stewardship, the RI and broader investment teams produce a wide range of materials for clients. This includes:

- general information/educational documents – eg client training slides on the importance of stewardship, recent climate change developments, and aligning investment portfolios with net zero;
- topical articles on RI matters – eg several blogs for our website over the year, two articles for each of our quarterly “Markets, macro and strategic portfolios” document, four additional articles in each of our quarterly “ESG hot topics” document provided to our larger or more engaged clients, several articles in our two six-monthly Vista publication, as well as nine podcast episodes on RI topics in our popular Investment Uncut podcast series;
- a presentation at our annual DB pensions conference describing systemic risks and the influence the pensions industry can wield in addressing them, and a presentation at our inaugural investment conference (see section 4) on investing in the energy transition;
- materials to support our pension scheme clients with over £1bn of relevant assets in complying with the requirements to produce annual TCFD reports describing their activities to manage climate-related risks and opportunities, including climate scenario analysis and climate dashboards; and
- voting and engagement case studies that explore how investment managers have voted and engaged with individual companies. These are designed to be used to open up engaging discussions with our clients and ultimately lead to further discussion (and/or escalation) with their investment managers.

We invest heavily in systems, processes, research and analysis to support our RI services. In addition to the systems and processes we use internally when developing client advice, there are various RI resources we use directly in client advice, including:

- fund-specific RI ratings and assessments from LCP’s proprietary research (see section 6);
- manager RI ratings and analysis from our regular survey (see section 6);
- a stewardship dashboard which uses a comprehensive external database of voting information to help identify potentially significant votes for our clients (see section 7);
- a climate dashboard within Monitor that helps our clients understand their portfolio exposure to climate transition risk (see section 8);
- ESG-related metrics for investment portfolios based on data under licence from MSCI; and
- climate scenarios to analyse climate-related risk over the short, medium and long-term based on modelling from Ortec Finance (including Orderly Net Zero by 2050, Disorderly Net Zero by 2050 and Failed Transition).

BOX 5: RI ASSESSMENT OF BULK ANNUITY INSURERS[3]

In June 2023 we conducted our third review of bulk annuity insurers' responsible investment practices. This review serves a number of purposes:

1. Assessing each bulk annuity insurer's approach to sustainability against our view of best practice.
2. Understanding the key gaps in sustainability practices within the bulk annuity sector.
3. Supporting our engagement with insurers and others to encourage improvements in sustainability practices.

1: Assessing each insurer's approach to sustainability

We look at a range of factors to form our assessment and use this to feed into clients' decisions on which insurer to transact with. Our assessment considers:

- The resources that each insurer allocates to responsible investment and the oversight mechanisms it has in place.
- How each insurer considers sustainability within its investment processes.
- How insurers incorporate sustainability in capital allocation decisions, such as allocations to impact investments and other strategic allocation decisions.
- Insurers' approaches to stewardship and the stewardship they have undertaken with investee holdings, policymakers and regulators.
- How insurers are managing climate risk to their bulk annuity business and steps they are taking to align with net zero.

2: Understanding the key gaps in sustainability practices in the bulk annuity sector

Our aggregate findings across the insurers can help us understand key areas where insurers could improve. The areas identified in our third review include:

- Undertaking systemic stewardship.
- Incorporating sustainability into strategic allocation decisions.
- Taking ownership of sustainability actions as an asset owner, rather than just relying on their asset manager (whether in-house or external) to address sustainability on their behalf.
- Allocating monies to climate solutions and impact investments.

3: Supporting our engagement with insurers and others to encourage improvements in sustainability practices

Our research findings support our own engagement activity:

- We provided detailed feedback to each insurer.
- We met with the PRA to discuss our findings and the role of regulation in addressing systemic climate risk to the bulk annuity sector.
- We feed into industry working groups such as the Sustainability Principles Charter for the Bulk Annuity Process, which we are a signatory of.

We are updating our research during 2024 and hope to see progress in addressing the gaps we identified.

[3] Insurers offering annuity contracts which cover the pension benefits of many DB pension scheme members. The contract may be held by the pension scheme trustees, with responsibility for future benefit payments remaining with the scheme (a "buy-in"), or responsibility for future benefit payments may pass to the insurer (a "buy-out") enabling the scheme to be wound up.

SECTION 6: MANAGER RESEARCH

Our manager research governance, workforce, resources and incentives

To support clients with the allocation and oversight of their capital, we draw upon the capabilities of our manager research team. Over 50 individuals, with a diverse range of experience and skills, are directly involved in manager and asset class research at LCP.

Although some of these individuals are focussed solely on research, most combine client consulting and research roles. We believe this is a big benefit to clients as it means our research is conducted by individuals with a client focus, ensuring the issues most important to our clients are prioritised in meetings.

Our manager research team researches around 200 managers and holds around 425 meetings each year with fund managers. This includes full research reviews of around 380 products from 100 different fund management organisations. In addition, we are the European partner of the Global Investment Research Alliance (GIRA) and we share research with our partners in the Asia-Pacific and North America regions. Our GIRA partners research around 650 managers and, combined with LCP's research team, hold around 4,000 meetings per year with fund managers.

Key facts

22,000
Hours dedicated to research per year

425
Meetings with managers

Global
Research coverage

50+
Investment researchers

600
Products under active research

9
Key criteria – both investment and operational due diligence

We continue to research a wide range of asset classes, as well as managers offering funds and services within those asset classes. Meetings are held with managers on a regular basis, and usually at least annually for funds where clients are invested, by members of our specialist research teams (eg global equity, UK, property, infrastructure etc).

The structure and governance of the investment research teams is shown in the chart (see next page). There are seven specialist research teams, with designated asset class leads within each team. The research teams are overseen by an investment panel, including many of the most senior investment partners at LCP (with some who are not involved in day-to-day research to ensure greater objectivity). The team has access to various resources to support its research and analysis, including both internal tools like our Manager Research Database and external tools like Morningstar, Datastream, UBS Delta and others.

The incentive structure of our manager researchers is identical to those involved in client work – our employees receive a fixed salary with a variable bonus based on the individual's assessed contribution to the business (including through the manager research process), based on the feedback of colleagues.

Our researchers are suitably experienced to carry out their roles, with support researchers typically having between four and eight years' experience of investment research within their chosen asset class, while the experience of lead researchers ranges from seven years to over 30 years. Many of our researchers hold the CFA charterholder designation or are qualified actuaries.

LCP's Investment Panel
Oversees all manager research
Head of Manager Research: Matt Gibson

LDI	Debt	Equity	Real assets	Multi Asset	Alternative beta	DC strategies
Gavin Orpin David Wrigley Laun Middleton	Chris Helyar Jacob Stevens Nick Cooney Joel Hartley William Simpson Maithree Palipane	Paul Gibney Claire Jones Ian Gamon Sophie Carter Peter Abrahams Tom Fisher Matt Hawtin	Jenny Harbord William Simpson Grant Hood Lia Licetis	Nikki Matthews Joe Mohan	Matt Gibson Nikki Matthews	Helen Shackelford Nigel Dunn Laura Myers Erica Beltrami
5 other investment people	**7 other investment people**	**5 other investment people**	**3 other investment people**	**3 other investment people**	**2 other investment people**	**6 other investment people**

Please note that a small number of the "other investment people" as stated above work across multiple teams (ie there is a small amount of double counting).

We reviewed over 100 ESG and sustainable investment products during the year, across a range of asset classes. This continued to build our knowledge of market-leading RI approaches, enabling us to better engage with more traditional managers and providing us with the breadth and depth of knowledge to provide a wide range of value-add RI services to meet our varied client needs.

Our manager research process

Our formal ratings of investment products consider two main aspects: operational due diligence and investment due diligence. Operational due diligence reviews and assesses:

- the manager's operational risk management governance and control mechanisms;
- the management structure and the degree of stability in the organisation;
- the investment aspects of the fund's terms, looking for any non-standard terms that disadvantage investors; and
- the quality of the client service at the manager.

Investment due diligence aims to identify managers who have above average characteristics across a range of metrics that we expect to lead to higher risk-adjusted returns for the strategy:

- the way the investment management company affects the product including its commitment to the strategy and incentive structure of the team managing it ("firmwide issues");
- the investment process;
- responsible investment;
- the people involved in the decision-making process ("people/resources");
- the past performance and whether it is consistent with our understanding of the approach.

The research team attending the meeting with the investment manager always has at least one lead researcher, one support researcher and one junior researcher, but may involve more team members or an RI specialist if needed.

Assessing products' responsible investment approach

We grade each investment product from 1 (low) to 4 (high) on each of these five criteria. However, the approach that we take in evaluating responsible investment differs from the other four criteria, in that we assign sub-grades (which are red/amber/green ratings) to four underlying pillars – ESG integration, voting and engagement, climate risk management and net zero alignment.

In order to assess each of the four pillars, we ask the researchers to assess whether the product meets a series of "good practice" indicators within that pillar. Some examples include:

- "Has the investment team demonstrated strong ESG expertise (eg confident talking about a wide range of ESG-related topics relevant to their portfolio)?"
- "Have you seen evidence from the manager that it uses engagement (and voting where applicable) to encourage better ESG practices (ie not just greater disclosures)?"
- "Have you seen evidence that the manager considers physical climate factors as well as transition factors?"
- "Does this specific strategy have a formal Net Zero target?"

Researchers are asked to use the results of these judgements in deciding on a red/amber/green rating for the pillar, and then to exercise judgement in aggregating those ratings into a 1-4 rating for responsible investment as a whole.

In terms of the information needed to arrive at these assessments, the researchers initially ask the investment managers to provide written responses to a series of questions, as well as asking for other relevant documents that may help in their assessment (eg a copy of any strategy-level engagement or ESG reporting). They assess the responses to these questions and look for gaps, which helps them set the agenda for the upcoming research meeting and ensures they can ask targeted questions during the meeting.

We developed this structured approach to assessing responsible investment during 2022 and it's been in use consistently since the start of 2023. As responsible investment remains a fast-changing area, it's important we stay on top of this and ensure the questions we ask and the qualities we seek in managers stay relevant. During the reporting year, we reviewed the grading framework, using a sample of research views from across different asset classes, and used this as an opportunity to identify training needs for researchers, with a follow up refresher session carried out covering the key findings of our review.

Within the year, we also began reviewing the "good practice indicators" used to see if there are any areas where we should be raising the bar for managers or asking deeper questions. Implementation of the identified changes will take place after the year end. These changes will include incorporation of firmwide assessments of various aspects of RI from our 2024 survey of managers (see below).

Our research notes include commentary on each of the four RI pillars outlined above, which allows clients who invest in a given product to identify the manager's areas of strength and weakness. In this way, client consultants are able to suggest topics for our clients' engagement with their investment managers, as well as helping them to have a better understanding of the approaches taken by their investment managers in respect of RI matters.

Maintaining and improving the quality and accuracy of our manager research outputs

Following the meeting with an investment manager to discuss a specific investment product, the LCP research team writes up a formal note setting out the view and grading the manager on the categories outlined in the section above. Research notes are discussed amongst the other researchers in the same asset class group if one or more of the following criteria are fulfilled:

- the researchers who went to the meeting are proposing a change of overall rating (eg from "Buy" to "Hold");
- the product researched is a high profile one, with multiple LCP clients invested;
- there has been a recent significant change involving the product's investment team, process or philosophy that merits wider discussion (even if the proposal from the LCP research team is not to change the overall rating for the product);
- the product has not been researched by LCP before.

These wider discussions allow challenge of the conclusions reached by the LCP research team. After the meeting, any agreed changes to the notes or grading are made by the researchers who met with the manager. This is an important part of the process, which helps ensure the accuracy and quality of our research.

