LCP's 2020 Stewardship Report

Highlights of our stewardship and responsible investment activities over 2020

March 2021

FOREWORD

The purpose of this report is to highlight how we have supported our clients with their stewardship and responsible investment activities in the year to 31 December 2020 and implemented the principles of the UK Stewardship Code 2020. It also describes our engagement with investment managers and advocacy within the investment community more generally, and with regulators to help raise standards of stewardship and responsible investment practices.

LCP believes that good stewardship and responsible investment practices are consistent with delivering better financial performance for our clients. Stewardship can enhance investment performance by encouraging companies to act in the long-term interests of their shareholders (eg trustees) and their ultimate beneficiaries. 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 supports the Financial Reporting Council's UK Stewardship Code, recognising that we have considerable influence over how our clients address stewardship. We particularly welcome the revised 2020 Code and its step-change in expectations for stewardship standards. Its new definition of stewardship encourages a more holistic mindset that seeks to safeguard the long-term health of the financial system, not just address issues affecting individual companies, with stewardship being defined as:

> *the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefit for the economy, the environment and society*

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.**

With this in mind we are helping our clients to apply the Code's principles, with further support for those who want to become signatories in their own right.

HIGHLIGHTS FOR THE YEAR TO 31 DECEMBER 2020

In the last year, we have seen responsible investment issues – comprising ESG (environmental, social and governance) factors and stewardship – move into the mainstream for our clients. Covid-19 and its impact on global markets have served to accelerate that, raising clients' awareness of the risks of systemic issues such as climate change, cyber risk and further pandemics and demanding effective stewardship of their investments.

LCP is strongly committed to supporting its clients and the wider investment community with this fast-moving area. I am therefore proud to report that over the last year LCP has taken action on multiple fronts to enhance our service for clients. The highlights are summarised below with further detail 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 19**).
- 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 2020 Responsible Investment (RI) survey of around 140 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 a range of new responsible investment tools covering voting data, portfolio-level ESG reporting (**see box 9**) and climate scenario analysis (**see box 4**).
- Working with investment managers to develop new investment products to meet the climate-related and sustainable investment objectives of our clients (**see page 33**).
- Collaborating in the formation of the Investment Consultants Sustainability Working Group ("ICSWG"), with four of LCP's Responsible Investment team proactively contributing to initiatives in the group.
- Encouraging our clients' investment managers to sign the 2020 Code, writing to approximately 140 of them in June 2020.
- Leading the development of a Pensions and Lifetime Savings Association (PLSA) Implementation Statement guide for UK pension scheme trustees, published in Summer 2020 (**see box 8**).
- Taking an active role in the development of the Pensions Climate Risk Industry Group (PCRIG) guidance on climate change for UK pension scheme trustees that was published in January 2021.
- Responding to industry-wide consultations on stewardship matters such as the Department for Work and Pensions (DWP)'s consultation on the introduction of climate-related regulations for UK pension schemes with over £1bn of assets.

As governments prepare to 'build back better' and the UK hosts COP26[1] in November 2021, we fully expect the trends we have seen to continue and LCP is positioning itself to serve our clients accordingly. I look forward to reporting further big strides in supporting our clients' stewardship and responsible investment in next year's Report.

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 a member of our firm's Executive Committee (ExCo).

[1] 26th United Nations Climate Change Conference

CONTENTS

OUR APPROACH TO STEWARDSHIP

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

LCP is a service provider offering actuarial, investment, business analytics and pensions administration services 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. They appoint external investment managers to manage their assets and to conduct stewardship on their behalf, often through pooled funds.

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 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.

Source: UK Stewardship Code 2020

Principle 1

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

PURPOSE OF THE ORGANISATION

Fundamentally, we are a business that strives to achieve the best for people. Whether that's our staff, our communities, our clients, or perhaps most critically, the beneficiaries of our clients whose welfare is directly impacted by the advice that we give. This has many facets which are described in more detail below – as you'll see, putting people first shines through in every area of our business.

While our clients are institutional, 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.

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 is why we choose to have representatives on over 60 different external professional and trade committees and groups, why we share our knowledge and expertise with others in our industry, and why we contribute to policy development and the wider public interest. The range of our 2020 activities are testament to this – from our annual Financial Wellbeing report looking at the financial health of the country, to our campaign raising awareness about the underpayment of state pension to women, as well as our initiatives to help our asset owner clients better understand climate-related risk and its implications for the sustainability of their investments and their beneficiaries' future.

