LCP powering possibility

LCP's Stewardship Report 2022

Highlights of our stewardship and responsible investment activities

October 2022

FOREWORD

Clay Lambiotte
Head of Investment

This is our second UK Stewardship Code Report which covers our stewardship activities over the year to 31 March 2022 (the "year"). Our first report covered the 12 month period to 31 December 2020 but, with the agreement of the Financial Reporting Council ("FRC"), we have changed our reporting year to align with our partnership year.

In preparing this report we have considered the FRC's feedback on our first report as well as the general comments the FRC made in its report entitled "Effective Stewardship Reporting" dated November 2021.

This report highlights how we have supported our clients with their stewardship and responsible investment activities in the year to 31 March 2022 and implemented the principles of the UK Stewardship Code 2020 (the "Code"). In it, we also describe our engagement with investment managers and advocacy within the investment community more generally, including with regulators, to help raise standards of stewardship and responsible investment practices.

At LCP, our purpose is to support and promote solutions that deliver a more sustainable future and we know that good stewardship and responsible investment practices are consistent with achieving that. Stewardship can enhance investment performance by encouraging companies to act in the long-term interests of their shareholders and other stakeholders (eg pension schemes) and their ultimate beneficiaries (eg pension scheme members). Stewardship contributes to stable, well-functioning and well-governed economic, social and environmental systems, which is in the best interests of our clients.

LCP therefore continues to support the Code, recognising that we have considerable influence over how our clients address stewardship. The Code emphasises that asset owners – such as pension trustees, charity trustees, endowments, sovereign wealth funds, insurers and other investors – have an important role in allocating capital and overseeing the broad range of investment activities carried out on their behalf. The investment rationale is clear – laying the foundation for strong returns in five years, ten years and beyond starts with good stewardship today.

We have therefore supported, and will continue to support, our clients in applying the Code's principles, with further support for those who want to become signatories in their own right.

HIGHLIGHTS FOR THE YEAR TO 31 MARCH 2022

Responsible investment issues – comprising ESG (environmental, social and governance) factors and stewardship – are increasingly important for our clients. The post-pandemic challenges, exacerbated by the Russian invasion of Ukraine, have had a material impact on global markets. This has further raised clients' awareness of the risks of systemic issues such as high and persistent inflation, climate change, cyber risk and the danger of further pandemics, all of which demand effective stewardship of their investments.

LCP is strongly committed to supporting its clients and the wider investment community in this fast-moving area. I am therefore proud to report that over the last year LCP has acted on multiple fronts to enhance our services for clients. The highlights are summarised below with further detail provided in the main report.

- Strengthening our resources to support our clients with responsible investment by adding to our team of dedicated responsible investment specialists **(see page 21)**.
- Deepening the stewardship due diligence in our manager research, engaging with managers and pushing for improvements where necessary (particularly those non-equity managers who view stewardship as primarily relating to equities).
- Publishing our 2022 Responsible Investment (RI) survey of 146 investment managers which assessed their resources, capabilities and practices in respect of responsible investment – helping to encourage improvement and set best practice **(see box 3)**.
- Developing and updating a range of responsible investment tools **(see page 12)** including portfolio-level climate reporting and climate scenario analysis **(see box 4)**.
- Supporting and advising large pension scheme clients in meeting the requirements of the Task Force on Climate-related Financial Disclosures ("TCFD") regulations.
- Incorporating enhanced responsible investment monitoring summaries into our clients' investment performance monitoring reports.
- Playing an active role in the Net Zero Investment Consultants Initiative ("NZICI") – hosted by the United Nations Principles for Responsible Investment ("UN PRI") – and which we jointly created with eleven other investment consulting firms.
- Creating and providing free dashboards of British and European power markets via "The Current" **(see page 38)**.
- Raising the profile of RI in a range of ways – for example, through conferences, webinars (eg on stewardship and TCFD), articles and blogs.

Events of the past year - the war in Ukraine, energy security concerns, the cost of living crisis, heatwaves and drought - have underscored the importance of addressing systemic and market-wide risks to safeguard the long-term returns on which our clients and their beneficiaries depend. Stewardship has never been more important. That's why we have ramped up our efforts in this area, including committing to Net Zero. I recognise that this is just the beginning of our sustainability journey and we look forward to sharing progress with you in future reports.

Clay Lambiotte
Head of Investment

As required by the Code, this report has been reviewed and approved by LCP's Board and is signed by me as Head of Investment.

CONTENTS

OUR APPROACH TO STEWARDSHIP

Stewardship is defined by the Stewardship Code 2020 as: "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society".

LCP offers a wide range of services – actuarial, investment, financial well-being, insurance, pensions administration and governance, health analytics, energy analytics and football analytics – to a broad range of clients. Our investment clients are typically asset owners, holding investments in equities (company shares), government and corporate debt, and other asset classes such as property and private market assets. They normally appoint external investment managers, sometimes via an investment platform, to manage the assets and to conduct stewardship on their behalf, often through pooled funds.

In this role we support our clients with stewardship, as defined by the Code, in several ways:

- directly, as an investment service provider where we provide advice on the allocation, management and oversight of capital for occupational pension schemes, charities, endowments, sovereign wealth funds, central banks and insurance companies; and
- indirectly, in our role as advisers on training, funding, regulation and risk management of our clients' obligations – such as employee pensions, insurance claims or charitable expenditure – which are integral to the management and oversight of capital set aside to provide for them.

To report against the Code's six principles applying to service providers, we focus primarily on our investment-related services in this report. Where relevant, we also highlight how our other services – not directly related to investment – support stewardship of our clients' capital.

Principles for service providers

Service providers play a key role in the investment community as they provide services that support clients to fulfil their stewardship responsibilities. Service providers applying these Principles include, but are not limited to, investment consultants, proxy advisors, and data and research providers.

Activities service providers undertake to support their clients' stewardship may include, but are not limited to, engagement, voting recommendations and execution, data and research provision, advice, and provision of reporting frameworks and standards.

Principle 1

Signatories' purpose, strategy and culture enable them to promote effective stewardship.

PURPOSE, STRATEGY AND CULTURE

LCP's purpose, the services we offer and an outline of our culture, values, business model and strategy

Every decision we make impacts people. We want to achieve the best we can for everyone, whether that is our people, our communities, our clients or those they serve.

As a tech enabled consultancy, we help our clients solve the problems that matter to them and the wider world, helping to create sustainable futures and powering possibilities for future generations. While our clients are institutions, we fully recognise that in helping them 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. For example, pension provision is increasingly via defined contribution rather than defined benefit arrangements, so the quality of our advice directly affects the financial circumstances of individual members more and more. The same is true of other areas in which we operate. We understand this and the responsibility it brings, and our aim is to continually strive to improve these outcomes.

We also see our firm as having a wider purpose which is to encourage and promote a better financial services industry and society more broadly. That's why we share our knowledge and expertise with others in our industry, and why we contribute to policy development and the wider public interest. We have representatives on over 60 different external professional and trade committees and groups including the Association of Consulting Actuaries, Institute and Faculty of Actuaries, the Pensions Management Institute and the UK Statistics Authority.

The firm dates back to 1947, and since then has grown steadily to be the largest 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. We have 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), chosen by our 156 partners, manages the business day-to-day and reports to the firm's Board. We also have a separate Professional Committee (ProfCo) which – along with its various subcommittees – oversees the professional activities at the firm.

The range of our activities over the year is testament to the breadth of our services. Within our "mainstream" activities, we would highlight our annual Financial Wellbeing report which examines the financial health of the UK population, our ongoing campaign to raise awareness about the underpayment of state pension to particular groups of women as well as a range of initiatives to help asset owners better understand their climate-related risks and how they can navigate their way to Net Zero.

Looking more broadly, we would note two areas. First, our energy sector service offering continues to grow, in response to the industry's rapid pace of change and as the transition to Net Zero becomes something increasingly relevant to our clients and broader society. Our acquisition of energy consultancy and subscriptions business Delta-EE this year reflects our view of the need for long-term thinking and innovation in future power generation, delivery and financing, issues that touch upon everyone's wellbeing.

Second, the impact of the Covid pandemic has brought the importance of population health into sharp focus. While illness has traditionally been seen as a cost, we believe maintaining the health of populations can deliver prosperity for individuals, employers and healthcare services. Our health analytics team leverages the increasing availability of data while our modelling approaches put timely actionable data in the hands of key stakeholders. The health needs of individuals and populations vary greatly; we provide bespoke analysis to shift populations from illness to health.

SERVICES TO SUPPORT OUR CLIENTS' STEWARDSHIP

In our role as an investment service provider, we support our clients' stewardship of capital directly. Many of our core services remain the same from year to year but the nature of what is provided inevitably evolves, reflecting changing market conditions and client needs.

The list of activities includes:

- Setting investment strategy, taking into account market-wide and systemic issues such as changes in interest rates, inflation, currency risk and climate change;
- Developing short, medium and long-term investment pathways to meet clients' objectives (for example, market-dependent and/or time-based de-risking frameworks);
- Assessing and understanding risks, and implementing mitigation strategies;
- Selecting, monitoring and reviewing investment managers and their funds to implement a chosen strategy;
- Advising clients on the stewardship of the fund investment vehicles they own; recommending how to vote on resolutions for the fund vehicle's management; reviewing governance structure and the degree of independent oversight of the fund vehicle;
- Helping to establish and review our clients' investment policies, including in relation to ESG (environmental, social and governance) factors, voting and engagement;
- Reviewing and reporting our clients' investment managers' voting and engagement activities;
- Assessing value for money of investment managers and ensuring fee arrangements are transparent;
- Providing independent oversight of fiduciary arrangements;
- Meeting regulatory requirements;
- Providing training and development;
- Providing services to support our clients' compliance with TCFD regulations;
- Supporting clients in becoming signatories to the UK Stewardship Code; and
- Using advocacy through our thought leadership, consultation responses and membership of industry bodies (such as the Institute and Faculty of Actuaries (IFoA), Pensions and Lifetime Savings Association (PLSA), Charities Investor Group, the Investment Consultant Sustainability Working Group (ICSWG), the Institutional Investors Group on Climate Change (IIGCC) and NZICI) to encourage responsible stewardship throughout the investment value chain.

In addition to our investment services, we also support our clients' stewardship indirectly, in our role as advisers on funding, regulation and risk management of our clients' obligations. Relevant activities include:

- Training on and development of good governance processes;
- Measuring and monitoring capital funding requirements over the short, medium and long-term;
- Identifying, measuring and mitigating risks to capital requirements; and
- Helping address the impact of new regulatory developments.

VALUES

We exist to solve problems to create a better future. Operating sustainably is key to our own growth and our clients' success – and an empowered, engaged workforce supported by a strong culture and good governance is how we achieve it. This means that we prioritise the things that really matter, from playing our part in the transition to a low carbon economy and increasing financial knowledge to promoting Diversity, Equity and Inclusion. We take our role as industry leaders seriously, as we believe that we can amplify the good we cause by working with others and leading important conversations. All our advice and actions are underpinned by our 4 values:

Curious

What we know now will get us to tomorrow, but curiosity will take us far beyond that. That's why we question the status quo by looking at the data and analysing different angles and possible outcomes. This makes us better at what we do and delivers better solutions to our clients.

Accountable

The way we work, and the decisions we make and facilitate, impact people, the world we live in and our collective future. We approach our work with this responsibility in mind and it means that clients can have confidence that our advice stands up to scrutiny and that we share their ambitions for a better future.

Connected

We strive to create connections in everything we do. We believe it makes working with us more satisfying and helps us to uncover better solutions. We participate fully in the wider world around us, including in our professional activities and within our local communities. In a hybrid world, this matters more than ever.

Agile

So many "once in a lifetime events" have been packed into the last few years – the Global Financial Crisis, Brexit, Covid, Russia's invasion of Ukraine – while others loom large – climate change and biodiversity loss for example. Since the one constant in our world is change, we are set up so we can move quickly and decisively, whether that's adapting our advice in response to changing policy, developing new tools to help make decisions quicker and easier, or working in a bespoke way to respond to the particular needs of our clients.

CULTURE

We bring our values to life in a number of ways. LCP CARES is our client promise that Clients Always Receive Exceptional Service. It's our service standard and promise to our clients that everyone at all levels will strive to go the extra mile.

Our seven People Principles illustrated to the right are core elements of LCP's business strategy. We want to foster and nurture our people and allow them to grow. This includes initiatives such as our annual LCP CARES awards for colleagues which recognise the hard work, unique skills, innovation and diversity of our colleagues in delivering our service commitment to clients.

We want everyone to have the opportunity to fulfil their potential at LCP. We have a very active Diversity, Equity & Inclusion (DEI) Group, along with four networks – Women, LGBT+, Multicultural and Wellbeing – that help us build an inclusive workplace where all forms of diversity are valued. Explore our interactive DEI story **here**. We also contribute to initiatives beyond LCP – such as the investment industry Diversity Project (see Principle 2 for details).

The pandemic threw up many challenges, both immediate and longer-term, but it showed that we have the technology to enable people to work in a more flexible way. As the year progressed we encouraged people to work at least two days in the office per week, in line with the government guidance at the time, and the rest from home, allowing them to tailor their week and deliver the right work/life balance for them. We have also introduced core working hours of 10am-4pm, where people are to be available to work during this time and can make up the rest of their hours outside this period as they see fit, offering further flexibility. Despite the huge change to our working practices, clients have praised us on our continued high levels of service as demonstrated by our Client Care results (**see box 1**).