Finally, the research note is reviewed and signed off by the asset class lead, and we typically arrange a feedback call with the investment manager to discuss the conclusions of our research. This provides us with the opportunity to give feedback to the manager on areas of their processes that we feel could be improved, including on stewardship or other elements of RI. We do this both to improve outcomes for our clients and to raise standards within the investment industry as a whole.

Responsible investment survey of investment managers

Every two years we invite a wide selection of investment managers to complete an in-depth survey about responsible investment. It covers their approach to environmental, social and governance issues, including climate change, and their stewardship practices, such as exercising voting rights and engaging with company management.

Our approach to the RI survey has evolved over time. Historically, we used the responses to the survey from investment managers to assign the manager a "firm-wide" RI grade from 1-4, with 1 being the weakest and 4 the strongest. However, we reviewed our approach during 2023 to ensure that it continues to meet our client and research needs. As a result, we will use our 2024 survey (and future ones) to assign grades on a "Red/Amber/Green" scale for different aspects of responsible investment (eg voting or systemic stewardship). These grades will feed into our product-specific manager research process, which is described above. This will mean that we no longer have separate firmwide and product-level RI grades. Instead, we will have a single RI grade that is partly assessed through the RI survey (where we feel the assessment is best done at a firmwide level) and partly through our product-specific manager research (where we feel the assessment is best done at a product level).

We completed the development of the 2024 survey questions during the first quarter of 2024 and issued them to managers shortly before the year end. We are due to release the results of our 2024 RI survey later in 2024.

Use of our RI grades

The grades that investment products are assigned by our investment researchers in respect of responsible investment have two key uses in helping our clients achieve their stewardship goals - appointing investment managers and ongoing manager monitoring.

The first is when appointing investment managers to manage a specific allocation. When client consultants conduct manager selection exercises, there is a requirement in our process (enforced via a checklist that consultants must complete when undertaking this type of work) that the shortlisted managers' approaches to ESG, voting and engagement and climate change are considered.

There is also a requirement for consultants to comment in any briefing document for a selection exercise (or direct recommendation advice paper) on these specific considerations and, if advising a UK pension scheme, how this compares to the policies in the client's Statement of Investment Principles. If this information is not included, client consultants must evidence where these issues have been raised and discussed with the client on a prior occasion.

Our precedent material on selection exercises and direct recommendations includes helpful guides on how to incorporate ESG, stewardship and climate change into manager selection exercises. Client consultants must include details of the approach taken in the checklist accompanying the advice.

The second key use of the output of our investment research is in ongoing manager monitoring. We expect our client consultants to share our RI grades for individual products with clients who are invested in them and have developed a number of tools to help them do so. This includes Monitor which shows the RI grades for each product to clients as standard. Clients can have access to this tool either through regular meetings with their LCP adviser, or directly through their internet browser. See section 3 and Box 8 for more information on Monitor.

In addition, we have developed a performance monitoring report template that can be used to present and explain our RI grades for the products that a client invests in.

In this way, our RI research helps to support the allocation of client's capital, provides sufficient detail for our clients to engage with their investment managers on areas of weakness, and enables clients to oversee their portfolios and investment managers on an ongoing basis.

Projects and highlights this year

In addition to the work undertaken to research the existing funds held by our clients, we have also carried out research activity and projects to identify other funds that could help our clients allocate their capital in support of specific ESG goals.

During the reporting year, we carried out an extensive search to build a climate solutions equity shortlist, starting from a review of the universe of global climate equity funds on a third-party database. From here, we undertook a review of written material outlining the process, key characteristics, track record and investment teams responsible for managing over 20 funds offered by a range of different organisations. We then narrowed down the assessment to an initial long list of six managers, with whom we carried out full research meetings to assess their product offering. Following the year end, we have been working to produce a shortlist of two or three buy-rated investment products for clients to access within this asset class.

We carried out a similar project for biodiversity equity funds during the year. We began from a longlist of 16 funds identified via a third-party database, before narrowing this down following desktop research of presentation materials to four funds that we carried out formal research meetings with. The end result was a shortlist of three global equity funds with a specific focus on biodiversity suitable for client investment.

In addition to our work on LCP Transform (more details provided in Box 6), we have worked to develop a shortlist of infrastructure funds specifically targeted at helping to achieve the transition to a net zero economy. While the global infrastructure funds we typically put forward to clients include infrastructure assets like power distribution, renewable energy generation or energy storage, the more focussed net zero infrastructure funds will allow clients to dedicate a specific allocation to net zero transition assets.

Annual manager forum

As part of our engagement with managers, both on stewardship and other matters, we hold an annual manager forum – over 90 managers registered to attend our March 2024 forum. This provided an opportunity to let managers know first-hand our views on markets, managers and manager offerings and what they needed to do to meet evolving client needs, as well as to hear their views. One of the sessions on the evening was specifically regarding our stewardship expectations of investment managers, providing us with an opportunity to communicate our view of best practice to the investment managers present.

BOX 6: INVESTING IN THE ENERGY TRANSITION – LCP TRANSFORM

Over 2023 we launched LCP Transform, giving asset owners access to the expertise and insights of our wider energy practice (which has over 100 people dedicated to research, modelling and giving advice on the energy transition).

The energy transition is a multi-decade megatrend, but to invest successfully, investors must overcome several challenges:

- **Complex landscape:** The market spans generation, storage, networks and demand, with over 45 subsectors, making it difficult for investors to navigate and identify viable opportunities.
- **Specialised knowledge required:** Many opportunities require deep sector-specific expertise.
- **Difficult to access certain opportunities:** The best opportunities are managed by specialist managers who are difficult to find. High minimum investment sizes further limits access.
- **Market fragmentation:** Managers focus on narrow specialisms, complicating the construction of a diversified portfolio. Investors need to know which sectors are 'investment ready' and which to avoid.
- **Operational challenges:** Managing a portfolio with multiple specialist managers involves significant operational complexity and governance.

Our solution: LCP Transform

LCP Transform is designed to provide investors with access to the entire energy transition market. We believe it offers a simplified way to achieve diversified exposure to the full breadth of the energy transition in a robust and diversified manner. Benefits include:

- **Diversified sector and manager exposure:** Investing across all areas of the energy transition by taking a multi-manager approach, avoiding single manager concentration risks.
- **Informed decision-making:** Our proprietary investment process (based on sector analysis) harnesses the expertise of our 120+ energy consulting team, ensuring sector allocations are based on the latest insights and trends, minimising the reliance on any single manager's views.
- **Access to specialist managers:** Our experienced research team spend ~22,000 hours per year researching funds and uncovering those difficult-to-find opportunities.
- **Operational efficiency:** We manage the complexities, allowing investors to benefit from a diversified portfolio without the administrative burden.

Achievements and future plans

Over the year, LCP Transform was released for use with clients, including our proprietary sector allocation tool. We conducted the inaugural LCP Energy Transition Survey, covering 73 managers and 103 strategies with a collective AUM of £228bn, helping asset owners understand the market and identify suitable investment partners.

We completed a major piece of work for a European Government to assess which of their energy transition sectors was ready for investment. For the coming year, we look to engage with asset owners directly to channel investment into the energy transition to make a real-world impact.

SECTION 7: MANAGER STEWARDSHIP

Helping our clients engage with their managers

We understand the importance of good stewardship throughout the investment chain and the critical role it plays in safeguarding the economy and society, and ultimately the long-term returns on which our clients and their beneficiaries depend. We will only have a chance of mitigating the worst impacts from systemic risks such as climate change and biodiversity loss with good stewardship across the investment chain, from our clients as asset owners, through to us as advisers, to investment managers and the underlying entities in which they invest.

Increased regulatory focus in recent years, including the Department for Work and Pensions (DWP) stewardship guidance for pension trustees, has helped raise the profile and importance of stewardship for asset owners and their advisers. Whilst regulations and guidance can be helpful, we encourage our clients to avoid simply ticking the regulatory box and rather focus their stewardship activities on addressing material risks and opportunities.

We recognise the influence we have in our role as advisers and the importance of our clients' roles as assets owners with ultimate responsibility to their beneficiaries. Therefore, we are deeply committed to supporting our clients with their stewardship activities. We do this by helping our clients better hold their investment managers to account and encouraging investment managers to continue to improve their stewardship practices.

Our general approach to helping our clients with their stewardship activities is to:

1. Drive higher standards through our research, ongoing dialogue with managers, and setting expectations of managers.
2. Get better information for our clients to understand material risks to their assets and identify areas to focus their engagement with managers. For example, through our climate dashboard (see Box 8) and stewardship dashboard (see below).
3. Seek improvement in managers' practices. Having identified any key risks or concerns, we then help our clients engage with and monitor their managers and escalate if necessary.

We seek to cover a range of ESG topics in our stewardship discussions with clients, using it as an opportunity to broaden our conversations beyond climate change. Most of our pension trustee clients have selected a small number of ESG topics as "stewardship priorities", as encouraged in DWP's stewardship guidance, and these provide a focus for stewardship discussions.

Driving higher standards

Over the year we increased our stewardship expectations for managers in relation to net zero specifically (see section 8) and stewardship practices more generally. To reflect the critical importance of stewardship we also set out a new, enhanced set of general stewardship expectations for managers.

We expect all managers to work towards meeting these expectations, across all asset classes. The expectations cover four broad areas:

1. Do the basics: for example, becoming a signatory to the UK Stewardship Code and resourcing stewardship activities for success.
2. Engaging to improve: encouraging managers to use the tools available to them to influence the entities in which and through which they invest, including setting and communicating clear expectations for investee entities.
3. Seek to change the system: rather than focussing only on disclosure, we believe that managers should be using their influence to address systemic risks.
4. Tell the world: we need clear information to assess the quality and quantity of engagement activities carried out on behalf of our clients.

We presented these updated expectations to fund managers at our annual investment manager forum (see section 6). We also emailed the expectations to our main contacts at the managers and made the expectations available online after the reporting period.

Monitoring the capital allocated by our clients to managers and considering where new mandates might be awarded depends heavily on the quality and accuracy of our investment manager research process, on which we continue to build (see section 6).

In addition to enhancing our general research process, during 2023 we did deeper dives into the stewardship practices of three large index managers and two large bond managers where our clients have significant exposure. These meetings led to a deeper understanding of their different stewardship approaches and helped us identify their strengths and areas where we wanted to see improvements made. These improvements were presented as a set of "asks" for each manager. We arranged follow up calls to discuss these directly with the managers and presented them to relevant clients, asking them to add weight to the asks by engaging with managers on them in addition to us (see case studies in Boxes 7.1 and 7.2 below).

We have also carried out more detailed research in respect of:

- LDI manager stewardship. Looking to understand and promote best practice in relation to policy advocacy (see Box 9.2).
- RI practices of bulk annuity insurers (see Box 5).

Getting better information

We help our clients identify risks and opportunities to their assets by getting information from a number of different data sources. Getting information directly from managers is generally the first port of call. For example, our climate dashboard (see Box 8) relies on climate metrics provided by the managers and helps our clients identify which mandates are exposed to higher climate risks. In addition, we encourage our clients to ask targeted questions of their managers to help understand their key exposures in relation to their stewardship priorities.

To help our clients better understand the stewardship approach of their investment managers, we ask managers to provide engagement case studies. These case studies often highlight to our clients the complexity of ESG issues and help them understand the different approaches their managers take to engaging with underlying issuers. We support our clients in engaging with the managers to better understand the intended next steps and how the managers will monitor progress against their engagement objectives.

Over the year we partnered with Diligent, gaining access to their comprehensive database on voting information. We built and developed a stewardship dashboard which uses the database to help identify potentially significant votes for our clients. For example, the dashboard can be used to quickly filter by entities which are part of Climate Action 100+ or Nature Action 100 and then filter to highly contested management resolutions or shareholder resolutions with relatively high support. One of the key benefits of the database is the ability to see the broad range of investor rationale there can be for these significant votes. This helps us and our clients better understand specific areas of concern and therefore be better placed to engage constructively with investment managers.