Actuarial, investment and pensions administration advice, and directly related services are our core business.

Other services relate to insurance consulting, financial well-being consulting, energy analytics, health analytics and football analytics. Of our work, around 25% relates to investment services. We have hundreds of clients but millions of people are impacted by our advice. As pension provision is increasingly provided via defined contribution rather than defined benefit arrangements, the quality of our advice directly impacts the financial circumstances of individual members more and more. We understand this and the responsibility it brings, and our aim is to continually strive to improve these outcomes.

The firm dates back to 1947, and since then has steadily grown to be the largest independent, owner-managed pensions consultancy in the UK and Ireland. Our turnover was £126m for the year to 31 March 2020 and this has grown consistently at a rate of approximately 10% per annum for the last five years. 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 the attention of our business on what our clients need and value.

The partners own the majority of the business, with a minor non-controlling stake held by Charterhouse, a private equity firm. An Executive Committee (ExCo) chosen by our 135 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.

SERVICES TO SUPPORT OUR CLIENTS' STEWARDSHIP

In our role as an investment service provider we support our clients' stewardship of capital directly through the following primary activities:

- Training and development;
- Helping to establish and review our clients' investment policies, including in relation to ESG (environmental, social and governance) factors, voting and engagement;
- Setting investment strategy, taking into account market-wide and systemic issues such as changes in interest rates, currency risk and climate change;
- Selecting, monitoring and reviewing investment managers and their funds to implement the strategy;
- Developing short, medium and long-term investment pathways to meet their objectives (for example, market-dependent and/or time-based de-risking frameworks);
- Assessing and understanding risks, and implementing mitigation strategies;
- Providing independent oversight of fiduciary arrangements;
- Meeting regulatory requirements;
- Assessing value for money of investment managers and ensuring fee arrangements are transparent;
- Reviewing and reporting our clients' investment managers' voting and engagement activities;
- Using advocacy through our thought leadership, consultation responses and membership of industry bodies (such as the Institute and Faculty of Actuaries (IFoA), PLSA, Charities Investor Group, ICSWG) to encourage responsible stewardship throughout the investment value chain; and
- 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.

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 to this include:

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

CULTURE

We would describe our culture as professional, client-focused and friendly. Our approach to dealing with our own people and with our clients and other professionals is to work in a collaborative, constructive and supportive manner, always going the extra mile when we can to deliver more than may be expected. This is underpinned by the following commitments:

Our client promise, LCP CARES:

This promise - which stands for Clients Always Receive Exceptional Service – is our service standard and promise to our clients that everyone at all levels will strive to go the extra mile. This promise runs through the heart of the firm.

Our commitment to corporate social responsibility:

As a firm, we recognise that we have an impact that goes beyond our core activities. We do all we can to ensure that the impact we have is a positive one, whether it is our impact on the environment or shaping the next generation of our workforce. Striving to be a responsible, sustainable business impacts a wide range of business decisions. The LCP Foundation donates over £150,000 per annum to various charities and supports the causes our people feel passionate about by making direct grants, matching our people's fundraising and extending the volunteering opportunities available. We have an ongoing commitment to reducing our impact on the environment with a network of Green Champions to encourage engagement.

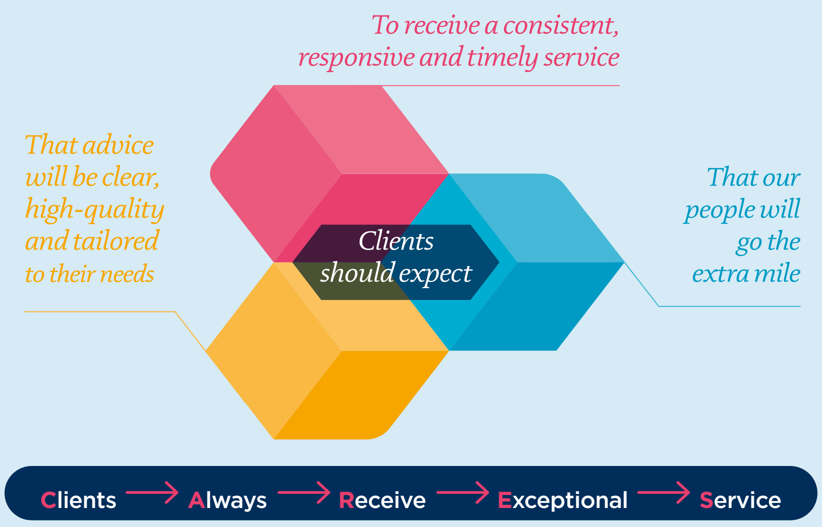
We support diversity and inclusion:

We want everyone to have the opportunity to fulfil their potential at LCP. We have a very active Diversity & Inclusion (D&I) Group, along with four networks – Women, LGBT+, Multicultural and Wellbeing – that are helping us build an inclusive workplace where all forms of diversity are valued. We also contribute to initiatives beyond LCP – such as the investment industry Diversity Project (see **box 5** for details).