This year we have committed to being operationally Net Zero (see later in Principle 1, "Actions we have taken to ensure our strategy and culture enable us to promote effective stewardship") while our LCP Foundation donated c£200k to local charities with LCP employees raising a further £43k through fundraising activities.

LCP's People Principles

Our team structure for CSR related decisions and activities

EXECUTIVE COMMITEE (EXCO)

Kate Sinclair
Partner and Head of Corporate Responsibility

LCP's CSR strategy is led by partner Kate Sinclair who reports directly to LCP's senior leadership including the CEO, on the Executive Committee

Carla Lakey
Partner, Head of People and EXCO member

Jill Ampleford
Partner and Co-Lead of the DEI Group

Lauren Keith
Senior Marketing Communications Manager and CSR Team

Lara Palmer
Consultant and CSR Team

Harriet Moth
Senior BD Executive and CSR Team

Lucy Hughes
Partner and Co-Lead of the Women's Network

Bart Huby
Partner and Co-Lead of the Wellbeing Network

Zoe Burdo
Senior Consultant and DEI Manager

Sam Taylor
Associate Investment Consultant and CSR Team

Laura Rose
In-House Lawyer and CSR Team

Avneet Gill
Associate Consultant and Co-lead of the Multicultural Network

Jess Horner
Senior Consultant and Co-Lead of the LGBT+ Network

OUR INDEPENDENCE

We remain an independent owner-managed firm with no in-house LCP products or funds, nor do we offer implemented consultancy or fiduciary management services. Put simply, we do not manage money for our clients. This means that, unlike many of our competitors who offer fiduciary services, we are truly independent and free to recommend best-in-class solutions to our clients (and drive down management costs as far as possible).

Throughout the firm, we innovate and develop solutions that meet our clients' needs. If the options for delivering such solutions are not readily available, we will develop them or collaborate with others to provide them.

BUSINESS MODEL AND STRATEGY

Our approach remains to build a long-term sustainable business by:

- Developing our people;
- Developing our offerings; and
- Developing our relationships.

We plan to grow the business at 8-10% pa over the long term with the rationale being that this rate of growth is optimal for creating long-term career development opportunities enabling us to attract and retain the most talented consultants in our market.

We aim to achieve this growth by focussing on:

- Increasing the range of services offered to existing clients;
- Building on our strong reputation within the 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 end-game or run-off;
- 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;
- Continuing to develop our technology to enable us to deliver a highly efficient and differentiated service to all types of institutional investors;
- Maintaining our independent status and not offering fund management products. This is increasingly seen as a differentiator compared with our larger competitors; 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, working with government on long-term energy policy and with energy companies on investment decisions, as well as health analytics to understand the impact of chronic diseases and their related conditions on healthcare providers and infrastructure. We even work with Premier League football clubs and those further afield to optimise transfer decisions and player selection. Apart from generating direct revenues, this work gives talented colleagues time and freedom to apply their abilities in broader areas. 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 continuously improve the cost efficiency of our work. We are constantly evolving and improving this aspect of our work in response to our clients' needs. All our technology is 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 them 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 new ideas and innovations that are relevant to their situation, for example, new investment opportunities, legislative changes or changes in investment conditions.

In addition to the services we described in last year's report, we have also developed the following tools:

LCP Analysis of Climate Threats (ACT)

[1] Using historical data from the PPF Purple Book and an LCP Visualise data set.

In January 2022, we launched LCP ACT, a tool which helps our clients quickly identify potential climate threats based on the asset class exposures within their portfolio. This tool provides:

- an overall climate score for the portfolio and a comparison against the average UK pension scheme[1];
- an indicative climate score that could be achieved if key asset classes were moved into climate-aware mandates;
- insights into the portfolio's most significant climate risks, eg transition and physical risks in particular asset classes;
- indicative carbon emissions data and the EU carbon price of these emissions; and
- suggestions on how to potentially improve the portfolio's overall climate score.

LCP Monitor

LCP Monitor has been under development throughout the year and is designed to provide access to daily updates on investment portfolios, with a huge range of information available at the click of a button. Clients can analyse their portfolios using a broad range of criteria – whether that be via geographical breakdowns, exposures to individual securities, or performance comparisons for their investments. Whenever a company, region or event hits the headlines, our clients can consider how it is likely to impact their scheme.

The functionality underpinning LCP Monitor is being integrated into LCP Advance (see page 24), using a traffic light system which automatically notifies clients when key metrics – investment, funding, administration and covenant – move outside pre-agreed ranges, ensuring action can be taken in a timely manner.

Crucially, we designed Monitor, as we do all our tools, by listening to our clients' feedback on what they find helpful which means that their preferences and good ideas can be quickly incorporated by our in-house team, making their lives easier.

ACTIONS WE HAVE TAKEN TO ENSURE OUR STRATEGY AND CULTURE ENABLE US TO PROMOTE EFFECTIVE STEWARDSHIP

Leading by example is one way to promote effective stewardship.

As a business, we are determined to be more sustainable and to reduce our environmental impact. As a first step, we became operationally Net Zero in 2021 with respect to Scope 2 emissions. This was achieved as of December 2021 by ensuring that the electricity supplied to our London and Winchester offices was 100% renewable. We will be Net Zero with respect to both Scope 1 and Scope 2 emissions with effect from the year ending 31 March 2022, in part by using fully certified and high-quality carbon offset schemes.

While quality offsetting can be a positive move for the environment, we know we still have a responsibility to decrease our carbon footprint directly and reduce as far as possible our remaining reliance on offsets. That is why we have partnered with environmental and advisory specialists who are helping us to deliver a long-term road map for further reducing our environmental impact.

Taking a long term view and improving the stewardship of our own operations will, we believe, allow us to generate steady reliable and sustainable growth, focussed on our clients' best interests. Our culture is open and friendly and encourages new ideas and approaches. We therefore reflect that approach in all our services, including investment and specifically in stewardship.

With that long-term client focus we therefore can – and do – 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 clients devise, implement and then monitor policies relating to stewardship matters;
- discussed with clients and managers what investment portfolios might look like in 5, 10, 20 years if they are to deliver on Net Zero 2050 climate targets;
- established a clear stance on the Net Zero Asset Manager Initiative ("NZAMI"), namely that from 1 April 2022 we require any asset manager we research to have signed up to NZAMI in order for their products to receive a "buy" rating[2] from us. We took this decision given our belief that this move will better protect our clients' investments from the risks associated with climate change as well as encourage the wider investment industry to move faster to mitigate the potentially devastating effects of climate change on the economy and wider society.
- engaged with managers in a variety of ways – face-to-face or virtual meetings (annually for most funds our clients invest in), an annual forum and questionnaires (such as our biennial RI survey – **see box 3**) – to understand and challenge how they incorporate stewardship into their investment process;
- trained all of our investment staff and partners on stewardship matters, such as ESG and voting, and made this information available to new joiners (via on-demand video recordings), reflecting the transparent nature of our culture;
- organised weekly responsible investment (RI) drop-in sessions for investment partners as a regular touch-point for partners to ask questions and provide client feedback on RI issues and opportunities, for example, the potential impact on inflation of the green transition; and
- produced training and educational material, for example, training slides which helped clients understand the purpose and requirements of the Code.

In addition to the above, over the course of the year, we updated our ESG strategy setting out our priorities for the forthcoming partnership year. It covers all aspects of our investment-related ESG services for clients, as well as integrated ESG approaches for DB pension schemes spanning covenant, investment, funding and journey planning. ESG priorities for other parts of our business (eg energy analytics, health analytics and insurance) are set within those teams. The purpose of the ESG strategy is to provide focus and coordination to our work in this important and fast-moving area, to help us prioritise and make the best use of the resources available. The strategy has nine objectives and further developing our stewardship services is one of these.

The implementation of this ESG strategy is being overseen by our ESG Panel whose membership and terms of reference have been refreshed to reflect the agreed strategy. The Panel is monitoring its implementation and considering whether it needs to evolve during the year to keep pace with client needs and external developments.

Looking ahead, and in line with our ESG strategy, we expect to continue to deepen our RI capabilities to increase the depth of our manager researchers' knowledge of ESG, to expand our research into specific ESG and sustainable investment products so we can advise clients on market-leading RI approaches if they wish, whilst also providing streamlined value-add RI services for other clients.

[2] We assign three ratings to products which are buy, hold and review.

WE BELIEVE WE ARE EFFECTIVE IN SERVING OUR CLIENTS' BEST INTERESTS

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. We believe 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 traditional areas of business (a notable achievement in what is a structurally declining market) as well as clients in new areas of work (eg health analytics). Our business growth has been strong for many years, both in absolute terms and relative to our peers, which we think points to clients believing that we deliver a high-quality service focussed on their best interests and delivering on their needs.

We also seek feedback from clients directly.

BOX 1: CLIENT CARE

We have an ongoing client programme that offers our clients the opportunity to discuss with someone senior, not on the client team, the service we provide at a strategic level, outside the normal daily routine. What makes this programme effective is that we don't just listen to what clients say; if needed, we take action to address their points.

Our one-to-one client care meetings help us understand what is and isn't working for a particular client. For example, it may indicate that a client would prefer more visual content in their communications and we will adjust what we do accordingly. As well as providing detailed feedback reports to the relevant client teams, our client care team provides a summary of recent insights to the whole firm in a weekly internal Business Development Update that is published on our intranet.

We held 139 client care meetings in the year to 31 March 2022. As well as their qualitative feedback, clients rated us as follows:

91%
Strongly agreed that LCP cares about delivering a high-quality service

86%
Scored 8, 9 or 10 for overall satisfaction

8.4/10
Our average satisfaction score

Our next survey is due in Q4 2022.

Industry awards

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 small sample of those we have won over the year are outlined below:

- 2021 LGBT Great Accreditation (Gold standard for LGBT+ equality in financial services)
- 2021 IERM Awards (Analytics Solution of the Year, Reserving Solution of the Year, Young Actuarial and Risk Professional of the Year, Diversity and Inclusion Excellence, Insurance Times Awards)
- 2021 Excellence in Technology – Service Provider Risk Management (bronze)
- 2021 Pension and Investment Provider Awards (Actuarial Consultant of the Year, Employee Benefits Consultant of the Year)
- 2021 Rising Star Awards (Investment Trainee of the Year Actuary/Consultant of the Year (highly commended))
- 2021 Best Pension Adviser (Corporate Adviser Awards)
- 2021 UK Pensions Awards (Educational and Thought Leadership Initiative of the Year, Risk Reduction Adviser of the Year, Diversity and Inclusion Excellence Award (highly commended))
- 2021 Women in Insurance (Role Model of the Year, Contribution to Gender Inclusion, Contribution to Inclusion)
- 2021 Women in Investment (Contribution to Diversity & Inclusion, Rising Star of the Year)
- 2021 Women in Pensions (Administrator of the Year, Rising Star of the Year, Mentor of the Year (highly commended) Organisational Award for Supporting Diversity)

Internal oversight

We take conflicts of interest issues very seriously and have a separate 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. Please see Principle 3 for further details.

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.

External oversight

We are regulated by two external regulators, the IFoA and more recently, reflecting the changing nature of the firm, for a part of our business by the Financial Conduct Authority (FCA). In the last external compliance visit (which assesses our compliance with the IFoA's Designated Professional Body handbook) the IFoA marked us very highly, and this visit was conducted on its behalf by the Institute of Chartered Accountants in England and Wales (ICAEW) in June 2019. In addition, we passed (grades are pass or fail) the latest (December 2019) Quality Assurance Scheme review carried out by ICAEW for the IFoA. This assesses how we maintain and apply procedures in relevant areas as set out in APS QA1 Quality Assurance Scheme for Organisations.

In addition, for a firm of our size we have historically had very few complaints about our work.

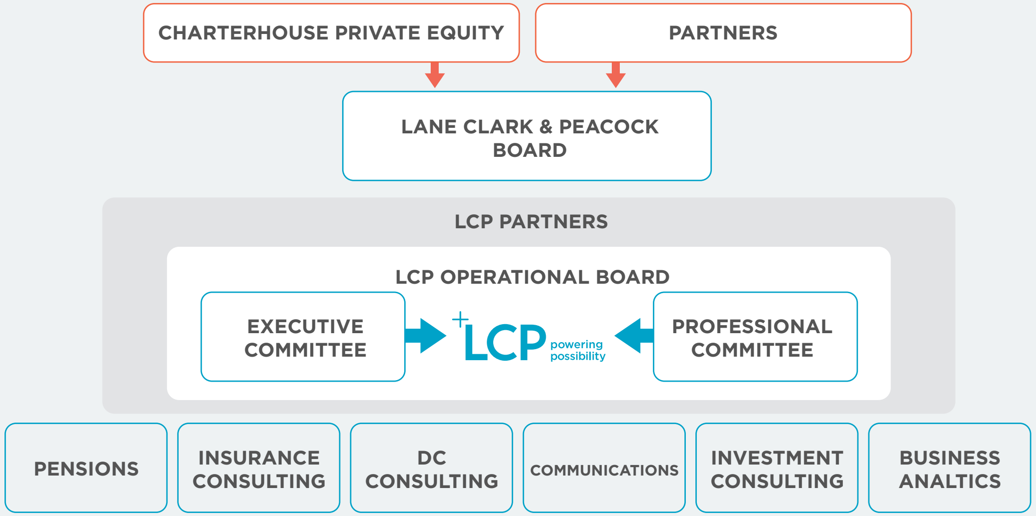
Competition and Markets Authority (CMA) requirements

Following the requirements that resulted from the CMA's review of the investment consulting industry in 2018, our clients now assess our performance as investment consultants against the investment objectives we agreed with them. These reviews were required for all our pension trustee investment clients over the reporting year.