Having spent much of the year building and testing the dashboard, we presented it to clients at our DC conference (which fell shortly after the reporting period) and sought feedback on its use. We were pleased to hear positive views about this innovative service and continue to develop the tool and encourage its use by our clients. Since developing the dashboard and our stewardship services we have sought ad-hoc feedback from our colleagues on behalf of their clients. One common theme from the feedback was that the very extensive range of analysis options offered by the dashboard meant that, while our colleagues found the tool useful, they were sometimes overwhelmed with the amount of choice and were uncertain where to focus their efforts. Our response to this was to add quick-filter buttons to enable client teams with a single click to focus on key resolutions relating to climate change, biodiversity loss and social factors.

Seeking improvement

We are conscious that it takes time and resources to do stewardship well and therefore it is important that we help our clients to prioritise their stewardship activities. In addition to helping our clients select stewardship priorities or themes such as climate change and biodiversity, we also help them prioritise the mandates and issues on which to engage their managers. To keep the process manageable, our internal guidance recommends focussing on two engagements with managers at any one time. To help encourage take up, engagement case studies are produced regularly. Many of the Winchester Investment department monthly meetings during the year incorporated discussion of one of these engagement case studies.

Some of our clients run regular manager days where their investment managers are invited to present. Historically these meetings would mainly focus on market outlook and portfolio positioning, but now clients can use our climate and stewardship dashboards to probe deeper into the climate risks associated with their investments and the actions managers are taking to address them. Looking at specific case studies and cross referencing how managers have voted in key resolutions compared to peers enables our clients to better hold managers to account and keep track of progress versus expectations.

When engaging with managers our internal guidance encourages clients to set clear timebound objectives for their managers to drive improvement. For example, this could be asking the manager to work towards collecting more data (for example reporting on scope 3 emissions) or asking them to explain how they plan to increase the proportion of investments with a science-based target.

BOX 7.1: ENGAGEMENT WITH PASSIVE EQUITY MANAGERS

Context
Many of our clients hold equity allocations with one of three passive managers. In the context of global systemic risks such as climate change and biodiversity loss, which cannot be diversified away, the work these managers do to influence portfolio companies is a critical tool to help our clients manage exposure to such risks and to improve member outcomes.

What we did
We undertook a ‘deep dive’ review of stewardship at each of the three major passive managers with whom our clients are invested. This involved a series of meetings and requests for detailed information to enable us to assess the quality of stewardship work undertaken. This included understanding how shareholder voting decisions are arrived at, how records are kept and how engagements are tracked and progressed.

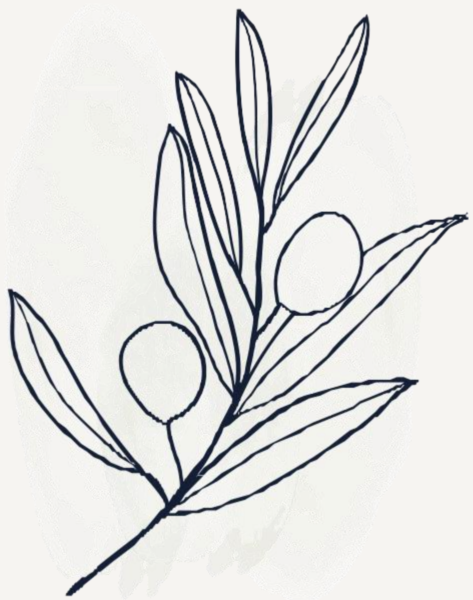
We used this information to assess the quality of each manager’s stewardship activity and the extent to which their efforts were likely to help manage our clients’ risks.

Whilst we saw good practice in some areas, we found room for improvement across the board. To address this, we created a specific set of ‘asks’ for each manager and communicated these to them during feedback meetings. Our findings and these asks were communicated to many of our clients with passive equity investments, and some of them wrote to their manager to support the asks.

Outcome
We have seen progress at one of the managers we engaged with: since we carried out our review, it has undertaken significant work to improve its record-keeping and improve oversight of its voting processes.

Two other managers still have work to do to meet our expectations. Our ratings mean that, without improvement, over time we expect fewer clients will invest in their funds.

We will continue to engage with all three managers to seek improvements.



BOX 7.2: ENGAGEMENT WITH ACTIVE FIXED INCOME MANAGERS

Context
We advise a significant number of defined benefit pension schemes, many of which have a large proportion of their portfolio invested in fixed income asset classes.

Stewardship in fixed income assets has often been seen as the poorer relation to equities, due to the lack of voting rights. But debt is an important part of the capital structure of most businesses, and often particularly of businesses that have greater potential exposure to climate risk. This means that lending decisions made by investors have the potential to have a consequential impact on firms' behaviour in respect of such risks.

What we did
We looked closely at the stewardship work carried out by two fixed income investment managers to whom our clients have significant exposure. This included meeting with each manager and reviewing information they provided to us about how they seek to engage with issuers.

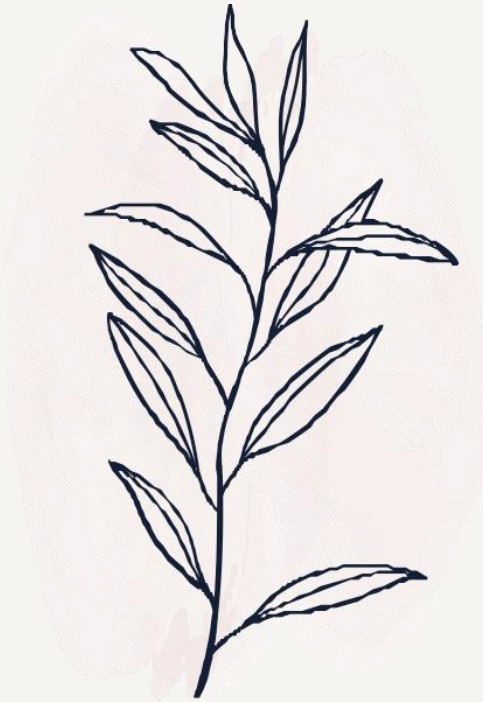
As part of the process, we were particularly interested in understanding the tools that the managers used in the course of their stewardship work, given the lack of voting rights.

We found significant differences in the extent to which the managers sought to use their influence with issuers, with one manager using a much broader set of tools to influence both individual firms and the broader system.

Based on our analysis, we formulated a set of specific 'asks' for each manager and communicated these via feedback meetings. Our assessments and the asks were also communicated to some of our clients who have fixed income mandates with the two managers.

Outcome
Our feedback was welcomed by both managers. Each indicated that they would seek to undertake changes to answer our asks, with policy advocacy being a key area of focus.

We also identified 'best-in-class' practices, such as the power of engagement with counterparties, which now inform our assessment of all fixed income managers' stewardship.



SECTION 8: CLIMATE CHANGE

Over the year to 31 March 2024, we had a particular focus on climate change. We help our clients understand how their portfolio may be affected by, and affect, climate change and the actions they can take to protect their members' benefits, both directly and through reducing their investments' impacts on the climate. Some highlights of the actions we have taken are below.

Monitor climate module released to firm and in use with clients

We released a climate dashboard within Monitor (see section 4) that helps our clients focus on where their portfolio is most exposed to climate transition risk and where they can have the biggest impact with regards to climate change with their portfolio. Box 8 provides more information on the climate dashboard.

Based on our experience of demonstrating the tool to clients, we have adapted how we use it to ensure that they can quickly focus on the main components of their portfolio that have room for improvement in their carbon emissions or the future alignment of the portfolio with net zero. For example, a large number of our clients have significant allocations to UK government bonds, so these would be shown as key emitters in their portfolio. However, with limited actions available with these assets, we adjusted the portfolio illustrations to focus on the assets other than UK government bonds where bigger impacts could be sought.

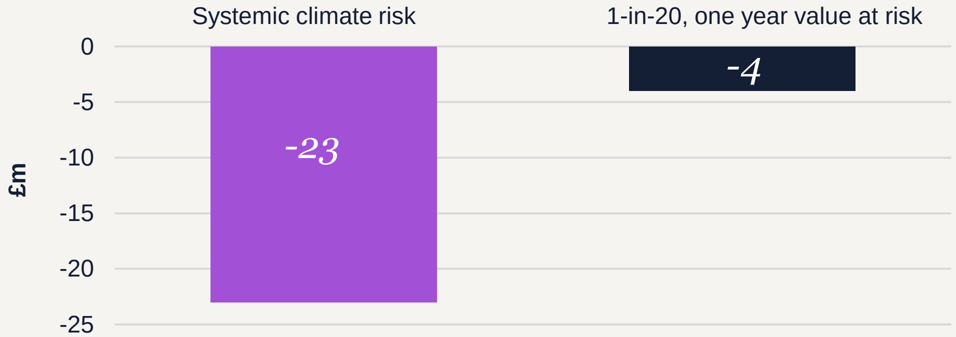
Visualise systemic climate risk module released and being used to drive discussions on systemic risks of climate change

We find that many clients do not fully appreciate the system-wide impacts that climate change may have. To help them understand it, we have added a systemic climate risk illustration to our asset liability modelling software that is available to clients online. This shows the possible impact on a pension scheme's funding level under a systemic climate risk shock.

As an example of the output, the chart below shows client advice where we highlighted the possible magnitude of systemic climate risk in the context of another form of investment risk that our client discusses regularly. Whilst we make it clear to clients that these two measures are not directly comparable, it does illustrate the importance of our clients understanding systemic climate risk and considering their actions to mitigate it.

Possible impact of systemic climate risk

Impact on funding position



This illustrative shock has helped our clients engage with the systemic nature of climate risks and how they can influence their investment managers and policy makers (eg through LCP's climate policy asks, see Box 9.1) to take action against systemic risks.

Our asset liability modelling tool is used across our pension scheme client base. The addition of the systemic climate risk illustration is an example of how we are embedding climate change in our systems to encourage a culture of discussing it in our advice to clients.

In this case, we went one step further and introduced a requirement for all client teams in actuarial and investment to share the new systemic climate shock with their DB pension scheme clients. This new policy was endorsed by our CEO and the senior leadership of our DB pensions business.

Response to criticisms of climate scenario analysis

During the year, there were a number of criticisms levelled at climate scenario advice provided by consultants to pension schemes. In particular, reports from Carbon Tracker Initiative ("Loading the dice against pensions") and the IFoA report in partnership with the University of Exeter ("The emperor's new climate scenarios") led the way with some detailed criticisms of the modelling and the conclusions being drawn by pension schemes.

Whilst our approach to climate scenario analysis has always been to focus on the narratives of the scenarios rather than specific numerical outputs, we recognise the issues raised by the criticisms and have acted to address the concern that our clients might take decisions based on incomplete/inappropriate information.

In particular, we developed further advice for clients to remind them of the narratives of the scenarios, the limitations of the scenarios and the limitations of the modelling that may lead to underestimates of the physical impacts of climate change on the economy. This advice has been used with large pension clients who need to consider annually whether to commission updated climate scenario analysis for their Taskforce on Climate-related Financial Disclosures (TCFD) reporting. We have also encouraged colleagues to take these slides to clients wherever they have carried out climate scenario analysis, and the messaging in our standard climate scenario material has also been updated to improve the communication of the limitations.

This has helped ensure our clients focus on the key messages from the analysis and to implement further stewardship that focussed on the key risks, for example asking investment managers for greater detail and clarity on their actions with investee companies to understand how they are managing the risks of the more severe downside scenarios.