Looking after our team:

We have seven "People Principles" which are core elements of LCP's business strategy. Our people are our biggest asset, and we want to foster and nurture our people and allow them to grow; this is at the very heart of our People Principles. This includes initiatives like 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.

BOX 1: LCP CARES



By focusing on our clients' objectives, giving clear recommendations, and proactively volunteering opinions, we believe we can help our clients make more informed and better decisions.

2020 has thrown up many challenges, not least a new way of working for all. When the pandemic struck and we were forced to work from home, staff were given an allowance to purchase the equipment they needed to successfully relocate and to be able to continue to serve our clients as effectively and efficiently as before. While the vast majority of staff have been working from home since March 2020, our offices have remained open when allowed, for those who opted or who preferred to work there.

Despite the huge change to our working culture, clients have praised us on our continued high levels of service as demonstrated by our Client Care results (**see box 2**).

We have also looked for other ways to help one another – for example, the frequency of team meetings has increased, with some work-related but others socially focussed, virtual coffees with others we may not have worked with before have also been arranged, as have our usual departmental socials. We've recognised that these and other opportunities to chat and to engage are really important at the moment but are in many ways an online extension of how the firm operates in more normal times.

VALUES

We expect all LCP staff to act professionally and ethically. We are regulated by the Institute and Faculty of Actuaries (IFoA) and our advice is subject to the IFoA's Quality Assurance Scheme (QAS). Many of our investment colleagues hold professional qualifications, or are working towards them, whether qualified actuaries or Chartered Financial Analyst (CFA) charter holders. All colleagues undertaking or having achieved these qualifications are subject to the highest ethical and professional standards.

LCP's People Principles

LCP's client service is built on five guiding values:

Quality and innovation

We are committed to providing innovative but practical solutions tailored to our clients' needs.

Clear communication

Our advice is always clear and jargon-free.

Industry focus and international expertise

We have industry experts with extensive experience in key sectors and we have specialists with the ability to help multinational clients make decisions across their network.

Results-driven advice

Every solution is geared towards delivering maximum benefit. We invest significant time in gaining insight into our client's business strategy, operations and goals before providing advice.

Commitment and continuity to clients

We adopt a hands-on approach at LCP so that we can get to know our clients and build long-lasting relationships which work.

OUR INDEPENDENCE

We are an independent owner-managed firm. We have no LCP investment 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 achieve that. For example, we have worked with investment managers to provide new investment products to meet our clients' needs in the following areas:

- multi-asset credit portfolios;
- emerging market multi-asset portfolios;
- dynamic LDI and equity-linked bond funds; and
- climate-tilted equity funds (**see box 10**).

At no time would we collect any fees or commission from managers in respect of these products, in order to maintain our independence and integrity.

BUSINESS MODEL AND STRATEGY

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

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

We plan to continue to grow the business at 8-10% pa over the long term (having grown consistently at a rate of approximately 10% per annum for the last five years). The reason for this planned growth is that it is at the optimum level to create long-term career development opportunities enabling us to attract and retain the most talented consultants in our market.