Principle 2

Signatories' governance, workforce, resources and incentives enable them to promote effective stewardship.

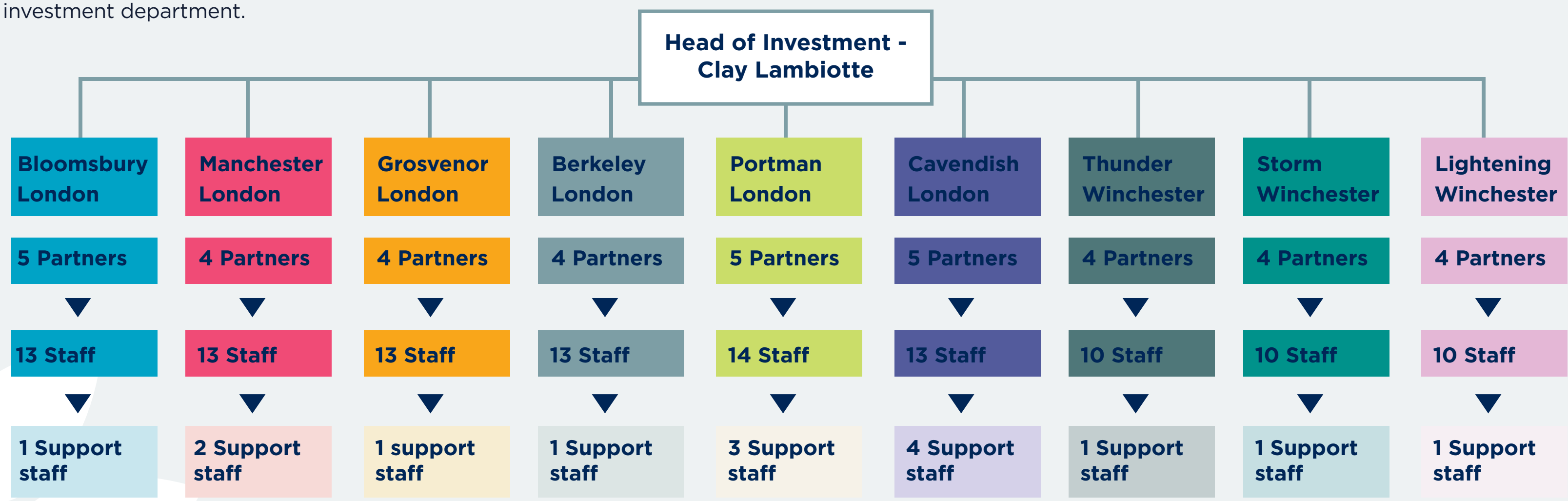
GOVERNANCE, RESOURCES AND INCENTIVES



Our governance structures and processes give us oversight and accountability to promote effective stewardship

The diagram opposite shows how we are structured as a firm. This highlights our main areas of business operations and how the firm's managerial and professional oversight functions operate. Management roles are clearly delineated from professional ones with both providing a clear operating framework for our underlying advisory departments.

Our underlying advisory department structures are simple, as illustrated below for the investment department.



***Please note that one support staff covers for two teams**

Each of the teams within the department is relatively small, with team members working both with one another as well as with members from other teams, typically on a range of client and research roles, for example as members of one of the asset class research teams.

ESG GOVERNANCE STRUCTURE

Our ESG governance structure from 1 April 2022 onwards is shown on this page. (Details of the previous structure are provided on page 16 of our last report.) The changes we have made to the structure reflect the revisions to our ESG strategy developed during the reporting year and our view is that the revised structure better supports the ESG strategy and the importance placed on ESG by the firm. The name change – from RI Panel to ESG Panel reflects the extension of the strategy's scope to include ESG considerations, for DB pension clients, ESG matters for covenant, funding and journey planning as well as investment.

Our ESG Panel consists of senior individuals who bring a range of perspectives including client-facing advice, business development and research, and whose experience spans DB pension schemes, DC pension schemes and wider investment clients.

The ESG Panel meets monthly to:

- review progress on implementing the ESG strategy;
- share knowledge of market developments in relation to ESG, drawing upon insights from advising clients, business development and competitor activity;
- consider if the ESG strategy should be adjusted in light of LCP, market and regulatory developments; and
- ensure an appropriate level of partner and staff resource is allocated to ESG.

The ESG Panel also periodically invites individuals from other areas of the business to attend for sessions focussed on specific service areas (eg pensions actuarial, covenant, etc).

ESG PANEL

Clay Lambiotte Head of Investment
Laura Myers Head of DC
Claire Jones Head of Responsible Investment
Matt Gibson Head of Investment Research
David Wrigley Investment
Paul Gibney Investment
Dan Mikulskis Investment
James Moore Investment
Graham De'ath Actuarial
Lorraine Porter Business Development
Laura Dawson Investment Operations Manager

Our ESG Working Group comprises primarily the "owners" assigned to the nine objectives of the ESG strategy.

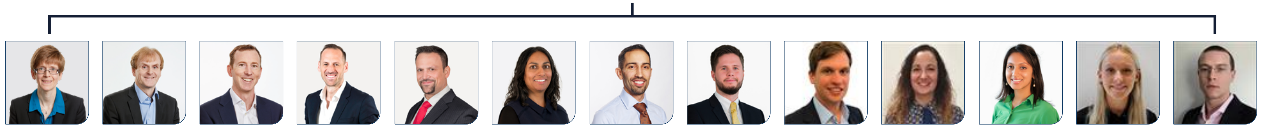
Meetings of the Group usually take place fortnightly to review the ESG strategy's progress, guided by an action plan for each objective. The Group usually focuses on interdependencies between the objectives and any areas that are falling behind schedule.

ESG WORKING GROUP

Claire Jones Head of Responsible Investment
Matt Gibson Head of Investment Research
Paul Gibney Investment
Dan Mikulskis Investment
James Moore Investment
Graham De'ath Actuarial
Laura Dawson Investment Operations Manager

Our Core RI team consists of individuals who spend a substantial proportion of their time on responsible investment (ie ESG and stewardship matters in relation to investment). This typically includes a range of client-facing, research and business development activities. The team meets fortnightly to share experience and develop their collective RI knowledge.

CORE RI TEAM MEMBERS



Claire Jones Head of Responsible Investment
Paul Gibney Partner
Ian Gamon Partner
Dan Mikulskis Partner
James Moore Partner
Sapna Patel Senior Consultant
Shyam Gharial Senior Consultant
Peter Abrahams Senior Consultant
Drew Henley-Lock Senior Consultant
Rebecca Green Consultant
Laasya Shekaran Consultant
Lauren Hawkins Consultant
Shane McCullagh Associate Consultant

ESG GOVERNANCE STRUCTURE CONTINUED

Approximately 40 other people across the firm are involved in the development and maintenance of our ESG or climate-related services, including climate metrics and climate scenario analysis.

Teams working on individual RI projects are small, focused, and nimble, meaning that we can move new projects forward quickly.

Whilst we have the Core RI team's expertise, we believe it is important that everyone within the investment department and the wider firm knows that stewardship is a key issue for our clients and is comfortable incorporating stewardship into their investment advice. The responsibility does not lie solely with the Core RI team.

Recognising the broad reach of stewardship, and its increasing importance to our clients, we also have a Stewardship Group. It meets typically once a month – the frequency of the meetings having increased from every 6 weeks to monthly over the reporting year – to review progress in enhancing our stewardship services and embedding stewardship across our advice, including identifying areas where additional action should be taken. The Stewardship Group's seven members are drawn from our investment, DC and actuarial teams – including members of the Core RI Team – to ensure that there is sufficient weight given to both the asset and liability aspects of creating long-term value for both clients and beneficiaries. The Group is shown to the right hand-side:

STEWARDSHIP GROUP MEMBERS

The rationale for our stewardship approach is to have a team and governance structure that can:

- develop in depth knowledge of managers and their stewardship processes through the use of manager researchers and the Core RI team;
- provide training and resources for colleagues to enable client teams to deliver effective and focussed stewardship advice to their clients;
- ensure effective use is made of this stewardship resource through regular reporting, within the investment department, to the ESG Panel and, at the wider firm level, to ExCo; and
- ensure stewardship (via the Stewardship Group) is assessed in a sufficiently broad and long-term manner.

WE PROMOTE EFFECTIVE STEWARDSHIP WITH THE QUALITY AND ACCURACY OF OUR SERVICES

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 new idea generation.

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. Over the year our manager meetings have been conducted via video calls, typically lasting between one and three hours, or in-person. We normally meet with managers at least annually on funds where clients are invested and more frequently if there are significant changes to personnel or fund strategy, or any concerns.

BOX 2: MANAGER RESEARCH PROCESS

Our research view reflects a number of key inputs as shown below:

Investment due diligence

Firm-wide

Is the firm supportive of the product and are incentives aligned?

What is the firm's history, incentive structure and resources?

Responsible investment

Is there an effective process for considering environmental, social and governance issues and does it meaningfully change portfolios?

Process

Will the approach taken to select securities, build and trade the portfolio lead to better performance than competitors?

People

Are the key decision makers on the portfolio superior investors to competitors?

Performance

Has investment performance and risk been consistent with the stated investment philosophy/process and market conditions?

Operational due diligence

Manager due diligence questions cover:

- Senior roles
- Staff turnover
- Investment and cash approvals
- Valuation of assets
- Regulatory investigations
- Policies: personal dealing, ESG, conflicts...
- Counterparty selection
- Business Continuity Plan
- Key outsourced services
- Audit committee reviews
- Security / cybersecurity

Client experience

- Responsiveness to requests
- Trading errors

Assessment

Corporate stability

High-level review of:

- Firm history
- Profitability
- Ownership
- Senior management changes

Operational controls

Review of:

- Risk management governance framework
- Firm regulation
- Independent controls report

Client service

Review of:

- Quality
- Resources

BOX 3: BIENNIAL RESPONSIBLE INVESTMENT SURVEY

We supplement our manager research with the results of our **responsible investment surveys** of investment managers, in which we ask in-depth questions about ESG and stewardship. The manager-level RI scores derived from this, as well as fund-specific RI scores derived from our research, feed into our manager selection advice and the manager monitoring commentary contained in the quarterly performance monitoring reports we prepare for clients. The scores influence our clients' investment decision-making and encourage them to engage with managers to improve their stewardship practices.

We first produced our responsible investment survey in 2011. We conduct the survey across the investment management industry every two years. We make clear to managers that RI is an issue we consider important at a firm and industry-wide level. The most recent survey, conducted in the second half of 2021 and published in January 2022, was sent to nearly 182 managers and had an 84% response rate. In comparison to previous years, it had a greater focus on stewardship, one of the three main areas reported on.

The information gathered through this survey has been extremely valuable. Clients have been very interested to see how their managers scored, both in absolute terms and relative to other providers. The results of the survey and the additional fund-level information gathered through our one-to-one research meetings with managers (typically annually for each fund) have been discussed at length in client meetings.

We are mindful that it is the investment management community's time and effort that make the survey possible. Therefore as part of our manager engagement work, we offered managers an opportunity to hear the survey findings at a dedicated manager-focussed webinar in February 2022 and have interacted with many individually subsequently on particular points. Consistent with one of our purposes as a firm – of driving improvement in our industry for the benefit of its end users – we felt it important to highlight our findings and emphasise where further work is needed to reach what we consider to be "best practice". Where there were areas in which managers fell significantly below our expectations, we assigned red flags to that issue and highlighted the matter in our client reports. The purpose of highlighting these concerns was to encourage clients to engage with managers and to communicate to them their expectations for improvement. For example, if the manager had noted they did not engage with investee companies, they would be encouraged to do so. We identified a larger number of categories for these red flags in our most recent survey, to cover a wider range of areas that clients could easily take forward with managers.

We have tracked how our clients responded to their manager survey results and note that around 20 clients engaged directly with managers on stewardship topics including:

- encouraging managers to become signatories to the Code (some managers contacted have since confirmed they are now signatories);
- setting Net Zero targets; and
- querying why managers did not collaborate with others.

Indicators of high-quality responsible investment practices

What we look for in managers

Here we summarise some key indicators of high-quality responsible investment practices. This is not an exhaustive list and we recognise that not every indicator is relevant to every manager. Throughout the report, we explore how managers currently measure up against some of these indicators, based on their responses to our survey. We do not cover all of them as some are better suited to one-to-one discussions with managers.

For all indicators, dialogue is valuable in probing the managers' responses and obtaining a more thorough understanding of their practices.

Commitment to RI

- Show RI leadership at the highest levels of the firm
- Are a signatory or member of relevant codes and initiatives

People

- Hold senior management accountable for ESG integration and stewardship
- Include RI as part of investment professionals' job descriptions
- Train all relevant people on RI including board members
- Have specialist staff providing in-depth RI expertise as required

Investment process

- Integrate ESG throughout the investment process
- Ensure ESG considerations affect buy/sell decisions
- Consider multiple sources of ESG data, taking all reasonable steps to ensure its quality and robustness
- Undertake analysis of ESG risk exposure at the portfolio level for all asset classes

Climate change

- Embed climate-related risks and opportunities throughout the investment process
- Monitor both climate transition risk and physical risk metrics in portfolios
- Routinely utilise climate scenario analysis to understand and assess the risks
- Seek real world reductions in emissions
- Work towards net zero emissions with appropriate interim targets
- Report climate-related metrics to asset owners for all assets

Stewardship

- Use voting and engagement as tools to improve investment performance
- Have robust policies on engagement with respect to a variety of ESG issues
- Have an escalation policy to be called upon in cases of unsuccessful engagement
- Form a view on voting decisions, rather than relying on proxy advisers
- Exercise all votes and be willing to vote against management
- Report to investors regularly on voting activity
- Can provide evidence of strong collaboration, as appropriate, with other investors
- Engage with policymakers and regulators on economy- and industry-wide topics

Our research has both breadth and depth since we take the view that good ideas can come from anywhere. After all, the research that we do today provides both our clients with the advice and information they require now as well as us with the insights we need to develop future opportunities and added value services for clients. That's the case whether we're looking at new products for clients or understanding how key events (eg Russia invading Ukraine) have impacted managers and their investments. When surveying the market for new products that may be suitable for our clients, we do our due diligence to find strong funds and managers. This includes taking into consideration their stewardship capabilities and ESG credentials as highlighted above.