Contributing member of NZICI

As a contributing member of the Net Zero Investment Consultants Initiative (NZICI), we have made specific commitments to provide advice to our clients that focuses on net zero and their ability to move towards this goal.

As this was the second year of membership, the focus was on improving our performance against the KPIs set by the initiative. In particular, educating our clients on net zero, helping them use metrics and targets to drive change, setting net zero targets or ambitions, and investing in climate solutions. As part of the initiative, we produce annual reports on progress for NZICI, which includes details of the KPIs which continue to drive our focus for the advice we give clients. Our progress reports can be found here.

In the first quarter of 2024, we actively contributed to a review of how the initiative is working and helped update its focus for the future. In particular, this has involved pushing for more focus on action rather than reporting and helping reframe the commitments of the initiative to be more effective.

Net zero expectations for managers

In 2021, we wrote to all investment managers that we work with setting out our expectations of them in terms of their approach to climate change, ESG and stewardship. We updated our expectations in 2023 to reflect the evolution in our views, emphasising the importance of stewardship to achieve real-world emissions reductions. We communicated these expectations to managers through a CEO-to-CEO letter which can be found here.

We continue to have a minimum requirement that managers are signed up to the Net Zero Asset Manager (NZAM) initiative in order for them to receive a buy rating from us.

Embedding climate considerations in advice across the business

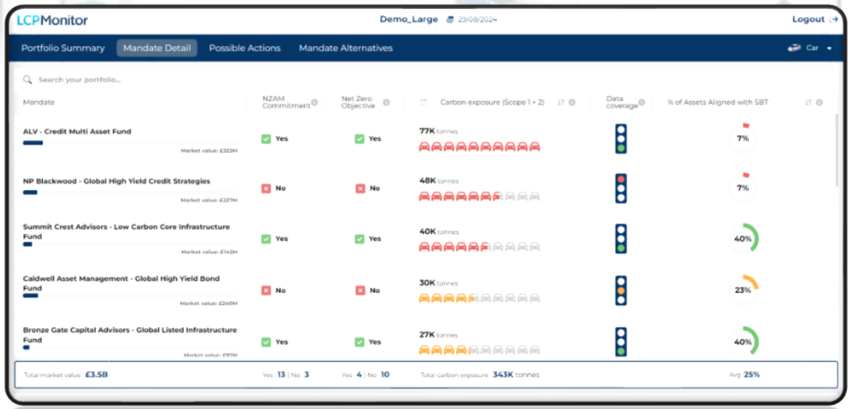
Internally we have also continued to promote and embed climate and ESG considerations into our processes across our business. In particular, keeping our investment and pensions consulting teams up to date on climate developments, requirements and the actions they need to take with their clients.

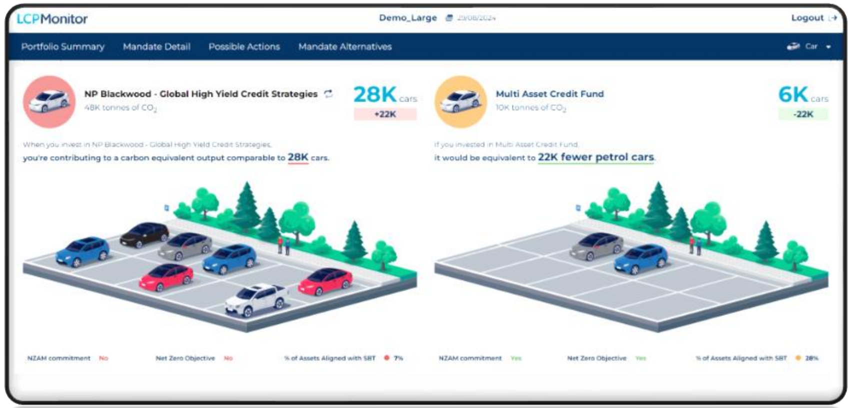
This has been achieved through training sessions in the year on: our new tools as they have been rolled out (including demonstrations and sharing experience of how they have been presented to clients); systemic climate risk and how clients can take this into account; how we are engaging with policy makers; and more general climate-focussed 30-minute sessions for the rest of the firm.

Training continues to be used to embed climate change considerations into our advice across the business. In addition to the investment-related training described in section 4, we held two sessions for the wider pensions consultancy business on incorporating climate risk into our advice. These were part of our efforts to ensure our pension scheme advice is joined up across our actuarial, investment and covenant colleagues so clients received consistent information about climate risks to their scheme and the actions they can take.

BOX 8: CLIMATE DASHBOARD IN MONITOR

The climate module in Monitor is an interactive tool that translates complex climate-related information into engaging and easy-to-understand visualisations and language.





We have used it in sessions with a range of clients to help them:

1. **Understand** their current climate transition risk exposures
2. **Identify meaningful actions** that will help reduce climate transition risk
3. Agree whether to set a **net zero ambition or target** for their scheme.

The actions that clients have taken, after seeing the tool, have ranged from better discussions with managers to identify improvements that could be made in their investment processes, to considering alternative managers where current managers are not taking climate change as seriously as our clients expect.

SECTION 9: SYSTEMIC STEWARDSHIP

Systemic stewardship is an important element of stewardship and sits alongside stewardship which seeks to influence an individual organisation, such as manager stewardship (see section 7).

We define systemic stewardship as investors using their influence at a systems level to seek to create and protect long-term value for clients and beneficiaries. This includes engaging with policy makers and regulators with the objective of addressing systemic risks that have the potential to materially harm financial outcomes.

As described in section 1, we are incorporating systemic stewardship more explicitly in our RI approach, particularly for climate (see section 8), where this is an important part of overall stewardship to better support clients' effective stewardship. This increased focus has led to expansion into a number of different areas.

How we identify market-wide and systemic risks

We seek to identify market-wide risks and systemic risks which might directly or indirectly impact financial markets in various ways.

At a high level, we emphasise the need to be open minded, encouraging colleagues to learn, read relevant articles and research papers, and attend webinars and conferences, and identify recurrent themes expressed by a range of different parties that might point to developing market-wide or systemic risk. We encourage our teams to question matters and exchange ideas. We aim to make sure the quality of this debate is high, by having a mix of experience and backgrounds working together.

Our investment partners hold regular "markets and managers" meetings. At some of the meetings, our Head of Macro and Head of Manager Research give overviews of topics of interest in their respective areas, such as geopolitical developments, interest rates and inflation. We also have external experts come and talk to us in order to gain an alternative insight or new perspective on important topics of the day. These sessions provide a great opportunity to exchange views and delve into topics in depth.

We periodically undertake an informal survey of senior individuals – people with interest and expertise in longer-term risk identification, drawn from across the firm – to help with horizon scanning. The latest one was completed in late 2023 / early 2024 by 22 individuals. The respondents identified artificial intelligence (AI) as one of the biggest potential positives, though not without its risks. The physical impact of climate change was one of the big negative factors mentioned, while the energy transition was viewed positively. Cultural change was also expected to be an important factor; there were concerns on extremism, an ageing population, as well as wealth divide.

We also have formal processes to identify and respond to market-wide and systemic risk, as described below.

We analyse historical market movements to inform our assumptions about future market movements. This involves substantial research and analysis on the investment returns of many different investment markets and macroeconomic measures, such as inflation.

We also analyse how different markets and macro factors are related to each other and how, in extreme moves, relationships might change. This analysis helps to form our views on the risks of extreme market movements and market-wide events. These views are used to inform our statistical models and our advice, and ultimately to help clients consider a broad range of possible outcomes and to give an indication of potential losses in a "reasonable worst-case scenario".

We seek to identify more tangible and immediate risks to investment markets through our analysis of the current environment. Our analysis includes: consideration of the macroeconomic background; the risks to the fundamental performance of companies and other issuers of securities; the valuation of securities; and how market sentiment might impact investments. This approach helps us to address risks that may not be captured well in the statistical assumptions we have used for asset returns. We use this information to help clients understand their risks, and possible economic / macro scenarios that could lead to significant losses.

Our macro research group identifies systemic risks to investment markets, and considers these from time to time both internally and where appropriate when meeting with investment managers, economists and others. Examples include: critical stakeholders in the functioning of markets such as exchanges and banks; contagion risks; socio-economic and environmental factors that could lead to significant falls in economic output and / or the value of assets; cyber risk; and political risks that could lead to market failure, or a limitation on an investor's ability to realise assets.

We also seek to identify risks to clients from other sources, including changes to laws and regulations that are either directly affecting clients' businesses or their main function, or that affect key service providers to our clients or other stakeholders related to them. Over the reporting year, we sought to identify these with the help of our Pensions Research team who regularly, and in most cases daily, swept the websites and press releases of numerous firms, regulatory bodies and trade associations.

We look for any significant news that might affect our pensions clients directly or their key suppliers, customers or beneficiaries. This is collated and published on our website, via our weekly Pensions Bulletin or individual updates. Our Pensions Research team highlights any material developments to the appropriate team at LCP. Our Pensions Leadership Group is ultimately responsible for ensuring that any significant risk to clients is brought to their attention and appropriate consulting tools, documents and training are developed centrally, where appropriate.

How we respond to market-wide and systemic risks

Our specific work in this area during the year included the following:

- We consider climate change to be a major systemic risk, so have made this the focus of our RI work. However, we believe that "just transition"[4] and nature loss need to be addressed in order for the transition to net zero to be successful, as well as being topics of systemic importance in their own right. Our proportionate approach to address them is to include them in our climate approach. For more details on our climate approach, please see section 8.
- In early 2024, we produced a note for clients about the potential impacts of short-term geopolitical risks, as a way to consider whether action is required in order to better protect their investments against "tail-risk" events. This is an area of particular significance, with 50% of the world's population going to the ballot box in 2024, against a backdrop of military wars, geopolitical tensions and elevated inflation.

Russian elections
Ukraine war
China-Taiwan tensions
Israel-Hamas war
Elevated inflation
UK elections
Climate change
Terrorism
US elections
Yemen-Houthi war
EU fragmentation
Arabian Gulf tensions
Oil production cuts
US-China trade wars

[4] Just transition is defined by the International Labour Organization as "Greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind".

- We also produced starter materials to highlight systemic risks to DB pension scheme clients, in the context of many mature DB schemes having already addressed what might be considered more traditional pensions risks, such as interest rate risk. We identified nine such systemic risks, many of which are global and could be triggered by events elsewhere. Three examples of these risks are: deflation (the risk of a downwards pressure on gilt markets as schemes collectively sell index-linked gilts); climate change (physical and/or transition risks, which could have sudden negative impacts); and societal upheaval (caused by war, natural disasters, dramatic political change and technological developments such as AI).
- There have been several cyber incidents in the pensions and benefits industry in recent years, including during the reporting period. Recognising this, and the fact that The Pensions Regulator (TPR) expects pension schemes to have controls in place to assess and manage their cyber risks, over the year we developed, and started to deliver, services to help clients manage cyber risks. This is through training, helping to assess compliance with regulator guidance, governance around managing cyber risks and scenario testing to test actions and behaviours.
- We have built on our work on AI from the previous reporting year, which had been primarily focused on our own use. This internal work we have done, and continue to do, has laid the foundation for discussing the risks and opportunities of AI externally as well. This is both with our clients, in training sessions, and more widely, through the first series of our Beyond Curious with LCP podcast which focussed on AI, and various blogs covering topics ranging from the impact of AI on the NHS to how AI may transform financial wellbeing. We have also held a series of roundtables to discuss AI externally.
- Following the Liability Driven Investment (LDI) crisis in 2022, we took significant steps to discuss these risks with TPR and address them further where necessary with clients. TPR issued guidance in April 2023 on how trustees should manage these risks, and we then discussed these with clients, with the aim of reducing any remaining risks further where appropriate.