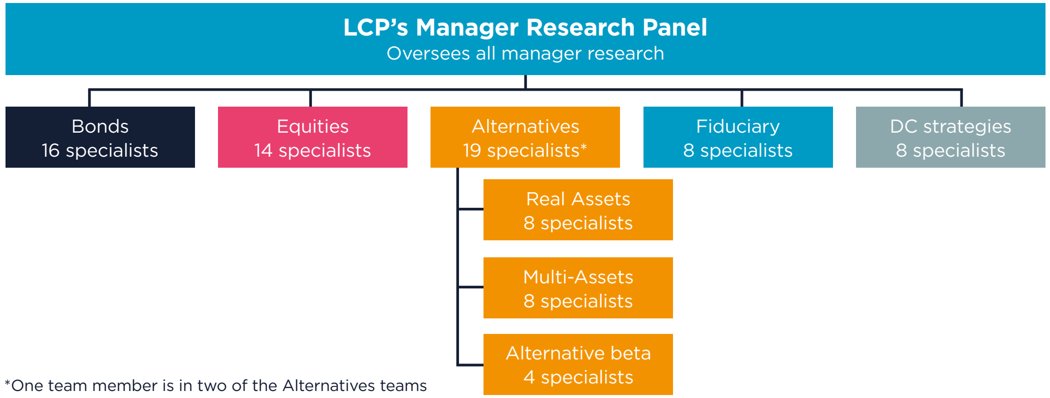
We appropriately resource our stewardship activities

Our firm is organised along departmental lines, comprising both client and non-client (eg IT) teams.

Our investment department of over 140 people provides advice to a wide range of business clients, as highlighted on page 16 above.

Each investment client is advised by a dedicated team whose size and experience reflects the needs of the particular client. While this team delivers advice to the client, it is able to call upon the wide resources and expertise of the department as a whole, whether specialist RI advice or information about specific investment products from our specialist asset class researchers.

This includes the output from our investment manager research programme which covers a wide range of asset classes and managers, and for which RI is a key focus. Our manager research teams comprise a mix of people – some team members are research-only specialists while others combine research duties with client responsibilities. We believe this mix is helpful when conducting research, combining the in-depth knowledge of research specialists with the client perspectives of those with a dual role, who will best understand the practical implications of particular RI/stewardship proposals or initiatives. The same blend of dedicated/mixed duties and responsibilities applies to our RI team as well. During the year, we made changes to the structure of our investment research, replacing our investment panel with a more focused "Manager Research Panel" and formalising regular meetings between our Head of Investment Research and those responsible for our main investment offerings (eg investment DB, investment DC, sovereign wealth) in order to better meet our clients' needs, including those RI-related.



*One team member is in two of the Alternatives teams

RI resources

Our Head of RI has focused solely on responsible investment – ESG factors and stewardship – for the last four years and over that time has overseen a substantial increase in the resource dedicated to RI. Over the year, we expanded the team again, with new members being added and some existing members increasing their time allocation to RI significantly. The Core RI team meets fortnightly to share experience and develop their collective RI knowledge.

Other individuals outside the Core RI team also support our clients on ESG issues and contribute to ESG research and thought leadership.

As well as being able to call upon our RI team, our clients also have access to several RI resources which are described further under Principle 5, and in summary are:

- Fund-specific RI ratings and assessments from LCP's proprietary research (typically reviewed annually);
- Manager-level RI ratings and analysis from our biennial survey (**see box 3**);
- ESG and climate "dashboards" providing ESG and climate-related metrics for investment portfolios based on data under licence from MSCI;
- Climate scenarios (**see box 4**) to analyse climate-related risk over the short, medium and long-term based on modelling from Ortec Finance (including orderly transition, disorderly transition and failed transition in relation to meeting the Paris Climate Agreement goals); and
- The climate centre for pension trustees, an interactive online portal providing trustees with suggested key actions to address climate-related issues together with practical information on how to implement them, as well as helpful summaries of climate-related regulation and guidance.

BOX 4: CLIMATE SCENARIO ANALYSIS

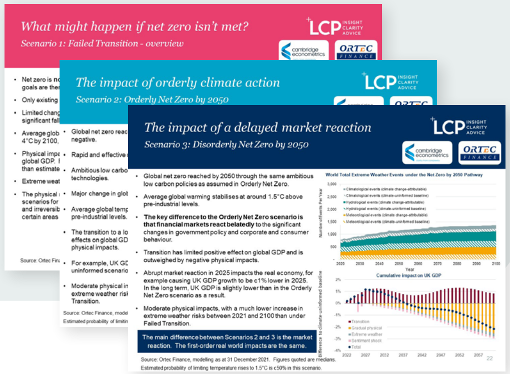
We have a partnership with Ortec Finance, expert providers of investment decision technology and solutions based in Rotterdam, that enables us to provide a set of climate change scenarios to help clients better understand their climate-related risks and in turn, the mitigating actions they could be taking.

The service is being used increasingly by our large DB and DC clients to support them in meeting their TCFD regulatory requirements. It's also being accessed by smaller clients wishing to understand the systemic risk that climate change poses to their pension arrangements.

The scenarios are fully integrated into our in-house modelling tools, LCP Visualise Pro (for DB clients) and LCP Horizon Pro (for DC clients), with options that illustrate year-on-year impacts and help clients understand how climate risks may evolve over time. Client advice sessions are normally delivered by one of our expert presenters who have undertaken detailed training on the scenario modelling and receive periodic refresher training.

We update the scenarios every six months to reflect the latest thinking from Ortec and Cambridge Econometrics (who provide the underlying climate and econometric modelling), as well as to reflect recent developments in climate data and policy. In the most recent round of updates (effective 31 December 2021), two of the scenarios were recalibrated to reach Net Zero carbon dioxide emissions by 2050, reflecting client interest in this particular target, whereas the previous scenarios had been designed to limit temperature rises to "well below 2°C".

We've seen the benefits of using the service in a broad range of trustee decision-making, including changes to DB journey planning and investment strategy as the case study in Box 5 illustrates.



BOX 5: CASE STUDY ON CLIMATE SCENARIO ANALYSIS

Below we have provided an overview of how one client used the climate scenario analysis to make several important decisions for their scheme.

Scheme situation

- A trustee investment client with assets under management of ~£800m, heavily de-risked into LDI and corporate bonds.
- The Trustee was keen, if possible, to align with the sponsor's ESG policy and to incorporate any agreed changes into the scheme's journey planning which was currently under review.

Objectives

- Use climate change scenario analysis to understand how climate change might affect the scheme and also to address existing strategic journey planning decisions.
- Highlight how long it could take to reach a low-dependency funding level under the current investment strategy.
- Assess the opportunity to introduce climate-informed re-risking to the portfolio to target a significantly shorter timeframe to a low dependency funding level.
- Assess the possibility that the scheme could then de-risk again before some of the potentially more severe climate risks begin to manifest.

Outcome

- Since it was evident that under the current investment strategy it could take a very long time (20+ years) to reach the desired funding target, the Trustee agreed to explore options to re-introduce investment risk.
- The Trustee agreed that new allocations to growth assets as part of re-risking should be focused on opportunities that help manage climate risk.
- The changes the Trustee made resulted in improved alignment with the sponsor's ESG values.

Our well-qualified, highly trained and diverse workforce

Having a well-qualified, highly trained and diverse workforce is a very important part of our ability to deliver stewardship support to our clients. Our investment team has a huge depth of knowledge and experience, ranging from first year analysts to senior partners with 30+ years of industry experience.

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 wide range of qualifications with most being either qualified actuaries FIA/FFA, investment professionals (CFA) or both with the investment department having 45 qualified actuaries (out of 221 firm-wide) and 43 CFA charter holders. We are also happy for individuals to study for more specialised, additional qualifications where these have benefit to the firm and to clients. For example, several of our wider investment team are Chartered Enterprise Risk Actuary (CERA) qualified.

Qualifications alone though are not sufficient. We believe in lifelong training and as a firm make a wide range of ongoing training options available to staff and partners to help them stay up to date with developments and new ideas in their subject area and beyond. A key part of this includes compulsory monthly technical training for the investment department, led by topic experts with the opportunity to ask questions and engage in discussion. During the year, seven of these monthly sessions included covered RI-related topics. As a firm we encourage individuals to question if they do not understand or if they think there's a better way to do something. We also encourage individuals to attend external events to gain a broader perspective and share the key points on our internal knowledge spaces for other colleagues to see.

We continue to offer shorter "Bitesize" sessions lasting around 30 minutes as they worked well during the pandemic, and they offer a particularly effective way to address certain topics. During the reporting year, we have run 14 RI-related bitesize sessions across the firm which people opt-in to according to their role.

BOX 6: DIVERSITY, EQUITY AND INCLUSION

We believe strongly in diversity, equity and inclusion (DEI) and that is a stance which is articulated and supported from the very top of the firm. It drives how we work and makes sure we recruit, promote and retain the best talent. For example, we ask all of our people to have at least one objective that supports us in creating a diverse, supportive and inclusive environment that breeds success and innovation and have rolled out firm-wide training on DEI and workshops for people leaders.

We want everyone to have the opportunity to fulfil their potential at LCP. We have a very active DEI Group, including our four people-led Networks – Women's, LGBT+, Multicultural and Wellbeing – that are helping us build an inclusive workplace where all forms of diversity are valued. Over the year we signed up to several initiatives, for example the 10,000 Black Interns initiative, the Disability Confident employer scheme, and the LGBT Great's inaugural mentoring programme.

Since partnering with My Big Career, we ran an insight day on 8 March 2022 for a group of 16-year-old Business Studies students from a local college. We highlighted the different departments that LCP has and ran interview and CV writing workshops.

We have a longstanding relationship with the Diversity Project. We are one of the signatories of a new Diversity Charter which has been formulated by some of the largest pension schemes in the UK. By signing up to this Charter we have committed to incorporate fund managers' diversity, equity and inclusion records in our advice to our clients on the selection of an investment manager and in ongoing monitoring.

We are involved with the Early Careers workstream of the Diversity Project which since 2019 has continued to run a successful Investment & Savings Industry Springboard in collaboration with social mobility charity upReach. Springboard aims to encourage university students from less advantaged backgrounds into the investment industry. We have participated in many events, hosting a week's work experience for students annually over the last three years, providing 15+ mentors from LCP to meet with associates on a regular basis providing career advice and training, as well as speakers for panel discussions. We collaborate and share our experiences with other member firms and in turn bring back learnings to LCP – eg understanding how others have implemented upwards mentoring programmes to help shape our own.

We invest heavily in our systems, processes, research and analysis

Our manager and asset class research teams have continued to grow steadily over the years, as the investment environment has developed and as clients' needs have changed. As noted previously, the RI team has seen a rapid increase in size and resource over the last few years and particularly recently. In the last reporting year, we have increased our spending in this area (as measured by the value of our people's time) by broadly 50%, 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.

We are great believers in the power of process. Our aim is that the time and effort we put into research and analysis is captured in high quality output which can be delivered consistently to clients. Process is key to this. We therefore make extensive use of standard documents, checklists and precedents, the production of which is overseen by our research teams and professional committees. These processes help set the foundation for our advice and compliance with applicable regulations and legislation while allowing us to tailor these documents to meet our clients' individual needs. We train people regularly on the use of these materials. All new joiners to LCP receive training at the outset and the monthly training sessions for the whole investment department are used to highlight any changes to processes and our best practice.

We also carry out regular reviews to check that processes are being followed. These might be carried out by our compliance team or by a small team tasked by one of our professional committees to review output in a particular area. For example, as noted under Principle 6, we undertook a review of our Implementation Statement template over the year. This involved reviewing a number of Statements which had been prepared by client teams, as well as considering feedback from their respective legal (and where relevant other) advisers, to check whether the template should be updated and how it could be improved – part of this focussed on trying to make the document more visually appealing, to increase engagement with its contents. We've made some progress but know there is more to do.

Our systems – or as we would see it our IT – are fundamental as to how we operate as a business. They allow us to advise our clients effectively, helps them in their decision making and allows us to improve our efficiency. As we noted earlier, all our technology is developed in-house with no offshoring or subcontracting of systems or calculations. This gives us control and flexibility in delivering our services in the ways that clients want. For example, see **boxes 4 and 5** on climate scenarios. We can therefore respond quickly and effectively to client comments and suggestions for improving the output and how it is presented. Another example of how we have moved quickly to meet emerging client needs is illustrated by our development of LCP Advance.