Over the period, we believe we have been able to identify and discuss risks with clients early. Our culture, processes and governance structures, including RiskCo and the various ProfCos, help to create an environment that encourages this. In particular, we believe we have started to raise risks relating to AI and cyber risks with our clients earlier than many of our peers, allowing us to respond appropriately to these risks. However, unlike in the previous year where we experienced a gilts crisis, there were no particularly severe market dislocations in this reporting year to truly test the extent to which our approach was effective. Following a review of our approach, we have identified the need for a more centralised approach to identification of systemic risks to help us stay effective as our firm continues to grow in size and complexity (see section 10).

Our policy advocacy work

We believe that we should play an active role in shaping the future of the industries in which we work. Through our engagement with government, regulators and others, we aim to contribute to the development of a robust, fair and sustainable regulatory landscape. We are committed to transparency.

In order to promote well-functioning financial markets, we think that it is important that we use our influence via policy advocacy, ultimately for the benefit of our clients and their beneficiaries.

<u>Responding to industry consultations</u>

Across the firm, we responded to around 20 formal consultations during the year, spanning both investment and non-investment matters. These included:

- The Work and Pensions Committee inquiry to review DB schemes and the challenges and opportunities they pose to members, trustees, employers and TPR.
- The DWP call for evidence to help improve the skills and capability of pension trustees and remove barriers to making effective investment decisions.

- The DWP call for evidence to support the development of innovative policy options to increase protection for DB members while supporting wider economic initiatives and investment in productive asset classes.
- The Financial Conduct Authority's (FCA) consultation proposing a voluntary, standardised and comprehensive 'vote reporting template' for asset managers to communicate to asset owner clients on their voting activity.
- The Taskforce on Social Factors request for feedback on a guide which includes recommendations for the UK pensions sector about how it can better incorporate social factors into investment decisions.
- The Work and Pensions Committee evidence session on fiduciary duty and climate change.

We publish our consultation responses on our website, to foster open dialogue and share our insights and views with our clients and the broader industry. You can view them here. In addition, we contributed to several consultations in collaboration with other industry bodies.

Engagement with regulators and policy makers

As well as responding to consultations, we engage with regulators and policy makers directly. Over the year, these interactions have included meetings with DWP, TPR, FRC and the Prudential Regulation Authority. This includes our work discussing the Mansion House reforms (see Box 4 for more detail). In these meetings, we typically exchange views on the trends we are seeing in the marketplace in relation to the topic at hand (eg climate change, stewardship), challenges we have identified (eg too much focus on reporting and insufficient action being taken) and ideas for addressing them (eg simplification of reporting requirements and adoption of a double materiality perspective).

Climate policy asks

To guide our discussions with regulators and policy makers on climate change, we have created five policy asks (see Box 9.1).

Collaborations with industry stakeholders

We believe a collaborative approach is particularly important in systemic stewardship work, ie working with other stakeholders with the aim of improving the functioning of financial markets. We have contributed to several industry initiatives over the year, as described below.

Investment Consultants Sustainability Working Group (ICSWG)

Claire Jones, our Head of Responsible Investment, established and leads the new ICSWG Influence workstream, which complements our own systemic stewardship by collaborating with our industry peers. Its objective is to work with policymakers and regulators on behalf of UK asset owners (primarily occupational pension schemes) to influence future regulation with a view to encouraging better sustainable investment practices. The workstream has identified three policy areas of focus and is developing position papers on them to guide its discussions:

- Identifying ways of simplifying, reducing and possibly harmonising reporting requirements and regulatory burdens
- Removing barriers to action or encouraging action that supports sustainable investing
- Reducing barriers and incentivising allocations to "productive finance" opportunities that help drive a more sustainable economy from both social and environmental perspectives.

As well as leading the ICSWG Influence workstream, we are also represented on:

- the ICSWG Steer Co (the steering committee) by Claire Jones.
- the Raise the Bar workstream by James Moore. His work over the period included:
  - contributing to enhancements of the ICSWG's engagement reporting guide, aiming to standardise reporting of engagement by investment managers;

  - drafting part of the workstream's response to an FCA discussion paper on "Finance for Positive Sustainable Change", which considered challenges to improve stewardship practices and accountability of investment managers; and
  - contributing to discussion and agreement on actions on topics such as raising the transparency around eligible votes and stock lending.
- the ESG metrics working group of the Standardise workstream by Drew Henley-Lock. This group was tasked with reviewing the ICSWG's standard list of ESG metrics, which should help industry efficiency by standardising consultant requests to managers, as well as driving availability of key metrics. He provided input to ensure that the most relevant metrics for our clients were captured, including advocating for the inclusion of alignment maturity metrics[5].
- the TCFD metrics working group of the Standardise workstream, which was led by Ian Gamon. The group reviewed and proposed industry guidance on the interpretation of the Additional Climate Change Metrics set out in the DWP's 2022 statutory guidance on TCFD reporting. This work took input from investment managers with market-leading practice in RI, the ICSWG member firms and TPR. Final guidance from this process is due to be approved by the ICSWG members after the reporting year end, with a view to publication for wider industry application thereafter.

In addition, Claire Jones represented the ICSWG on the FCA Vote Reporting Group and co-ordinated the ICSWG's response to its mid-2023 consultation. This was a group convened to develop proposals for a voluntary, standardised and comprehensive template for reporting on voting. She contributed to the Group's discussions by providing a consultant's perspective, with a focus on the needs of smaller asset owners who were not represented on the Group.

Other RI initiatives

Sapna Patel contributed to the Taskforce on Social Factors (TSF), sitting on the modern slavery workstream and contributing to guidance to UK-based pension trustees on addressing social factors in their investments. The final TSF guide was released in March 2024, following a consultation in the second half of 2023.

We are a member of NZICI (see section 8 for more details) and Ian Gamon belongs to the steering committee.

Claire Jones provided input to the Principle for Responsible Investment's (PRI) two UK pensions policy papers and the UK Sustainable Investment and Finance Association's (UKSIF's) Financing the Future reports which set out its policy recommendations for the 2024 UK election.

Other investment-related initiatives

During the year, Steven Taylor, a partner in our Pensions Actuarial department, chaired the Association of Consulting Actuaries (ACA). In this role he participated in industry initiatives led by the ACA and the International Association of Actuaries. This included contributing to the ACA's evidence to the Work and Pensions Select Committee on pension trustees' fiduciary duties surrounding climate risk and leading an industry event on how the current law in this area is being interpreted and might evolve.

Since October 2023, Laura Myers, our Head of DC, has been on the Board of the Pensions and Lifetime Savings Association (PLSA), an organisation that represents pension schemes with the aim of improving retirement incomes of savers in the UK. Prior to that she was on the PLSA's Policy Board which guides and decides on the PLSA's public policy positions.

[5]. Alignment maturity metrics categorise individual assets according to their progress towards alignment with a net zero pathway. For example, the Paris aligned investment initiative has developed methodologies that investors can use to categorise their holdings as: not aligning; committed to aligning; aligning to a net zero pathway; aligned to a net zero pathway; or achieving net zero.

Tim Box from our Pensions Research team holds the Chair position of the Pensions Management Institute's (PMI) Policy and Public Affairs Committee.

Stephen Budge, a partner in our DC team is on:

- the Defined Contribution Investment Forum (DCIF) Advisory Group, providing input into the direction of research and events from the perspective of a consultant; and
- the Productive Finance Working Group, supporting its response to the recommendation from regulators to shift the focus from minimising charges to creating long-term value for DC pension scheme members. He also co-chaired the performance fee sub-group and was a member of the consultant sub-group.

Zuhair Mohammed, our Head of Investment, is one of the founding members and a regular attendee of the 300 Group, a gathering of leading global investment professionals whose mission is to raise awareness of the potential impact of investment market herding. It aims to shine a spotlight on some of the most irrational and dangerous market behaviours to protect asset owners and their beneficiaries.

Ian Gamon has contributed to the Charity Investment Governance Principles, through attending a focus group and providing high level feedback on an initial draft. The consultation process on these draft principles started after the reporting period.

Encouraging others to address systemic risks

In order to address systemic risks, we have taken actions ourselves, but the industry as a whole needs to address these risks. This belief has prompted us to emphasise the importance of systemic stewardship and encourage others to do more.

- We have undertaken research on LDI managers' policy advocacy in relation to climate change and are encouraging them to improve their practices in this area (see Box 9.2 for more details).
- Our 2023 research of bulk annuity insurers' responsible investment approaches included an assessment of their approach to policy advocacy and how they address systemic risks (see section 4 for more details).
- We have set stewardship expectations for investment managers that specifically include systemic stewardship (see section 7 for more information).
- We have updated our net zero expectations for investment managers (see section 8 for more details). These highlight the importance of advocating for system-level changes that increase the chances of reaching net zero global emissions no later than 2050.
- In our 2024 RI manager survey, issued after the year end, we have asked managers to provide information on their approach to stewardship, including for systemic risks, and have specifically asked about managers' approach to policy advocacy.
- Within manager research we also consider systemic risks. Our current RI grading framework (see section 6) includes indicators relating to managers' understanding of systemic risks and their engagement with policymakers and regulators.
- We are asking clients to support our five climate policy asks (see Box 9.1).

Raising the profile of systemic issues

Over the year, we have been vocal about importance of addressing systemic risks, in particular climate change. This includes our consultation responses to regulators and policy makers as well as direct conversations with them, as outlined above. We also think it is important to be vocal publicly, to raise awareness of the issues, advocate for change and to encourage others to also contribute to a well-functioning financial system by addressing systemic risks.

We have therefore taken part in discussions and published blogs on addressing climate risk. Our related blogs include:

- our CEO's blog on addressing climate change as a systemic risk (see section 1 for more details);
- a blog on the importance of addressing systemic climate risk for buy-in policies; and
- a blog on the importance of addressing climate change by prioritising real world action over reporting and ideas for how that could be achieved.

Our CEO spoke about the need to reinterpret pension trustees' fiduciary duty at a number of events, including LCP's annual pensions conference, a Legal & General event and a Mallowstreet event. Our Head of Responsible Investment spoke at a SG Pensions Enterprise event on the same topic.

BOX 9.1: OUR CLIMATE POLICY ASKS

Climate change is a systemic risk, affecting the whole economy and potentially undermining financial market stability. Investors, including our clients, can't diversify away the risk, so it requires systemic action.

We have created a set of policy asks related to addressing climate risk, which we are using to guide our discussions with policy makers and regulators, to consistently focus on what we believe are the most important changes for our clients and their beneficiaries.

1. Climate regulations for investors should aim for **real-world impact**, not (just) disclosure
2. It should be **easier** for DB and DC pension schemes **to invest in climate solutions** (including growth and/or illiquid assets)
3. Climate **action needs to match the scale of the risk**, removing the current disconnect between the levels of policy ambition and implementation
4. Governments should set **clear, credible, consistent net zero plans**, which are nature-friendly and socially just, so investors can invest in the net zero transition with confidence
5. Pension trustees' **fiduciary duty should be reinterpreted** to have a longer time horizon and include macro (impact) as well as micro (risk) considerations

We are asking clients to support these policy asks. This provides them with an option to support policy advocacy in a light touch but collectively powerful way that complements their existing stewardship activity. Ahead of launching these policy asks to clients, we sought views and feedback from some professional trustees, which informed the FAQs we produced alongside the asks themselves.

We have since launched our policy asks publicly and written to two ministers in the recently elected government about the asks related to their role. You can read more about our asks here.

BOX 9.2: OUR DEEP DIVE ON POLICY ADVOCACY BY LDI INVESTMENT MANAGERS

Pension schemes are the most important category of lenders to the UK government apart from the Bank of England, and as a result have significant potential to influence the government. As such, pension funds have a vital role in holding the UK government to account on systemic risks such as climate change.

Since the majority of DB pension schemes hold their gilts through Liability Driven Investment (LDI) portfolios, we conducted a deep dive into the climate policy advocacy of five key LDI managers in the UK. Based on our discussions with them during Q4 2023 and Q1 2024, we developed a set of best practice principles for UK climate policy advocacy to guide our expectations of LDI managers in this area.

Since the year end, we have assessed the five managers against our principles and shared the findings with clients. We also provided feedback to the managers, setting out some areas where we would like to see improvements over the next year. You can read more about the project here.

SECTION 10: EVALUATION OF OUR STEWARDSHIP

Acting in our clients' best interests

We believe we are effective in serving the best interests of our clients.

It is difficult to measure this directly. However, for the reasons stated elsewhere, we believe that our status as an independent firm means that we are naturally aligned with our clients' best interests and that this contributes to the longevity of our client relationships. Many of our clients have been with us for decades and we continue to win new appointments both in our longstanding areas of business (a notable achievement in what is a structurally declining market) as well as clients in other areas of work (eg health analytics).

Our business growth has been generally very strong for many years, both in absolute terms and relative to our peers, so we think that points to clients believing that we deliver a high-quality service focussed on their best interests and delivering on their needs.

We are very keen to receive informal feedback from our clients on an ongoing basis. Our client teams seek regular feedback from their clients about whether we are delivering what they want, including in relation to RI. In addition, the detailed and high frequency comment that comes via client meetings and informal conversations is invaluable in establishing what works and what doesn't work and in fine-tuning things to make them more effective.

We also seek feedback from clients formally through an ongoing client care programme and a triennial client survey (see section 3), both of which continue to show high client satisfaction. We also receive feedback on our investment consulting services to pension trustees through their annual review of our performance against the "CMA" objectives they have set for us (see section 4).

While not a direct measure of serving our clients' best interests, we believe that our success in winning many industry awards – in investment and beyond – in recent years, is indicative of delivering what clients need and value. A list of awards we have won is available on our website .

Internal oversight

We take conflicts of interests very seriously and have a Conflicts and Ethics Committee which sets our policies in this area and whose members are available to discuss with individuals any particular issues they may have.

Other professional committees and our Compliance team oversee and review the work we deliver to clients on a regular basis, for example through regular ongoing file reviews or a focussed review, perhaps in respect of a new area of business (see below).

We've provided our Conflicts of Interest Policy, and examples of how we identify and manage potential conflicts of interest, in Appendix 1. This is available to interested clients as a standalone document, so they can understand how we address these issues.

Based upon the schedule of consultations conducted with our Conflicts and Ethics Committee members over the reporting year, there were no specific conflicts reported in relation to investment consultancy advice or services during this period.

External oversight

We are licenced by the IFoA for a range of investment business activities. We are also authorised and regulated by the Financial Conduct Authority (FCA) for some insurance distribution activities (non-investment contracts of insurance). In our last external compliance visit conducted by the IFoA (which assesses our compliance with its Designated Professional Body handbook) the IFoA marked us very highly. This visit was conducted on its behalf by the Institute of Chartered Accountants in England and Wales (ICAEW) in March 2024.

In addition, we were granted the Quality Assurance Scheme (QAS) accreditation by the IFoA in April 2016, as one of the initial group of actuarial firms to be accredited under the Scheme. Subject to ongoing engagement and monitoring by the QAS team, accreditation is awarded for six years. We were formally re-accredited for another six years in October 2022 by ICAEW on behalf of the IFoA. We are subject to regular reviews to ensure that we continue to meet the required standards as set out in Actuarial Profession Standard QA1: Quality Assurance Scheme for Organisations.

We would also note that for a firm of our size, we have historically had very few complaints about our work.

Effectiveness of our methods for communicating with clients and understanding their needs

We think the best way to make sure we understand client needs is to use a range of ways to communicate with them and offer a similarly flexible set of options for sharing their views and thoughts with us.

We have outlined our approach to communication with our investment clients in section 4, with more detail on RI communication materials in section 5. We have summarised our approach to client feedback earlier in this section.

Inevitably it is hard to assess our effectiveness in this area directly, but we seek to do it by various means:

- Seeking views from a broad range of parties and clients as described above, identifying where there are consistent comments or themes which would suggest changes are needed;
- Sharing feedback internally through a range of different groups and meetings, comparing and contrasting the reaction of clients to reports / materials we have produced – these meetings might be amongst partners, within teams – eg equity or RI research, or between individuals who have an interest in a particular topic and who want to explore it further; and
- Looking at what is happening in the wider industry – whether that's what managers are saying, what regulators and legislators are proposing, or what our competitors are saying and doing.

We believe the effectiveness of what we do is reflected in:

- The strength and profitability of our existing business;
- The long-term relationships we have built with many clients;
- Our success in attracting new clients; and
- The industry-wide recognition we have received for our work, for example through the awards that we have won, in both investment and wider fields.

Review and assurance of our policies, processes and activities

As noted in section 3, LCP's Risk Committee (RiskCo) addresses firmwide risks and works with our various professional subcommittees (ProfCos) in overseeing the professional activities of the firm.

Review by RiskCo

RiskCo reviews the effectiveness of the firm's policies, processes and activities in a range of ways, including:

- RiskCo has a programme of "Meet the Department" meetings where it meets with senior individuals from different parts of the firm to discuss their current activities and concerns. These meetings have proved useful to identify risks such as key person risks and where more structured involvement of specialists in a particular area would be beneficial.
- Individual members of RiskCo sit on the various ProfCos. There is a standing agenda item at RiskCo meetings to report back on any significant issues or those with wider applicability. For example, one topic discussed during the year was a review of quality control processes for client advice, to ensure continued high standards and awareness of the requirement for good evidencing of work, especially in an increasingly virtual world.

- RiskCo individuals provide training on “stepping up to a senior role” for senior hires and those promoted to partner or principal. These are discussion-based sessions where attendees are encouraged to discuss their experiences and questions openly. Sometimes the discussions point to areas for improvement, such as better information flows between people working in different parts of the firm, which are picked up through a standing RiskCo agenda item.

RiskCo receives progress updates on key items it has discussed previously, to ensure these are being addressed satisfactorily. During the reporting year, this included:

- Changes made to LCP’s asset transfer processes in the previous year to improve the efficiency with which transfers are carried out; and
- Improvements made to processes for developing new business opportunities with investors other than UK pension schemes, to streamline the speed and effectiveness with which opportunities are assessed and addressed.

RiskCo works closely with the LCP partner who oversees the annual renewal process for LCP’s professional indemnity insurance. Through that process, we gain insights into market developments, such as new areas of concern to the insurers due to recent claims from firms like ours. This prompts discussion of key areas of risk for LCP and how our mitigation measures can be further strengthened. The insights from the latest renewal process were shared with partners and principals at a quarterly management meeting in January 2024.

Amendments to TAS 100

One topic that was discussed multiple times during the year, by RiskCo and relevant ProfCos, was the amendments to the Technical Actuarial Standard “TAS 100: General Actuarial Standards” which took effect on 1 July 2023. This included the greater use of Microsoft OneNote to record all the important workings and documentation relating to a particular piece of work in one place.

Support and training occurred throughout the year to assist client teams in using OneNote, including sharing of experiences within and between departments.

In addition to the central guidance, checklist and training for all work within the scope of TAS 100, some materials were produced for specific areas of work. These included a streamlined checklist for investment work in scope and a partly populated checklist for climate scenario advice, to help client teams adopt an effective and proportionate approach. In the case of annual reviews of whether to update climate scenario analysis, as required under the TCFD requirements for large pension schemes, this proved to be a valuable way of identifying relevant aspects for client teams to consider when providing the advice, including whether the limitations of the previous analysis needed further communication.

Review by local ProfCos

LCP has six professional subcommittees responsible for overseeing the professional activities of different parts of our business. The two most relevant for stewardship are Investment ProfCo and DC ProfCo.

Investment ProfCo meets regularly to identify the need for and then create, maintain and review our internal guidance on the professional and technical matters specific to our work. Reflecting the importance we place on this topic, we have five partners on this committee, including Zuhair Mohammed, Head of LCP’s investment department.

- Secondary market transactions – this type of work is becoming more common as some DB pension schemes – following an improvement in funding position due to the recent rise in bond yields – seek to sell their illiquid assets, for example to enable them to purchase a bulk annuity. Guidance was introduced to support best practice advice in this area.
- Client-directed fund reviews – some clients may ask us for a view on an investment product that they have proposed (rather than one we have recommended). These are typically light-touch reviews. The new guidance ensures the nature of our opinion is communicated clearly to clients, so that it is not misinterpreted as a full review, either when first provided or by a future set of individuals at the client.

DC ProfCo has an equivalent role in overseeing the professional standards of LCP's DC advice, including the investment and stewardship aspects of that advice. There are four partners on DC ProfCo, including one who is a member of RiskCo and another who is a member of Investment ProfCo, to help share experience between different parts of the firm.

DC ProfCo formally reviews all DC-related checklists approximately once a year, including those relating to Chair's statements and asset transfers. As part of these central reviews, DC ProfCo considers how these types of work are carried out in practice and whether there are any issues based on past experience that can be addressed by, for example, adding a point to the checklist.

DC ProfCo may also amend the department's policies and processes mid-year if it identifies the need for changes. For example, during the year, the process for signing-off investment-related member communications was formalised, including clarification of who should review such communications.

Review of financial assumptions

LCP's Financial Assumptions Committee is responsible for setting the main financial market assumptions used in our investment and funding strategy modelling. Its quarterly meetings include discussions of:

- The market environment and implications for our assumptions;
- Our Equity Risk Premium assumption; and
- Latest views on our assumptions for inflation, inflation volatility, the gap between RPI and CPI, and caps and collars on pension increases.

Some amendments were made to the assumptions as a result of the discussions during the year. This included a larger reduction for climate change in our Equity Risk Premium assumption, following a review in December 2023 of information from climate scenario modelling provided by Ortec Finance.

Our Asset Class Assumptions Group (ACAG) meets at least quarterly to review the more detailed assumptions used in our investment and funding strategy modelling, including the expected returns and volatility of returns for each asset class and the correlations between them. When the Financial Assumptions Committee changes our headline assumptions, ACAG then adjusts the other assumptions consistently with these changes.

Review of responsible investment activities

Informal review of the effectiveness of our RI work is ongoing and takes place through meetings of RI Central (see section 5) which are typically weekly. This has led, directly or indirectly, to many of the evolutions of our RI approach described elsewhere in this report. In October 2023, our Head of RI Delivery and Head of RI undertook a more formal review which resulted in the streamlining of our RI workstreams, as described in section 5.

During the year, our Head of RI met with the partners who lead our advice to approximately 20 large pension scheme clients to discuss what further steps the schemes could take to improve their management of climate-related risks and opportunities. The aim of these meetings was to encourage greater focus on impactful actions, now that climate governance and risk management processes are well established. They also provided insights into the progress that clients have made on their climate journey and the effectiveness of the materials and tools available to support advice in this area.

Internal assurance

As noted in section 4, all materials we develop for clients are subject to a “do, check, review” process, making sure that fresh eyes and additional perspectives critique the advice. This approach has been central to our advice for decades and is reinforced through our culture and processes.

As part of its monitoring programme, our Compliance team reviews a selection of reports, presentations and advice provided to clients to verify compliance with appropriate processes. If some aspect of a process is found not to have been fully followed, this is raised with the client team and the senior individual responsible for the advice and, where appropriate, corrective action taken. The Compliance team also undertakes a programme of focussed and core reviews which are selected on a risk-based approach. Results from file reviews – and further file reviews – may feed into this process. If findings suggest that a focused review of a particular process would be beneficial, this is discussed with the relevant ProfCo.