LCP Advance

This is our new service designed specifically for trustees of smaller pension schemes which brings together our full range of services in one single offering. It's evident that as such schemes move towards their "end game" (eg buy-out), there are attractions in the economies of scale that can be provided via an all-in-one service solution. It provides clients with the following support and tools:

- Proactive 1-2-1 support from a senior Strategy Director, whose job it is to ensure there are no gaps in the service provided to the client and who's always available for a conversation if there is something that the client needs to consider.
- A streamlined approach to the valuation process which starts off with a focused meeting with everyone in the room: the right information; the right people; and the technology needed to examine in real time the implications of any changes to assumptions etc. The approach delivers efficiencies in time and money, by identifying any significant issues immediately (or confirming that there aren't any) and by replacing long detailed documents with short and effective discussions.
- Clear, real-time reporting through access to up-to-date monitoring information via online dashboards that highlight key scheme metrics, in a consistent manner, across actuarial, investment and administration services.

In addition to the above, and to enable clients to receive the right level of information, tailored alerts are provided regarding important external developments and new ideas while we also produce regular briefings (drawn mainly from centrally produced material) for inclusion in client meetings packs (quarterly for most clients), supported with bespoke trustee training sessions.

For an explanation of implementation statements, see Investment guidance News Alert August 2019 (lcp.uk.com)

Our workforce is appropriately incentivised to deliver services

The incentive for all of us – from junior analysts to senior partners – is to deliver on each client's objectives – eg the design of a robust default DC investment strategy (and the robustness of these designs were tested following Russia's invasion of Ukraine) – since in that way we will retain the client and in time attract others. At all levels, a sizeable element of remuneration comes from a performance-related bonus linked to the quality and quantity of services delivered to their clients. At senior levels, remuneration is increasingly linked to the profitability of the firm.

We ensure that fees are appropriate for the services provided

We seek to offer transparency and control to our clients in relation to fees. We help colleagues set appropriate and commercial fees with our clients ensuring that there is clarity on both sides as to what is expected – in terms of fee levels and the scope of the work.

The basis for charging for our investment services is agreed with the client in advance and is generally based on fixed fees or time cost. 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.

Feedback on the value for money of our services is part of our client care programme and we gather useful information on what others are charging and whether we remain competitive through our regular participation in tenders.

Through our investment management fees survey (see Box 7) we help clients to benchmark their manager fee arrangements, compare fees for new manager appointments and negotiate fee levels. In addition, we also negotiated lower fees with managers for our clients to access funds – such as private credit – using their aggregated commitment to a given fund as a bargaining tool to the benefit of all our clients.

BOX 7: INVESTMENT MANAGER FEE SURVEY

Since 2010 this report has proved to be an important resource for both institutional investors and the asset management industry, by sharing comprehensive data on investment manager fees in the UK. It can help clients benchmark their manager fee arrangements, compare fees for new appointments and negotiate fee levels.

In our **2022 survey**, for the first time, we used publicly available data from retail investment platforms to compare fees paid by institutional investors with those paid by individual investors.

Fees and costs can make a big difference to investment return, especially when investing over many years.

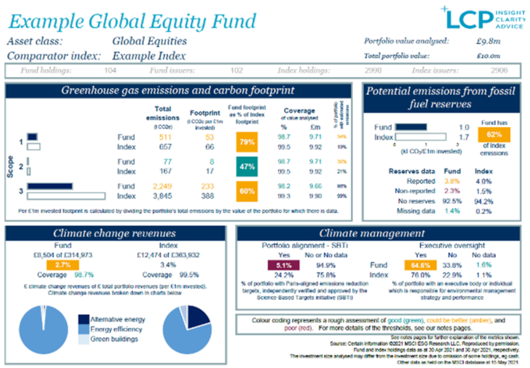
Our governance structures and processes are effective in supporting our clients' stewardship

The way we are organised means that client teams have access to a wide range of centrally produced materials provided by our specialist research teams which they can tailor to their client's needs and they will have received training on this content before using it.

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 RI knowledge sharing and for challenge. We also use our internal Responsible Investment channel and internal social media options (eg Yammer) to communicate and promote RI 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 team produces a wide range of information. As well as the materials mentioned elsewhere in this report, this includes:

- general information / educational documents – eg RI Survey report in January 2022 (**see box 3**);
- topical articles on RI matters – eg fifteen blogs for our website over the year and three articles for each of our quarterly "Macro, markets and much more" document;
- client webinars on ESG topics (three over the reporting year as well as several on market-wide topics such as Pensions Dashboards and the Pension Regulator's new Single Code of Practice);
- TCFD materials to support our clients in complying with this legislation, including climate scenario analysis and climate dashboards (see **boxes 4 & 5**); and
- quarterly RI and climate risk reporting (as part of standard performance monitoring reports) with supporting materials to help trustees engage with their managers about any concerns revealed in the reports, including a central log to track these engagements (to avoid duplication of effort as well as enabling amplification of the message to managers where clients have common concerns).



How we could improve our governance structures and processes to be more effective in supporting our clients' stewardship

We recognise that stewardship continues to grow in importance for our clients and more broadly. Therefore, we have developed a number of new ongoing initiatives to improve our advice to clients in this area and have made sure that these are properly supported through the addition of resource to our RI team, additional stewardship training to the wider investment department, as well as an increased focus on RI within our manager research process.

Where appropriate, we will also make use of external expertise where we believe this can enhance the advice we provide to clients, as we have done, for example, with our work on modelling climate scenarios (**see box 4**).

In respect of our RI monitoring processes, we started work on developing a more structured and comprehensive approach which includes:

- Updating our assessment of managers' approaches to ESG integration, voting and engagement and climate risk management, and adding an assessment of their Net Zero practices.
- Deciding, as mentioned under Principle 1, from 1 April 2022, to no longer "buy" rate products from managers who have not signed up to NZAMI.
- Developing our standard quarterly monitoring reports to include an assessment of managers' RI and climate risk practices so that our clients can monitor this more regularly and effectively.
- Developing a new investment tool (which can operate at the security, mandate or portfolio level) to help clients with strategy, portfolio construction and monitoring which will enable analysis of ESG/climate metrics and highlight problem areas in ESG exposures.

We will also be driving stewardship improvements for our clients by providing training to colleagues and clients on the new stewardship guidance from the Department for Work and Pensions, as well as developing new materials to help clients engage with the new requirements in a way that adds value for them.

Principle 3

Signatories identify and manage conflicts of interest[4] and put the best interests of clients first.

CONFLICTS OF INTEREST

Our Conflicts 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 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-level. (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

[4] Conflicts of interest may arise from, but are not limited to:
- ownership structure;
- business relationships;
- cross-directorships; and
- client interests diverging from each other.

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 LCPConnect 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 other clients – 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 interest.

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 ProfCo; 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 have prevented or adequately managed any conflicts of interest through the use of our Conflicts of Interest policy and supporting documents. The former describes how conflicts might arise, provides examples of potential conflicts and directs individuals to a conflicts of interest policy protocol which details the practical steps to take if a colleague believes they have identified a potential conflict. 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 partners and staff. 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 three 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 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 giving advice to the trustees of a master trust is not permitted to advise clients on the selection of a master trust;
- 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.

3. Advising DB pension scheme consolidators – potential conflicts

LCP provides services to DB pension scheme consolidators.

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

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

Principle 4

Signatories identify and respond to market-wide and systemic risks[5] to promote a well-functioning financial system.

PROMOTING WELL-FUNCTIONING MARKETS

We identify and respond to market-wide and systemic risks in a variety of ways

At a high level, we emphasise the need to be open minded. So, we encourage colleagues to constantly learn, read relevant articles and research papers, and attend webinars and conferences. If the same theme appears in a number of different places and is being expressed by a range of different parties, then it may well point to a developing market-wide or systemic risk. We encourage our teams to question and discuss matters and aim to make sure the quality of this debate is high, by having a good mix of experience and backgrounds working together, and by having a culture in which the exchange of ideas is actively encouraged.

We monitor metrics and measures that highlight how market-wide and systemic risks might be developing, factors which are often crucial to our clients' long-term prospects. As part of this, our investment partners hold regular "markets and managers" meetings. At these meetings our Head of Macro and Head of Manager Research will give an overview of topics of interest in their respective areas. In the macro part of the meeting we might cover geopolitical developments, interest rates and inflation – both global and UK. Understandably, inflation has been a focus of attention for some time given the disruptive impact of Covid-19 to both supply and demand and especially so following Russia's invasion of Ukraine. That made clear that inflation had become persistent and broad-based and that in all likelihood central banks were going to have to raise interest rates more quickly and to higher levels than previously anticipated. While rising interest rates are generally positive for DB pension scheme solvency (by reducing the value placed on their liabilities), they also reduce the value of the leveraged LDI assets that many such clients use to provide interest rate and inflation protection. As a consequence, these LDI investments need to be "topped up" to maintain hedging levels. While we have always noted to clients the need to maintain adequate liquidity for this purpose, given the ways markets were moving, we emphasised to clients the need to do this and run "stress tests" to see whether they had sufficient liquidity to cope with different rises in interest rates / falls in inflation. **Box 8** shows the sort of reminder that we sent to clients highlighting this systemic impact of interest rate and inflation moves.

[5] Market-wide risks are those that lead to financial loss or affect overall performance of the entire market and include but are not limited to:
- changes in interest rates;
- geopolitical issues; and
- currency rates.

Systemic risks are those that may cause the collapse of an industry, financial market or economy, such as climate change.

BOX 8: IMPACT OF INTEREST RATES AND INFLATION

Below is an example of a "one pager" sent to clients in January 2022 highlighting the impact of inflation and interest rate changes and actions to consider in response.

Background

- UK inflation is now running at levels not seen for over 30 years.
- What is less clear is the extent to which this inflation will persist. The "transitory" comments seem to have been retired from most central bankers' scripts.
- Many pension schemes have hedged inflation risk significantly. This means that these schemes are unlikely to have seen a large impact on their funding position so far. If your scheme isn't fully hedged on inflation then this may be worth reconsidering.
- It is worth noting that there are many inflation-related scenarios which could lead to significant challenges for pension schemes, we highlight two below.

What might this mean for your hedging strategy

What might this mean for your hedging strategy?

If left unchecked, inflation could be prolonged and damaging to economies.

↓

Central banks forced to take significant action, increasing interest rates.

↓

Sharp rises in interest rates could cause LDI allocations to become more leveraged and capital constrained.

↓

Leveraged LDI portfolios could therefore require capital top-ups, potentially at short notice and potentially in excess of liquidity buffers held by your scheme.

↓

As such, the key risks to schemes are that LDI portfolios cannot be recapitalised quickly enough or the assets used to recapitalise could be impaired and losses crystalised.

Hedging may fall out of kilter

Pension scheme liabilities typically include capped pension increases and a mix of RPI / CPI linkages.

↓

In contrast, hedging instruments are simpler and typically just reference uncapped RPI, so inflation hedging in LDI portfolios is not perfect.

↓

As market levels of inflation fluctuate, so too does the accuracy of inflation hedges in LDI portfolios and can require rebalancing.

↓

If schemes do not monitor and rebalance inflation hedges, then inflation hedge ratios will fall out of kilter and result in unintended inflation risks.

↓

We have seen inflation hedge ratios, if left unchecked, fluctuate by over 15% over 2021.

RPI inflation hit 7.5% in December 2021, its highest level since 1991

Is your pension scheme ready for a high inflation world

Key actions trustees and sponsors can take in response to the threat of rising rates are:

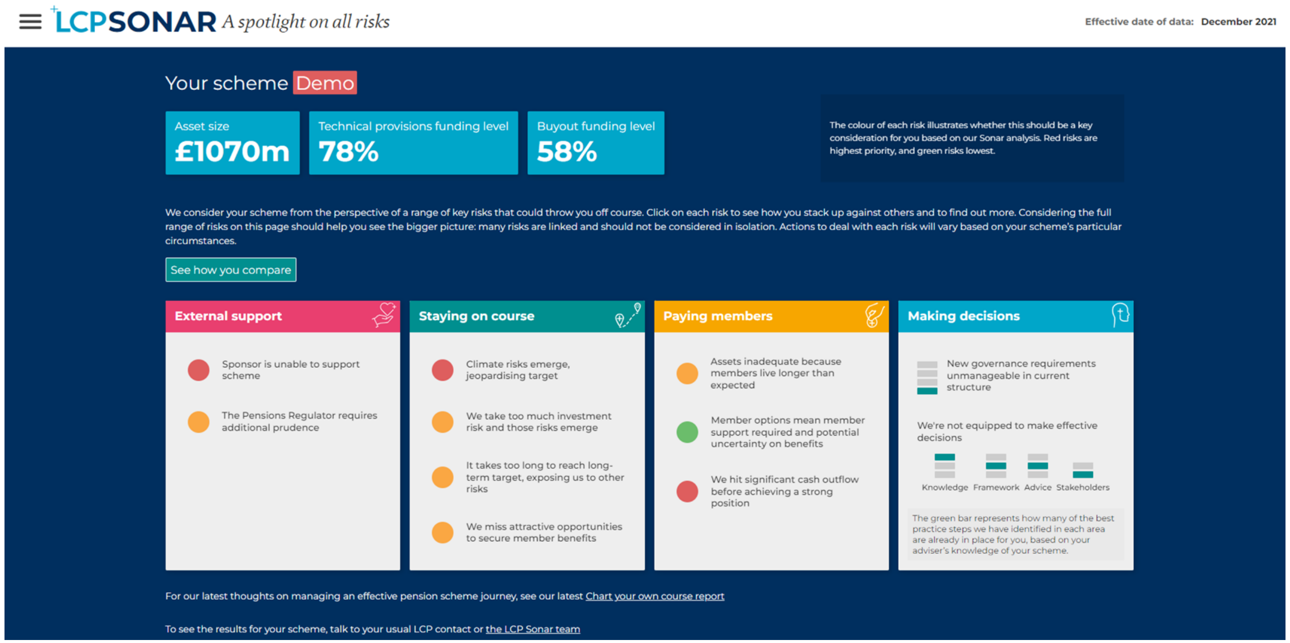
- Stress test your assets in a "rates rise sharply" environment to understand your exposure to this risk.
- Review your policy for re-capitalising your LDI portfolio – which assets would you sell to rebalance LDI?
- Consider de-leveraging your LDI portfolio, if this is feasible within the constraints of your current investment strategy.
- Consider the appropriateness of any illiquid allocations in your strategy.
- Make sure you have appropriate monitoring of inflation hedge ratios as market conditions change and your pension increase caps become more/less likely to bite.

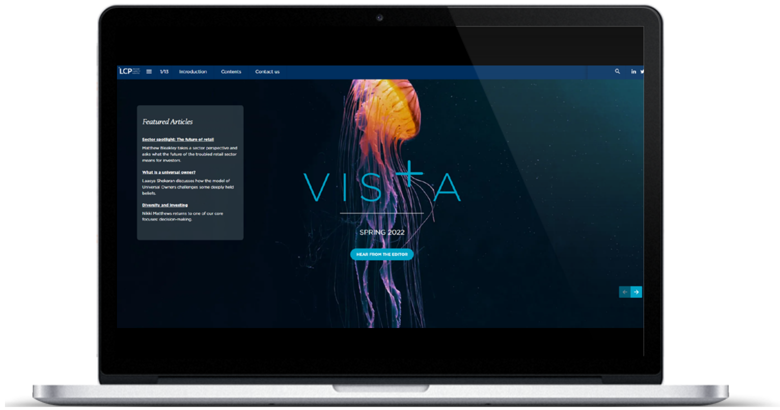
WE IDENTIFY AND RESPOND TO MARKET-WIDE AND SYSTEMIC RISKS CONTINUED

More broadly, our integrated risk profiling tool, LCP Sonar, considers a wide range of factors that could throw a pension scheme off course, from a "first principles" perspective. LCP Sonar has been updated extensively over the year, introducing truly integrated metrics for DB pension schemes, rather than starting from the traditional silos of funding, investment and covenant. To aid discussion, and reflecting feedback from clients and others, risk categories are now grouped into "External support", "Staying on course", "Paying members" and "Making decisions". We have found that splitting risks in this way helps our clients think about risk management in a more rounded manner. We have also introduced a grading system of red, amber and green, as an aid for clients when deciding which risks they might wish to prioritise. This approach is available as an alternative to the peer benchmarking option which, as the name suggests, allows clients to compare how they stand versus other LCP clients. For each risk type there's a full description of the risk, why it matters, how we've measured it, and the full peer group data summary as well as where they can go for more information.

Of course, we combine our technological offering for clients with a wide range of other communications. As well as our "Macro, markets and much more" quarterly publication, this includes:

- Our **insight hubs** which curate news and content from our experts;
- Articles published in periodicals (such as our **Vista** publications);
- Blogs;
- **Podcasts**;
- Webinars; and
- **Events** such as webinars and conferences.





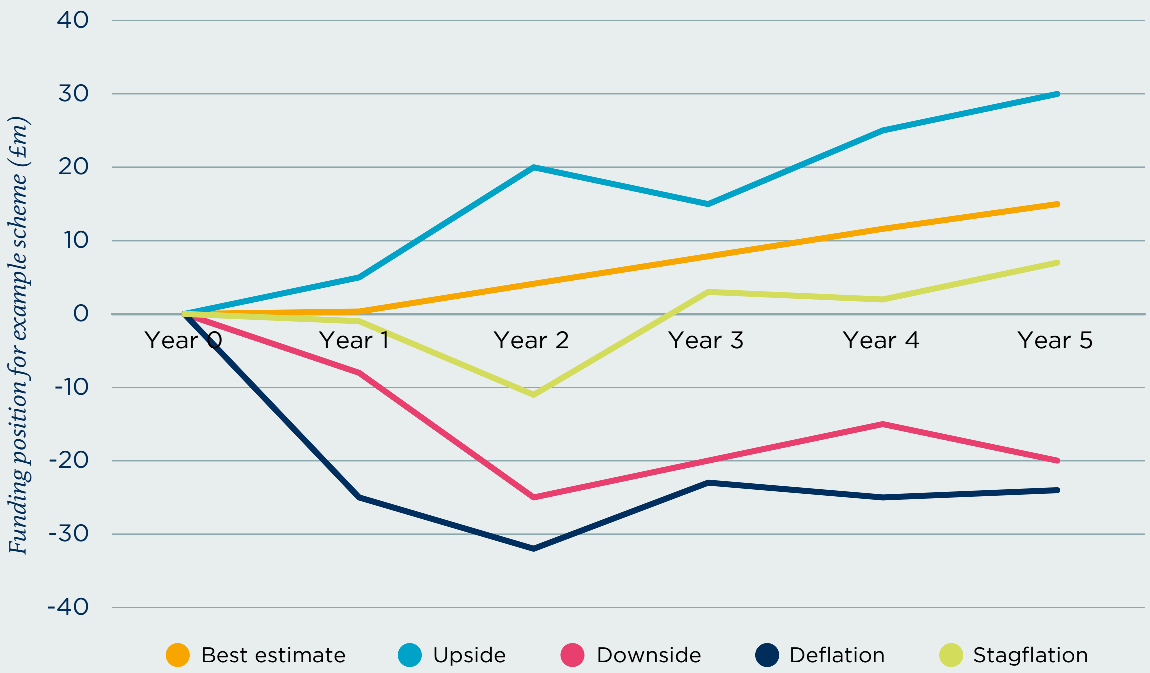
BOX 9: ECONOMIC SCENARIOS

During the reporting period we developed a range of economic scenarios to be used with clients to help them understand the potential implications of a range of conditions for their assets and, where applicable, their liabilities.

While inflation was often the focus for many, we saw it as important that clients were able to understand how their investments might fare in response to a number of plausible economic outturns.

We therefore developed four key multi-year scenarios to illustrate how various market conditions could play out over the next five years so that clients could understand, at the click of a button, the potential implications of these market developments for them and so consider whether any changes to their investment strategies should be made, based on the output from the analysis as well as other relevant factors.

Illustrative effect of potential shocks triggered by our scenarios



Case study: supporting a client in setting a Net Zero commitment

Climate change is evidently a systemic risk for investors generally.

As part of our role as investment adviser to a multi-billion pound pension scheme, over the last year we have supported our client in setting a formal target for transitioning the Scheme's asset portfolio to Net Zero emissions by no later than 2050.

To support the Trustee on this journey we prepared a detailed work plan setting out key areas to be considered as well as carrying out multiple sessions to develop the Trustee's knowledge and understanding. Training covered a range of topics including Net Zero targets in the context of the Trustee's fiduciary duties, the Paris Agreement, why investors are setting Net Zero targets and how investors could work towards achieving Net Zero targets. In framing the Trustee's Net Zero target we took account of the Scheme's de-risking journey as well as frameworks that can be used to support Net Zero commitments.

Having made a formal Net Zero commitment, the Trustee decided to join the Institutional Investors Group on Climate Change, sign up to the Paris Aligned Investment Initiative (PAII) Net Zero Asset Owner Commitment and to support the United Nations Framework Convention on Climate Change (UNFCCC) Race to Zero campaign.

Over the year we worked closely with the Scheme's in-house investment manager, legal advisers and pensions team to support the work associated with the Trustee's Net Zero commitment, including preparing disclosures for the Scheme's first Climate Change Report. Future work includes developing the Trustee's climate metrics monitoring framework and considering opportunities for the Scheme to invest in climate solutions in more detail.

Case study: supporting Net Zero power in the UK

While helping individual clients develop frameworks and strategies to meet their Net Zero objectives has been an important part of our work over the year, in our wider management consulting business we have been looking at the issue from a national perspective.

In collaboration with SSE (Scottish and Southern Energy) as part of their COP26 sponsorship, our energy analytics team produced analysis and a report on least cost pathways to Net Zero power for the UK. The highlights from the analysis in the report were as follows:

- five steps to a "low cost high renewable" system;
- the estimated cost savings from following these steps (£45bn through to 2050 and £76bn through to 2060);
- additional carbon savings (7.5Mt[6] of CO_2 equivalent by 2035 and 19.8 Mt of CO_2 equivalent by 2050);
- a conclusion that electricity market design should value all low-carbon generation equally; and
- an observation that capital expenditure is the most significant system cost component – minimising capital costs will be key.

We presented this report at COP26 in Glasgow in November 2021 and see this as an example of how the growing breadth of our firm's activities has the potential to provide insights into systemic risks which are of benefit to a broad range of market participants, including our clients.

Further details of the findings can be found in the report here: **Net Zero without breaking the bank - LCP SSE report 2021**.

While a lot of the work we have done with clients has focussed on climate risk, we recognise that there are other systemic ESG risks which are increasingly significant. For example, we've started to highlight to clients via articles and our annual RI update training slides the market-wide issues relating to the degradation of the natural world as well as the broad potential impact of social issues such as (the lack of) financial inclusion and DE&I.

[6] Megatons (million tonnes)

WE WORK WITH OTHER STAKEHOLDERS[7] TO PROMOTE CONTINUED IMPROVEMENT OF THE FUNCTIONING OF FINANCIAL MARKETS

We do this in several ways:

Manager research

As part of our research process, we discuss with managers the issues which are relevant to the funds they manage, to their organisation and to markets as a whole. Over the year, we conducted 370 formal manager research meetings and reviewed over 600 different products with 140 different managers. In addition, we held over 140 informal manager catch-ups on more general research matters. This corresponds to over 20,000 hours dedicated to manager research. Our Core RI team spent a further 3,300+ hours dedicated to specific responsible investment related areas.

Biennial RI Survey

More specifically in relation to stewardship / RI, we increased the number of stewardship questions in our most recent biennial RI survey (**see box 3**) while supplementing this with ongoing discussions with managers to understand how they engage with companies on ESG and market-wide matters.

LCP's manager research

20,000
Hours dedicated to research

510
Meetings with managers

610
Products under research

9
Key criteria - both investment and operational due diligence

Net Zero expectations

We held calls with various investment managers about their approach to investing in line with Net Zero goals. Informed by those discussions, and drawing upon other research into the topic, we developed **our expectations of investment managers** on Net Zero. We published these in September 2021 and sent them to nearly 200 investment managers.

UK Stewardship Code

Following the publication of the FRC's Stewardship Code list signatories, we contacted a number of managers who did not feature on this list – particularly where we had a material amount of our clients' assets invested – to ask why they are not signatories. We're pleased to see that a number who didn't appear on the list now do and we continue to follow up with those that still aren't on the list.

Annual Manager Forum

As part of our desire to engage with managers and hear their views, on stewardship and other matters, we hold an annual manager forum. We invited over 120 managers to our November 2021 forum, of whom 80 attended. 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. A significant part of the evening was spent describing our views on the current state of ESG in credit markets and real assets (eg property, infrastructure) and what more needed to be done to make such products suitable for our clients. We also took the opportunity to reiterate to managers our requirement that any manager needed to sign up to NZAMI (**see page 13 above**) to have its funds buy-rated by us.

Consultation responses

Across the firm, we responded to 32 consultations during the reporting year, spanning both investment and non-investment matters. In particular, we responded to consultations on the DWP's Climate and investment reporting: setting expectations and empowering savers, the IFoA's climate-related risk exercise, the Charity Commission's responsible investment guidance and the Pension Regulator's climate-related governance and reporting.

Encouraging clients to support industry initiatives

We encouraged our clients to support the Investor Agenda's 2021 Global Investor Statement to Governments on the Climate Crisis. This initiative was the strongest investor call yet for governments to raise their climate ambition and implement robust policies to deliver on that.

[7] Stakeholders may include investors, issuers, service providers, policymakers, audit firms, not-for-profits, regulators, associations and academics.

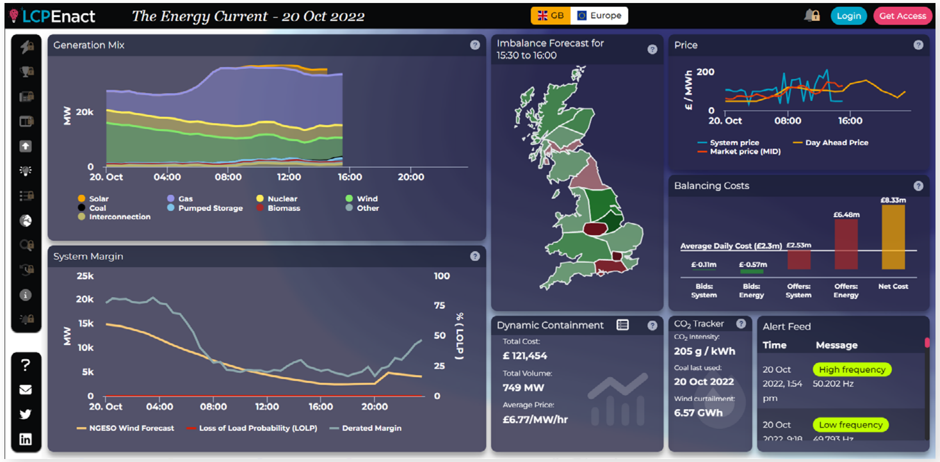
WE WORK WITH OTHER STAKEHOLDERS TO PROMOTE CONTINUED IMPROVEMENT OF THE FUNCTIONING OF FINANCIAL MARKETS CONTINUED

LCP tools used by others in the industry

Our increasingly wide range of services and activities allows us to have influence in aspects of the economy which have a material direct or indirect impact on financial markets. For example, within our energy team, we have developed a tool, LCP Enact, which provides real time power market information including short-term wind, demand and price forecasts. This platform integrates data from a variety of disparate sources to give traders and analysts one holistic, up-to-date, market view.