Our Compliance team works collaboratively with the Investment department, Investment ProfCo and DC ProfCo on strategic initiatives – an example during the year being its analysis of secondary markets and illiquid assets activity. This will be the subject of a post-implementation review in the coming year which will focus on procedures, controls and client advice.

Some of our activities are subject to additional reviews, of varying degrees of formality. For instance, section 6 outlines a review of a sample of manager research views to test the implementation of our RI grading framework. As another example, senior members of our climate-related metrics team undertook an extra review of some of the metrics advice being given for TCFD purposes. These additional reviews were introduced due to the unfamiliar and complex nature of the topic and hence the greater potential for errors.

During the year, we launched a new manager research database and changed the structure of how we store data and our views on manager products. The new structure provides greater assurance of the consistency of rating between products offered by the same manager by grouping similar products as "strategies" and providing assessments at strategy level. To mitigate the risk of errors during the transition to the new database and data structure, each product entry was subject to audit by the research team. The product’s rating is only visible to clients through Monitor once the product has been marked as audited.

External assurance

We receive external assurance that covers a range of client services, including those relating to stewardship, through our Designated Professional Body compliance visit and QAS reviews (see above).

We have not sought external assurance specifically in relation to activities that support our clients’ stewardship. Most of these activities are integrated into our client advice and manager research, and so are naturally covered by our general assurance processes.

Effectiveness of our governance structures and processes

Overall, we believe our governance structures and processes are effective in supporting our clients' stewardship. However, we continue to evolve and improve our approach.

As outlined in section 3, LCP is a growing firm which is also diversifying and expanding the scope and geographic reach of our services. So, we recognise that our governance structures and processes will have to evolve to reflect these changes: approaches that worked well for us as a smaller firm may become less effective. For example, during the year, we identified that it could be beneficial to adopt a more centralised approach to identification of systemic risks, to make sure we fully leverage the expertise across different parts of our business in addressing these, and ensure those insights are shared widely. This approach is being developed during the year commencing 1 April 2024. Since the reporting year-end, we have also agreed to adopt a firmwide approach to LCP's public commentary on public policy matters, to provide an effective and consistent approach across the firm and help us navigate reputational risks. However, in most areas, we believe that our current governance approach works well.

Our clients have seen significant volatility across markets in recent years and such volatility demands an ever-increasing focus on market fundamentals. In response, we have invited an increasing number of leading market participants to investment department training sessions to discuss their market insights and engaged in conversation about their approach to contingency planning for the asset groups they manage.

We have also increased our focus on standardisation of investment advice processes with the introduction of an operations team to assist client teams in routine tasks.

Responsible investment is a rapidly developing area, and our approach is changing to reflect this, in terms of how we advise clients, research investment products and manage work internally. Section 5 outlines various changes we have made to our RI governance during the year, including our RI leadership team and workstreams. This has brought improvements such as a clearer focus on a smaller number of more impactful projects and greater buy-in from colleagues. Initiatives such as the systemic climate risk illustration in Visualise (see section 8) and the LCP climate policy asks (see Box 9.1) have been effective in building client engagement with, and understanding of, climate change as well as the need for systemic change to protect their assets and deliver better outcomes for their beneficiaries.

There is always room for further improvement in colleague and client buy-in, for example in relation to oversight of managers' voting and engagement, to further increase the integration of our stewardship and investment services. Our new stewardship tool, launched near the end of the year (see section 7), has the potential to generate high quality discussions in client meetings. One of our priorities for the year commencing 1 April 2024 is to increase take-up of the tool. We are also developing a clearer articulation of our manager stewardship services and exploring how we could engage with managers on our clients' behalf in a more centralised way.

We refreshed our RI strategy during the second quarter of 2024, with input from our CEO, following a meeting of senior members of the RI team in late March to take stock of progress and discuss how our clients' needs might change over the next few years. The most significant change to our strategy was a decision to identify the clients that are most engaged with RI or best placed to take impactful actions and seek to support them in increasing the breadth and depth of their RI activities. In doing so, we aim to increase colleague and client buy-in, not only with those clients, but also with other clients through spillover effects. In addition, we agreed a set of Key Performance Indicators to help monitor our progress in delivering our RI strategy and hold the RI team to account for doing so.

Our Heads of RI and RI Delivery attended the June 2023 meeting of LCP's ExCo to provide an update on our responsible investment work. Their presentation covered the RI team's successes and challenges over the previous year, as well as a request for ExCo's help in four areas to improve the effectiveness of our RI approach. When the Heads attended the June 2024 ExCo meeting, they provided an assessment of progress on these four areas as follows:

- Visible support for RI from the top – strong progress, for example this request had directly led to our CEO's attendance at the climate training where he had his lightbulb moment (see section 1).
- RI resourcing strategy – some progress, including the addition of Simon Coomber to the RI leadership team (see section 5). We continue to seek further experienced resource for the team.
- Continued investment in RI technology – strong progress, for example the development of the climate dashboard in Monitor (see section 8).
- More value placed on research work – further work needed to encourage individuals to give appropriate priority to RI research and development work that will lead to later impactful work with clients.

SECTION 11: CONCLUSION AND NEXT STEPS

Responsible Investment continues to be an important focus for LCP and is a growing part of our business. Consideration of ESG factors, particularly climate change and net zero alignment, is integrated into our investment consulting services and the research that underpins them.

Like the rest of the investment industry, we are on a journey. We remain agile and evolve our approach in light of experience, market developments, and changing client needs and preferences. We expect to make further changes and explore various activities during the year commencing 1 April 2024, including:

- Focusing on approximately 40+ “priority” clients with the greatest potential and appetite to take impactful RI actions, using this to drive improved take-up of RI tools and starter advice materials throughout the investment department (see section 10).
- Developing LCP Transform further and engaging with asset owners directly to channel investment into the energy transition (see Box 6).
- Completing our 2024 survey of investment managers’ RI practices and incorporating the results in an updated version of our RI grading framework for investment products (see section 6).
- Following up our deep dives into key managers’ stewardship (see Boxes 7.1, 7.2 and 9.2) to track progress on the “asks” we provided in our feedback.
- Refreshing our research of bulk annuity insurers’ RI practices, including assessing their progress on areas of weakness identified during our 2023 research (see Box 5).
- Introducing a more centralised approach to identification of systemic risks (see section 10).
- Adopting a firmwide approach to LCP’s public commentary on public policy matters (see section 10).
- Increasing our thought leadership around the importance of systemic stewardship (see section 9).
- Using our climate policy asks in our engagement with policy makers and regulators and seeking further support for them from asset owners (see Box 9.1).

APPENDIX 1 – CONFLICTS OF INTEREST

Our Conflicts of Interest Policy

We take conflicts of interest very seriously and have a Conflicts and Ethics Committee comprising senior partners that sets policy in this area and provides advice to anyone faced with a potential conflict. Our Conflicts of Interest Policy sets out the principles of how we prevent, manage and disclose to clients any conflict of interest that may potentially arise.

From time to time, we face conflicts of interest in the course of our business. These could be actual conflicts, potential conflicts or perceived conflicts of interest. Our Conflicts of Interest Policy requires us all to identify and manage these conflicts. LCP takes all reasonable steps to prevent conflicts of interest from adversely affecting the interests of our clients.

The Policy applies to all individuals at LCP and all individuals are required to act in accordance with the framework set out here and any other more detailed guidance that is specific to a given situation.

The identification and management of conflicts (whether actual, potential or perceived) is critical to running our business. Clearly, at the very least, conflicts of interest which are not appropriately managed risk harming our reputation as trusted advisers.

Background

A conflict may exist where the interests of LCP, or of individuals working at LCP, and/or of clients are not aligned, with the risk that this could harm the interests of affected clients.

There are a number of possible types of conflict that are covered by this Policy:

- **Client / LCP** – a conflict between LCP's interests and those of one or more clients;
- **Client / client** – a conflict between the interests of two (or more) clients;
- **Client / individual at LCP** – a conflict between the interests of an individual at LCP and those of one or more clients.

Our aim is to manage conflicts of interest so that our clients' interests are not harmed. This may mean withdrawing from working for a client – in whole, or for a particular project or piece of advice – and this can apply for an individual or for LCP as a firm.

Details of the procedures our colleagues need to follow should they become aware of any potential conflicts of interest are described in our internal document "Departmental Conflicts of Interest Policy Protocol" which is available to everyone via our intranet.

Examples of potential conflicts of interest

Certain common scenarios in which conflicts of interest might arise are summarised below.

- Entertainments and gifts have the potential – and may be perceived – to create conflicts of interest. We have procedures in place to manage this. All entertainment must be approved prior to being accepted. Gifts may only be accepted in accordance with LCP's procedures so that monitoring can be done at both an individual and firm- evel. (Our intranet LCP Connect provides further details for colleagues.)
- Personal Account dealing (ie buying shares and certain other types of investments) may lead to an actual or perceived conflict of interest between an individual at LCP and a client. Colleagues are required to seek pre-clearance authorisation before transacting in specified securities and are required to disclose holdings of relevant financial assets on request. (Our intranet LCP Connect provides further details.)
- Taking on a new client has the potential to generate conflicts of interest. We have procedures in place to identify potential conflicts arising when taking on new business. Where we identify a potential conflict, we may decline to accept the business, or we may manage the potential conflict to prevent damage to existing and new clients' interests, where that is possible.
- A potential or a perceived conflict of interest may arise where LCP works for two different clients who have a business relationship with one another (for example the trustees of a pension scheme and its sponsoring employer). In such circumstances, we will agree a Conflict Management Plan with the parties, to manage the potential conflict and to manage the disclosure of confidential information in an appropriate manner.
- A conflict may arise between the interests of two clients, where there is an increased risk for us to act in the interests of one client over another due to our commercial interests. Where, for example, we advise a client who is also a supplier of services that we may be researching or recommending to otherclients – such as advising an investment management business. In these circumstances, we may decline to act for the "supplier" client or put in place procedures to separate duties and implement reviews to remove the risk of this potential conflict affecting clients' interests.

Management

When a conflict is identified, we take all reasonable steps to prevent it from affecting our client's interests.

We believe that the most important point is, if a colleague thinks there's a problem, they talk to someone. Our culture is open and collaborative, and we encourage people to speak up.

It is ultimately the responsibility of the relevant partner or other senior professional to ensure that any conflict is satisfactorily resolved.

In managing conflicts of interest, colleagues must follow clearly laid out procedures as described in our internal Departmental Conflicts of Interest Policy Protocol, details of which are included below.

Identification

We need to be alert to actual, potential and perceived conflicts of interest, and from time to time colleagues receive training on how conflicts of interest might arise, for example, as part of their professional development.

While we have described some possible situations in which conflicts may arise, there are many possible scenarios that could give rise to a conflict, and it is not possible to list them all.

Process

If a colleague identifies a potential conflict, then they will first raise it with the client partner or departmental head, as appropriate, for guidance on how to manage the situation.

Having met, the colleague will agree that either they or the client partner/departmental head will produce a note of the meeting which should include:

- A description of the potential conflict of interest;
- The decision agreed between them as to whether this is an actual conflict of interest or what further work is needed to establish if this is the case; and
- If it is agreed (immediately or following further investigation) that there is an actual conflict of interest, then what action is to be taken, by whom and by when in order to address it.

The note is agreed between the individual and the client partner or head of department as appropriate.

If appropriate, a time should be set to meet to consider whether the agreed action(s) has/ have addressed the conflict of interest or to agree what further action is necessary. It is the responsibility of the client partner or head of department to ensure that the conflict of interest is resolved.

Escalation

If the nature of the conflict is such that a colleague feels that they want to raise the issue with someone other than the client partner or departmental head, or if having raised it, they don't think the conflict of interest is being managed adequately, then they should escalate the issue.

There are various options available to an individual for escalating an issue, such as through their department's ProfCo, LCP RiskCo, Legal & Compliance, or via our Conflicts and Ethics Committee. These alternative approaches are laid out in our Departmental Conflicts of Interest Policy Protocol and follow the approach described under "Process" above.

Transparent reporting

In some areas of our business, when an issue arises, there is rightly the option to report the matter anonymously. However, matters relating to conflicts of interest must be reported transparently. By their nature, conflicts of interest are client-specific so can only be addressed when information about the conflict is provided and the issue openly discussed. Not to do so risks harm to our client and we have a professional as well as a moral obligation to act in their best interests.

Disclosure

Disclosure of a conflict *as a means of managing a conflict* may only be used in exceptional circumstances when steps to prevent or manage the conflict are not sufficient to prevent it from adversely affecting a client's interests.

Disclosures will be clear, appropriately detailed and sufficiently prominent, in order to allow the client to make an informed decision on whether to use, or continue to use, our services for the work in question.

It should be noted though that in some situations, for example where the conflict is between the interests of two clients, we may not be able to provide full details due to contractual or legal client confidentiality.

Where we have managed the situation – without resorting to using disclosure as a means of managing it – we can, and often will, voluntarily disclose information about a potential or a perceived conflict and how we have managed it so as not to become an actual conflict of interest.

We identify and manage conflicts of interest

LCP does not manage money and we do not receive commission for recommending any funds to our clients. In that way we remain independent and best placed to assess managers and make recommendations in the best interests of our clients.

We institute a number of controls to manage any potential conflict when providing recommendations and advice on investment management services.

We believe that we prevent or adequately manage any conflicts of interest through the use of this, our Conflicts of Interest Policy, and the supporting Departmental Conflicts of Interest Policy Protocol. We would note that:

- We do work for some pension scheme trustees whose sponsor, or related group companies, offers investment management services;
- We do not receive any remuneration or financial benefit from managers for putting investment managers' funds forward to clients; and
- Where we work for companies offering investment management services to our clients – such as commercial pension scheme aggregators or DC master trusts – we put in place a separation of teams and responsibilities to manage the potential conflict.

Please see the following pages for more details.

Onboarding new clients

Prior to onboarding new clients, we check for potential conflicts of interest before accepting a new engagement, and do not accept engagements unless we and the clients concerned are confident that any potential conflicts can be managed appropriately. The conflict checking process is governed by a statement of the required procedures for all of our people. No appointment can be accepted until these procedures have been carried out. There are separate procedures for non-confidential and confidential engagements.

The procedures supplement the Actuaries' Code requirements to disclose in writing to clients any steps taken, or proposed to be taken, to reconcile any actual or reasonably foreseeable conflict of interest; and to not act where there is a conflict of interest that has not been reconciled. We also carry out regular awareness training on professionalism and ethics issues that includes practical discussions of managing conflict situations and identifying problematic situations in advance.

As conflicts are a complex area and each situation is different, the Conflicts and Ethics Committee is readily available to provide practical advice on any issues that may arise.

Examples of how we manage conflicts of interest

We have provided below five examples of how we manage common types of conflict of interest.

1.Potential conflict of interest from advising on the pension schemes of investment managers

LCP has some appointments to provide advice to trustees and/or company sponsors in relation to pension schemes sponsored by an investment management company. This could lead to a potential conflict with other clients to whom LCP provides recommendations on investment management services provided by that company. We manage this conflict and the perception that there may be a conflict through the following steps:

- Formal research meetings are attended by at least two individuals from LCP;
- Partners and staff who give advice in relation to an investment manager's pension scheme do not attend formal research meetings for that manager's products (an exception may be made to this if the research findings are solely for the use of the relevant client and no other clients are invested in the relevant product or with express permission of Investment ProfCo);
- Proposed research ratings and changes to those ratings are discussed by members of the relevant specialist research group, excluding any individuals who advise the pension scheme of the investment manager; and
- When we provide investment manager selection advice to other clients, our report includes commentary noting that we may have a business relationship with one or more of the managers shortlisted.

2. Advising clients in relation to investment governance models, including fiduciary management

LCP provides advice to both trustees and company sponsors regarding suitable and appropriate governance models for investing their pension scheme assets.

LCP offers investment advisory services and does not offer a fiduciary management service (ie a bundled service combining investment advice and fund management services).

For any LCP clients that choose to operate a fiduciary management governance model, the quantum of investment advice and support required from LCP may be lower (and to some extent that should be expected, given the overlap in advisory services).

This could lead to a potential conflict with clients to whom LCP provides recommendations on investment governance models. We manage this conflict and the perception that there may be a conflict through the following steps:

- LCP is not financially incentivised to recommend one investment management product over any other. We offer no fund management products ourselves;
- Our manager research function covers the whole market as far as is practical to do so. Asset management products offered by fiduciary managers are evaluated both relative to each other, and relative to comparable products offered by asset managers without a fiduciary function;
- Significant advice in this area is peer reviewed by an investment partner who is independent of the team usually responsible for servicing the client;
- Advice in this area is expected to clearly set out the advantages and disadvantages of different governance models, tailored to each client's specific circumstances and requirements. This advice would typically include a breakdown of future anticipated advisory and fund management costs in different scenarios, using reasonable and well-informed comparisons; and
- Where the conflict could have a financially material impact for LCP, our written advice will include a comment notifying the client that certain decisions in relation to the client's chosen investment governance model may impact the quantum of work required (and hence associated future potential fee revenue) from LCP.

3. Advising trustees of DC Master Trusts – potential conflict between two clients' interests

LCP provides advice to clients on the selection of a DC master trust.

We also work for the trustees of DC master trusts, advising them on the suitability of their master trust's investment strategy and reviewing investment management arrangements, as part of their proposition to the market.

There is a potential conflict of interest in accepting work from both of these client types. We manage this conflict through a protocol which includes the following steps:

- We have separation of responsibilities for these roles;
- Any individual involved in researching master trust providers is not permitted to advise trustees of master trusts on their investment management arrangements; and
- To mitigate any perception of a conflict, we will also declare to a client to whom we are providing master trust selection advice that LCP advises the trustees of certain master trusts.

4. Advising DB pension scheme consolidators – potential conflicts

LCP provides services to the DB pension scheme consolidator market.

We also provide services to DB pension scheme clients on the suitability of transferring to a consolidator and, where appropriate, which consolidator vehicle to select.

We have a protocol in place to manage this conflict through a separation of duties. For each consolidator, there is a named list of the LCP individuals on the advisory teams and these individuals are not allowed to advise any other consolidator or any clients on the selection of a consolidation vehicle.

5. Advising investment managers on the design, management or marketing of their investment management services or products

We recognise that offering paid services to investment managers, in their capacity as investment managers (eg advising them on how to market their funds), could create a conflict of interest. We therefore manage this conflict through a separation of duties and of supervision of individuals advising these clients.

For example, our energy analytics team, LCP Delta, has provided managers with market views, growth forecasts, etc for different markets, as well as help with conducting due diligence on specific assets. No one in our investment team – who may advise a client on the use of such a fund where our input may have contributed to its design – was or would be involved in such advice.

Furthermore, since we do not receive any fees from clients' investments in funds to which we have provided advice, we have no incentive / interest in seeing money – client or otherwise – placed in these funds.

APPENDIX 2 – WHERE THE UK STEWARDSHIP CODE PRINCIPLES ARE COVERED IN THE REPORT

Principle 1: Signatories' purpose, strategy and culture enable them to promote effective stewardship		
Reporting Expectations		**Page numbers**
Context	Signatories should explain the purpose of the organisation, what services it offers, and an outline of its culture, values, business model and strategy.	4-5, 8-14, 17, 27
Activity	Signatories should explain what actions they have taken to ensure their strategy and culture enable them to promote effective stewardship.	10-12, 15-16
Outcome	Signatories should disclose an assessment of how effective they have been in serving the best interests of clients	54-55

Principle 2: Signatories' governance, workforce, resources and incentives enable them to promote effective stewardship

Reporting Expectations		Page numbers
Activity	Signatories should explain how:	
	• their governance structures and processes have enabled oversight and accountability for promoting effective stewardship and the rationale for their chosen approach	8, 26-27, 30
	• the quality and accuracy of their services have promoted effective stewardship	20-21, 33
	• they have appropriately resourced stewardship, including:	
	○ their chosen organisational and workforce structure(s)	8, 17-18, 26-27, 30-31
	○ their seniority, experience, qualification(s), training and diversity	12-15, 19-20, 26-27, 30-31, 44
	○ their investment in systems, processes, research and analysis	9, 20-22, 28-31, 33-36, 38, 40-41, 53
	○ how the workforce is incentivised appropriately to deliver services	18-19, 30
	• they have ensured that fees are appropriate for the services provided	24-25
Outcome	Signatories should disclose:	
	○ how effective their chosen governance structures and processes have been in supporting their clients' stewardship	59-60
	○ how they may be improved	59-60

Principle 3: Signatories identify and manage conflicts of interest and put the best interests of clients first		
Reporting Expectations		**Page numbers**
Context	Signatories should disclose their conflicts policy, which seeks to put the interests of clients first and minimises or avoids conflicts of interest when client interests diverge from each other.	62-65
Activity	Signatories should explain how they have identified and managed any instances in which conflicts have arisen as a result of client interests.	54, 66-67
Outcome	Signatories should disclose examples of how they have addressed actual or potential conflicts.	66-67

Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system		
Reporting Expectations		**Page numbers**
Activity	Signatories should explain:	
	• how they have identified and responded to market-wide and systemic risk(s) as appropriate	4, 42, 44, 46-49, 52-53
	• how they have worked with other stakeholders to promote continued improvement of the functioning of financial markets	25, 48-53
	• the role they played in any relevant industry initiatives they have participated in	43, 49-51
Outcome	Signatories should disclose the extent of their contribution and an assessment of their effectiveness in identifying and responding to systemic risks and promoting well-functioning financial markets	48-51

Principle 5: Signatories support clients' integration of stewardship and investment, taking into account, material environmental, social and governance issues, and communicating what activities they have undertaken.

Reporting Expectations		Page numbers
Context	Signatories support clients' integration of stewardship and investment, taking into account material environmental, social and governance issues, and communicating what activities they have undertaken.	7
Activity	Signatories should explain:	
	• how their services best support clients' stewardship as appropriate to the nature of service providers' business	17-18, 20-22, 26-29, 31-48, 52
	• whether they have sought clients' views and feedback and the rationale for their chosen approach	11, 16, 20, 52, 54
	• the methods and frequency of communication with clients	20-23, 27-28
Outcome	Signatories should explain:	
	• how they have taken account of clients' views and feedback in the provision of their services	16, 21, 39, 42, 52
	• the effectiveness of their chosen methods for communicating with clients and understanding their needs	55
	• how they evaluated their effectiveness	55

Principle 6: Signatories review their policies and assure their processes

Reporting Expectations		Page numbers
Activity	Signatories should explain:	
	• how they have reviewed their policies and activities to ensure they support clients' effective stewardship	32, 55-58
	• what internal or external assurance they have received in relation to activities that support their clients' stewardship (undertaken directly or on their behalf) and the rationale for their chosen approach	58
	• how they have ensured their stewardship reporting is fair, balanced and understandable	3
Outcome	Signatories should explain how the feedback from their review and assurance has led to continuous improvement of stewardship practices.	55-58

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At LCP, our experts help to power possibility by navigating you through complexity to make decisions that matter to your business and to our wider society. We are powered by our desire to solve important problems to shape a more positive future. We have market leading capabilities across pensions and financial services, insurance, energy, health and analytics.