This tool is available to our clients – market traders and analysts – via a licence to help them, for example, navigate the volatility in short term power markets and optimise their trading strategies and use of flexible assets such as battery storage.

We also provide free dashboards of the UK and European power markets via "The Current" which is shown below:



This dashboard has been particularly popular in the media, especially during periods in late 2021 when the UK experienced much higher power prices relative to Europe.

We believe that this and similar analysis is going to be increasingly important in helping clients, market participants and regulators address issues which are likely to have a significant long-term systemic impact on the financial resilience of many individuals and companies.

THE INDUSTRY INITIATIVES WE HAVE PARTICIPATED IN OVER THE REPORTING YEAR

As mentioned earlier in the report, we are involved with several industry initiatives.

Our work on the NZICI – which was launched in September 2021 – has been focused on establishing the terms of membership, governance and reporting requirements, with a view to establishing the framework to allow members to take collaborative action where appropriate. As a firm, we are also taking steps under the commitment itself and we will separately be submitting our own NZICI interim report to the PRI for publication in Q4 2022.

A member of the Core RI team sits on the IFoA Sustainability Board. In this role, he has co-authored an article on the United Nation's Sustainable Development Goals for The Actuary magazine and contributed to research on biodiversity loss, as well as hosting relevant podcast interviews, for example, "Sustainable development and the well-being of future generations" and "Disaster Protection" as part of the IFoA's Sustainability podcast series.

Another of our LCP colleagues has participated in the Net Zero portfolio workstream with the IIGCC and has gained insights into how Net Zero is being carried out in practice, the use of offsets, reporting, definition of solutions, target setting, selecting data providers and how to assess alignment which is informing our advice to clients in this area.

We are proud that our contributions to various industry initiatives in this and in prior years have been recognised more widely.

Two LCP colleagues received IFoA Presidential awards from the outgoing President of the IFoA, Louise Pryor. Our Head of RI received the Alan Watson Award for her many years of work on resource and environment matters, helping to lay the foundations for much of the Sustainability Board's current activity. Separately, another member of our RI team was a member of a group which received a Presidential Award for helping to develop the IFoA's new Climate Risk and Sustainability Certificate.

Our firm is a member of the Investment Consultants Sustainability Working Group ("ICSWG"), along with 18 other firms. We are represented on the Steering Committee and over the year we had active roles in three of the six workstreams being run by this Group. The main areas of activity for each of these three workstreams where we had direct input are described to the right.

Stewardship:

- Production and promotion of the engagement reporting guide (broadly equivalent to the PLSA voting template) aimed at making it as easy as possible for managers to provide engagement information in a clear and consistent manner;
- Discussions with the Stewardship Regulators Group (which includes the FCA, DWP, the Pensions Regulator, FRC, Department for Business, Energy & Industrial Strategy and the Local Government Association) on the Taskforce on Pension Scheme Voting Implementation report, Stewardship Code reporting and making TCFD workable for smaller schemes; and
- Discussions and research into how investment managers are incentivised and the challenges to improve stewardship practices and accountability.

Asset owner:

- Work to produce standardised definitions in relation to sustainable investment; and
- Production of a guide for (minimum) expectations of investment consultants in relation to sustainable investing, aimed at smaller clients.

Regulation:

- Formulation of responses to the DWP's consultation on portfolio alignment metrics and stewardship guidance and (jointly with the IFoA) the responsible investment elements of the Law Commission's 14th Programme of Legal Reform;
- Initiation and development of a Net Zero pledge for investment consultants globally which is aligned with the Race to Zero campaign. This was subsequently launched in September 2021 with the support of the PRI as NZICI; and
- Engagement in more focused dialogue with various regulatory bodies.

WE IDENTIFY AND RESPOND TO MARKET-WIDE AND SYSTEMIC RISKS TO HELP PROMOTE WELL-FUNCTIONING FINANCIAL MARKETS

LCP identifies market-wide and systemic risks in the following ways:

Market-wide and systemic risks

We seek to identify market-wide risks and systemic risks which might directly or indirectly impact financial markets. We do this through:

- Analysis of historical market movements to inform our assumptions about future market developments. We undertake substantial research and analysis on the investment returns of many different investment markets and macro-economic measures, such as inflation. We typically apply a quantitative analysis to periods of extreme market movements during the past 20 years, and a more qualitative one to historic ones. 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. We use this information to help clients consider a broad range of possible outcomes and to give an indication of potential losses in a "reasonable worst-case scenario" through statistical measures and explicit market-scenario analysis.
- 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 macro-economic background; the risks to the fundamental performance of companies and other issuers of securities, the valuation of securities, as well as 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 is tasked with identifying systemic risks to investment markets. This is a new process started in the year to formalise our horizon-scanning for emerging risks and was prompted by the release of the new UK Stewardship Code. As part of its regular meetings with investment managers, economists and others, the group is starting to look more widely for possible systemic risks. Systemic risks are, by their nature, wide ranging, with examples of areas the macro research group considers including:
    - critical stakeholders in the functioning of markets such as exchanges and banks;
    - contagion risks from, in particular, other market participants defaulting on borrowings;
    - 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 a failure of a market, or a limitation on an investor's ability to realise assets (such as we have seen in Russia as a result of wide-ranging investment sanctions).

Other systemic and wide-ranging risks

In addition to considering risks that directly affect investment markets or macro-economic indicators, we also seek to identify risks to clients from other sources. These include:

- changes to laws and regulations directly affecting clients' businesses or, in the case of non-corporate clients, their main function; and
- changes to laws and regulations that affect key service providers to our clients or other stakeholders related to them.

We seek to identify these by regularly, in most cases daily, sweeping the websites and press releases of numerous firms, regulatory bodies and trade associations currently covering over 250 organisations. Our Pensions Research team is responsible for this regular review.

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, in our weekly Pensions Bulletin or individual updates as required. Any material issue is highlighted to the appropriate team at LCP. A senior management group is assigned ultimate responsibility for ensuring that any significant risk to clients is brought to their attention and appropriate consulting tools, documents and training are developed centrally, where needed.

Examples or responses to market-wide risks over the year

- Russian invasion of Ukraine – on 24 February 2022, the day of Russia's invasion of Ukraine, we issued a note to clients giving our initial view of what had happened, including the potential impact on different assets and markets. Our subsequent internal discussions as well as those with managers and other experts in the field helped to inform our subsequent commentary for clients and our recommendations to them.
- Risk of climate change / transition: in January 2022, we released an internal document titled "Climate-related risks and opportunities: identification and assessment" which, (i) sets out some examples of different types of risks and opportunities that might be relevant to pension schemes, (ii) provides explanation and commentary for each example, (iii) indicates which types of schemes they might be most relevant for, and (iv) outlines ways they might be assessed. It includes both investment and non-investment risks, for both DB and DC schemes, and is designed to support client advice on identifying and assessing climate-related risks and opportunities. We are incorporating this information in consulting materials where relevant. For example, we have developed new client slides which explain the different types of investment-related climate risks they may face which we typically present alongside the output from our LCP ACT tool (see page 12).
- Legislative and regulatory change. The DWP released a consultation in October 2021 on Climate and investment reporting: setting expectations and empowering savers. Particularly in relation to stewardship, we identified that this represented a material change – and therefore risk – in what government would be expecting from our trustee clients and so prepared a summary of the consultation and draft requirements for issue to clients within days. Members of the Stewardship Group were given responsibility for assessing this potential change in requirements for all of our trustee clients. That group has managed the process of responding to DWP's consultation, understanding the requirements, communicating these to clients and internal teams, and putting in place documentation and consulting guidance to assist clients in meeting the requirements and deadlines of this new piece of guidance – and avoiding the risk of non-compliance. This work started during the reporting period and is continuing into the next reporting period following the release of the final guidance in June 2022.
- Review of our approach to due diligence of cyber security at investment managers. On behalf of our clients, we undertake extensive due diligence of investment managers and other third-party providers of related investment services. Part of this due diligence covers the investment managers' approach to reducing and mitigating cyber-security risks. Over the year, we reviewed this aspect of our due diligence. We worked with specialist colleagues – who lead on cyber-security for LCP's business – to develop a new set of questions to put to the investment managers and set high-level, minimum standards that they should reach. For example, we now ask managers to provide details around their cyber penetration testing and vulnerability assessments, including a question on how often these tests are conducted. If these minimum standards are not met, then the managers' products would not be put forward to clients.

Principle 5

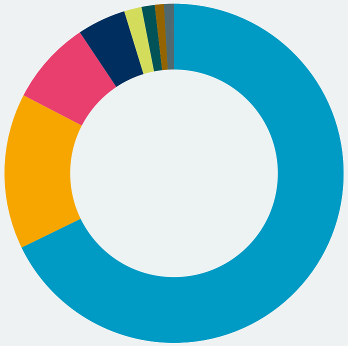
Signatories support clients' integration of stewardship and investment, taking into account, material environmental, social and governance issues, and communicating what activities they have undertaken.

SUPPORTING CLIENTS' STEWARDSHIP

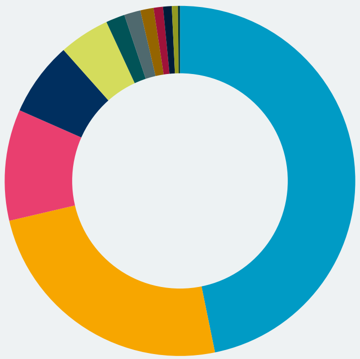
Our clients

Our business is institutional with a focus on UK clients although many of these are international in nature (we advise 43 FTSE companies) or have an overseas parent. Over 90% of our investment department's revenue originates from UK-based clients.

LCP Revenue by client for year ending 31 March 2022



LCP Revenue by department for year ending 31 March 2022



Our services support our clients' stewardship

Stewardship is a key part of our approach to investment and the advice we deliver to clients.

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). Ahead of meetings managers are issued with an agenda outlining the areas we wish to discuss, which will include stewardship-related issues such as voting, engagement and ESG. During the course of the year, we introduced RI grading frameworks for all of our main research groups, designed to enhance the consistency in our assessments and to provide further support for our researchers when conducting their meetings. The findings from these manager meetings are discussed subsequently by all the relevant research team members and the manager is scored against a number of criteria, including our assessment of their RI capabilities in relation to that specific fund.

In this context, we focus on the integration by managers of ESG considerations into their investment decision making process, the management of climate-related risks, engagement with investee companies and the use of voting rights to effect positive change in company behaviour. The manager's expectation should be that the successful application of ESG and stewardship will lead to an improved risk / return outcome from an investment in the company. By implication, this applies at the portfolio level as well. The fund-level RI assessment feeds directly into the final grading of the manager. A manager's grade affects the likelihood that it will be put forward for new mandates and whether it will retain existing ones.

Research teams are supported in their work by our RI experts. These individuals are able to help research teams with specific questions they may have about stewardship and how it impacts their particular asset class and can provide guidance on specific issues to explore or questions to ask. While teams conduct fund-specific stewardship research on a regular basis, we assess managers' stewardship capabilities at the firm level as well (**see box 3**).

We support our clients' stewardship in several ways:

- working with our clients to agree appropriate ESG, voting and engagement policies and incorporating suitable wording into their Statement of Investment Principles (SIP) to reflect these, as required by law;
- helping them incorporate RI / stewardship criteria into their manager selection exercises by designing our research process so that:
  - we ask the right stewardship questions of managers,
  - our research notes include sufficient detail on their responses,
  - these points are included in our internal discussions when grading managers,
  - our process for shortlisting managers gives due weight to stewardship and managers who present are given sufficient time to address the topic;
- helping them to monitor and assess their managers' stewardship policies and the implementation and effectiveness of these;
- supporting them in engaging with their managers, using an enhanced approach which we introduced when we published the results of our 2022 RI survey;
- working with our pension trustee clients to produce, as and when required, their annual Implementation Statement;
- developing tools and services that clients can use to improve their stewardship, for example:
  - as noted in our report last year, we undertook a research project in the second half of 2020 into ways that climate change and sustainability criteria can be incorporated into buy and maintain credit mandates, allowing clients to take account of stewardship-related matters in their corporate bond allocations. This work has developed further during the year (**see box 10**);
  - climate change scenario analysis (**see box 4**);
  - our ESG and climate dashboards (see image on page 26) are accompanied by details of the main holdings that are driving the metrics presented – for example, the five holdings with the highest carbon footprint and the five holdings with the lowest governance scores – so that clients can use this information in their discussions with managers to probe more effectively how ESG factors are being incorporated into the investment process;
- helping one of our largest clients to introduce ESG into their DC default strategy in a way that specifically aligns with their members' beliefs. Our client worked with a market research agency to undertake several colleague workshops to explore which investment themes mattered most to them. This provided a set of 'Colleague Priorities' covering a range of themes and sub-themes. We then worked with Legal & General and Solactive to develop a fund and index specifically tailored to support the key themes identified, making sure that both the ethical and fiduciary case stacked up. Completion of the project saw the launch of the new fund, using a bespoke index tilted to the globally defined UN Sustainable Development Goals, weighted according to Colleague Priorities;
- producing a wide range of documentation and training for our clients on ESG and stewardship – for example, news alerts, our quarterly "Macro, markets and much more" analysis, various blogs and our climate resource centre for pension trustees – and running roundtables and webinars on topical issues.

We mentioned in our report last year that we collaborated with a major fund manager to develop an index-tracking low carbon equity fund range. Pleasingly more than half of the £3.9bn inflows in assets since its launch in April 2021 were non-LCP advised assets, showing that the design met the needs of other investors too.

BOX 10: CREDIT MANDATES

Much attention has been focused on the ESG characteristics of listed equity portfolios and significantly less on those of fixed income mandates, including corporate bonds. This seemed odd to us, given the material and growing allocations to the asset class amongst many of our clients, for example, mature and maturing DB pension schemes. That was even more the case for the rising allocations to portfolios, such as buy and maintain, for which the aim is to undertake as little activity as is prudently possible with the underlying security holdings, many of which would be held for several years.

As a result, we decided to make "ESG+" our default approach to buy and maintain credit reflecting the alignment between the holding period and sustainability issues. We've since worked with 15-20 clients on over £9bn of segregated buy and maintain credit mandates to incorporate sustainability guidelines, ranging from basic emissions-focused guidelines to more forward-looking Net Zero alignment and "do no significant harm" sustainability screens or Sustainable Development Goals tilts. We have also provided input to several managers on the development of new pooled buy and maintain funds.

We saw the opportunity to leverage the insights and influence gained from working on these mandates and portfolios. Accordingly, we decided to draft our own climate transition guidelines in line with the IIGCC's Net Zero Investment Framework which we have used as a starting point for discussions with fund managers on other credit strategies, including a short-dated credit pooled fund, for which the manager is currently seeking regulatory approval.

And since we want these stewardship ideas to be adopted as widely as possible, we have sought to promote them via blogs and podcast interviews.

We seek our clients' views and feedback

We seek client feedback on an ongoing basis on all aspects of our work with them and do this in a variety of ways, for example, our client survey in which all clients are encouraged to participate. Please **see box 1** for the headline results of the last survey.

As described in **box 1**, we also run one-to-one client-specific client care meetings (139 in the reporting year) where clients can discuss with someone senior from LCP not on the client team the service they receive from us and ways it could be improved.

In addition, in March 2022 we launched an ESG "pulse" survey. This survey was shared with clients, prospects and other contacts and asked them to share their views on which ESG issues they considered most important at that time.

Our pulse survey listed a number of key themes under E, S and G (eg under S one of the topics was human capital) and provided examples of a number of issues (eg fair pay) that are relevant to each theme. The purpose of the survey was to gain some insight into the collective views of our clients on these important matters ahead of the expected requirement (now confirmed) that DWP would expect trustees to select a number of "stewardship priorities" as part of its new stewardship guidance for them.

And of course, our client teams seek regular feedback from their clients themselves about whether what we are delivering to them is what they want, including in relation to ESG and stewardship matters. This feeds directly into the research we carry out and how we develop our services.

The rationale for our approach is as follows. First, we believe that, as a firm, it's important that from time to time we have insight from our clients as a whole, through the client survey, as to how we are performing across the range of services we provide to them. If there are any systemic issues or opportunities, we want to be able to address those.

Second, at the individual client level, we need to know what works for them. We pride ourselves on giving clients the bespoke service that suits them best. After all, if good advice is being delivered ineffectively then it's not much use.

Third, the detailed and high frequency comment that comes via regular 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.

How we communicate with our clients

We communicate regularly with clients face-to-face, online, through regular written reporting, through blogs, webinars, podcasts, via our website and by providing them with tailored online access to their own scheme-specific information. The frequency of communication is very much down to the client but would typically vary from quarterly to daily, depending upon the client, their circumstances as well as developments in the broader market environment.

We will normally meet with our clients face-to-face once a quarter as part of their formal meeting cycle, but of course we are always available to discuss matters with them whenever they want to do so. For example, when there are major market developments, such as how they should respond to the heavy falls in markets in Q1 2022 following the Russian invasion of Ukraine, we proactively approach clients. We often find that shorter, more frequent meetings work best.

We think it's important to provide a mixture of general information and advice on topics, coupled with scheme-specific training, advice and recommended actions for our clients.

To enable clients to receive the right level of information, we tailor email alerts regarding important external developments or new ideas. More generally, we use several ways to communicate with our clients. We provide them with regular client-specific – and where needed ad hoc – written communications, the style and content of which is tailored to suit their needs. Many of our pensions clients receive our weekly **Pensions Bulletin** which summarises and comments on policy, regulatory and other industry news. For significant events, such as the Pensions Regulator's powers under the Pension Schemes Act 2021 that were introduced from 1 October 2021, we produce additional materials such as a news alert summarising the key points (sent automatically to all Pensions Bulletin subscribers along with personalised emails as appropriate) and central PowerPoint presentation materials for client teams to tailor.

For items of general interest which are not client-specific, we use, as noted, a variety of communication means – eg blogs, podcasts, webinars. Our website contains lots of relevant information for clients, including a **specific area devoted to RI / stewardship** and a **climate change and sustainability insights hub**.

Each quarter we produce our "Macro, markets and much more" analysis for clients.

Following the launch of our Investment Uncut podcast series in February 2020 we have continued to host regular podcasts. Our LCP hosts are joined by internal and external guests each week to discuss issues that impact investment markets. Over the reporting year, we had c20,000 listens.

As much as as we like to talk to and engage with our clients, we know that sometimes they just want to find things out for themselves. Our clients can therefore access tailored, on demand reporting allowing them to monitor their investments on a regular basis. For example, LCP Visualise, Horizon, Monitor and Advance combine our consulting approach with intuitively easy to use technology and real-time analysis. They provide clients with funding and investment analytics, allowing them to make quicker and better decisions. How often clients choose to access these facilities is up to them. Some do it every day, often more than once, while others are only occasional users.

We take into account our clients' views and feedback

If we don't provide our clients with the service they want, then they won't stay with us. That's one reason we listen to what they have to say very carefully.

We described above the ways in which we seek client feedback. What matters is what we then do with it.

A good example of this from the reporting year is the pulse survey referred to above which we ran for clients asking for their views on what ESG issues they considered most important. The survey results will be a very helpful tool in driving our thematic engagement with managers on ESG topics. They have also informed the topics we suggest that pension trustee clients consider when setting their stewardship priorities in line with the DWP's new guidance.

When developing the technology that we use to advise clients, as a matter of course we let them see early versions so that we can quickly adjust what we are doing to take account of what works – or doesn't work – for them. An example of this would be the most recent development work we carried out on LCP Sonar, much of which was informed by client feedback on earlier iterations.

And as we note elsewhere in the report, our client teams seek regular feedback from their clients themselves. So for example, while we recognised that the ESG characteristics of credit mandates warranted greater attention (**see box 8**) than they were generally receiving, it was good to see this gap confirmed by clients in our conversations with them.

We evaluate our methods for communicating with clients and understanding their needs, and evaluate their effectiveness

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 them a similarly flexible set of options for sharing their views and thoughts with us.

We communicate face-to-face, via written materials, through recorded materials as well as making information available for clients to review at their leisure.

As we've described elsewhere, to help us understand their needs, we offer clients a number of contact points (eg client team members, non-client team members, third parties) that they can use to provide feedback, and we solicit their views both one to one (coffees, post meeting chats) as well as at the aggregate level (eg our triennial client survey, ESG pulse survey).

Inevitably it is hard to assess the effectiveness of our communication with clients directly, but we seek to do it by various means:

- first by seeking feedback 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;
- second, by 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;
- third, by looking at what is happening in the wider world – 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 (see page 15).

Principle 6

Signatories review their policies and assure their processes.

REVIEW AND ASSURANCE

We review our policies and activities to ensure we support clients' effective stewardship

We have reviewed our policies and activities in a number of ways, including:

- being receptive to comments as part of our regular meetings with clients;
- talking internally often and at length about what's worked and hasn't worked with clients when trying to help them with their stewardship – this very much remains work in progress. As an area that's developing and expanding rapidly it's a challenge for all involved to keep up with all of the developments taking place and to then turn that understanding into specific actions. With so many different aspects to stewardship, one of the key things we've found – and are still working on – is how to clearly show the interconnectedness of the various types of stewardship activity available to clients and how they can reinforce / build upon one another; and
- just as when we evaluate our methods for communicating with clients, we also look at what is happening in the wider world – whether that's what managers are telling us, what regulators and legislators are proposing, or what our competitors are saying and doing.

Over the reporting period, we held quarterly or more frequent meetings of our RI Panel (now the ESG Panel as explained on page 17) and Stewardship Group, which provided a forum for us to review the effectiveness of our activities. In doing this, we have taken input from senior members of the business who are less involved in the day to day implementation of those services and who are thus able to take a more detached perspective if necessary – it's easy for those committed to a field, particularly something such as stewardship, to become focussed on a particular way of thinking or doing things. Both groups acted as a sounding board for new ideas and activities; the RI Panel (now the ESG Panel) provided strategic input on both ESG and stewardship matters, whilst the Stewardship Group focuses solely on stewardship activities and is involved in carrying out those activities.

As mentioned under Principle 2, over the reporting period we reviewed our ESG strategy and supporting governance structure. The updated ESG strategy review involved several internal consultation meetings with investment and non-investment partners and staff to help shape our plans. Taking effect from 1 April 2022, the aim of the new strategy is to focus our ESG work more effectively on what matters – to provide greater clarity on how we – and our clients – move from theory and development to action. The ESG Working Group is responsible for successful implementation of the ESG strategy, with day-to-day work carried out by the Core RI team, a group of climate experts within our Pensions Actuarial department and various other expert teams.

In carrying out its work, the ESG Working Group is accountable to the ESG Panel which also provides market intelligence to inform the strategy's implementation and evolution. The purpose and operation of these two groups are described earlier in this report, under Principle 2.

We have assurance processes in place to support our clients' stewardship

The assurance processes we have used to date are as follows:

- "Do", "check", "review" – as with everything we produce, the stewardship materials we develop for clients are subject to this process, ensuring that fresh eyes and additional perspectives critique the advice.
- We monitor work that has been provided to clients for quality and compliance with internal processes. An independent team reviews a selection of reports, presentations and advice provided to clients to verify that the appropriate processes have been followed. If it is found that the process has not been followed, the senior individual responsible for the advice is asked for an explanation, and, if appropriate, corrective action is taken. Processes themselves are reviewed using the outcome of these monitoring reviews.
- Implementation Statements – as part of our ongoing and regular check of our client materials, our Investment ProfCo oversaw a review of Implementation Statements from a professional perspective during the reporting period, liaising with our RI team to ensure that any findings were incorporated into our templates for the future benefit of clients. The team continues to improve these Statements where possible.
- Manager research – during the year, our RI experts reviewed a sample of research views of managers' fund-level RI practices, drawn from across the main asset classes. The purpose of the review was to assess the quality of the research views and identify areas for improvement. For example, reviewers considered whether the views covered all important aspects of RI, whether there was sufficient depth and whether the descriptive assessment was consistent with the score awarded. The findings were largely positive and confirmed that the RI expertise of our researchers is developing as we would expect. The review helped us identify areas for further training and enhancement of our RI grading framework, as well as feedback on specific findings to the researchers concerned.

We ensure our stewardship reporting is fair, balanced and understandable

To ensure this Stewardship Report is fair, balanced and understandable we have sought feedback from a range of individuals across the firm: our Conflicts and Ethics Committee, Stewardship Group, ExCo, LCP Board, Head of CSR, investment partners, as well as senior individuals from outside the investment department who have not been involved in producing the reporting.

In terms of our reporting to clients on our assessment of managers' stewardship practices, we discuss internally our views on the manager, including their stewardship processes, following our research meetings with the managers. As described under Principle 3, input is provided by other members of the research group as appropriate before the views are finalised. We are happy to hold feedback calls with the manager, giving them an opportunity to hear what we think as well as the chance to challenge what we are saying.

We incorporate feedback into our continually evolving and improving stewardship practices

The feedback we get directly affects what we do. For example:

- At the regular responsible investment (RI) drop-in sessions for investment partners (see page 13) we discussed:
  - The "red flags" that we should use as part of our 2022 RI Survey analysis allowing us to canvas a wide range of views and experiences as to what clients might want and expect to see fall into this category; and
  - The design of the RI page available for inclusion in our client performance monitoring reports, enabling us to design the page in a way that lent itself to an easy to articulate narrative.
- The TCFD requirements for pension trustees have increased the focus on investment managers' consideration of climate-related risks and opportunities, and hence the importance of this in our fund-level RI assessments. Having amended the structure of our internal template used to record researchers' views following a research meeting, over the year, we highlighted the change and its rationale at a department training session, provided good examples of voting and engagement wording for each of the major asset classes, and offered additional support for researchers on assessing voting and engagement;
- We continue to work closely with managers to improve the quality of the reports they provide to clients with reference to voting;
- As mentioned under Principle 4, working with the ICSWG, we helped develop an Engagement Reporting Guide, which is designed to support the consistent reporting and collection of engagement data from managers;
- In response to increasing client interest, in early 2022, we started to request RI and climate data, including Net Zero information, from managers centrally each quarter to enhance our clients' RI reporting in their investment monitoring reports; and
- As part of the Implementation Statement process, we plan to work with clients to help them met the new requirements in the DWP's new stewardship guidance.

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At LCP, our experts provide clear, concise advice focused on your needs. We use innovative technology to give you real time insight & control. Our experts work in pensions, investment, insurance, energy, financial wellbeing and business analytics.

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