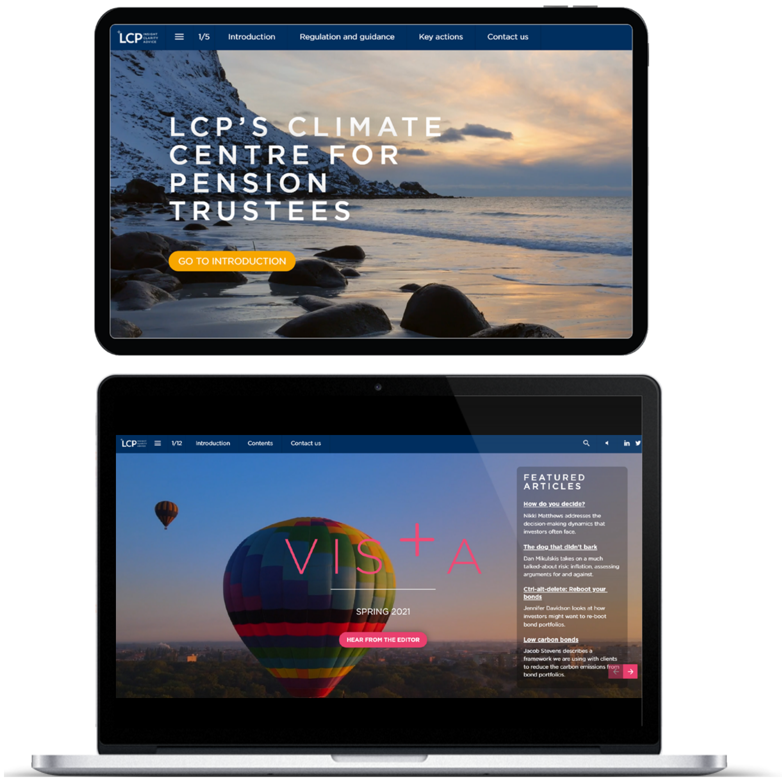
We aim to achieve this growth by focussing on:

- Increasing our market share for the very largest pension schemes;
- Broadening our investment consulting services to advise charities, endowments, sovereign wealth funds 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 both pensions and non-pensions clients;
- Maintaining our independent status and not offering fund management products. This is increasingly seen as a differentiator compared with our larger competitors;
- Building on our strong pensions expertise in defined contribution (DC) pensions consulting. Our DC business grew by 8.6% in the financial year 2019/20, consistent with recent years, and recognising the growing importance of this area to our clients we have recently added Financial Wellbeing as a complimentary service; 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 the 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 their provisions. We even work with Premier League football clubs 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

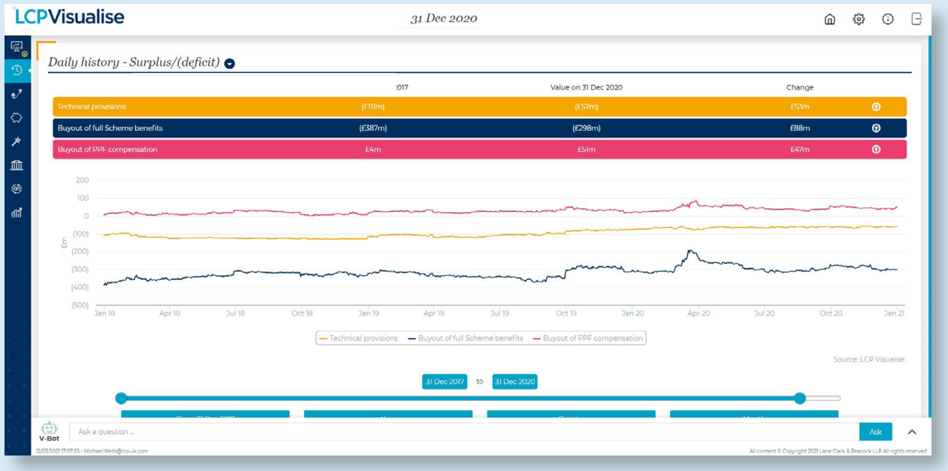
This is an area where our clients tell us we stand out. We are widely recognised for our practical consulting approach and the use of technology in a pragmatic way to help support our advice and clients' decision making, as well as to continuously improve the cost efficiency of our work. We are constantly evolving and improving our technology in response to our clients' needs. All our technology is developed in-house by a specialist development team with no offshoring or subcontracting of systems or calculations – this means our offerings are bespoke to our clients' needs and wants, providing our clients with maximum flexibility.

We are able 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 new ideas and innovations to clients that are relevant to their situation, for example, new investment opportunities, legislative changes or changes in investment conditions.



Integrated risk monitoring dashboard

We developed an integrated risk monitoring dashboard in 2020 to use with DB pension scheme clients.



To enable clients to receive the right level of information, we tailor email alerts regarding important external developments or new ideas.

We produce regular briefings (drawn mainly from centrally produced material) for inclusion in client meetings packs (quarterly for most clients), and support this with bespoke trustee training sessions.

LCP Cloud – day by day updates

Our clients can access tailored, on demand reporting allowing them to monitor their investments on a daily basis. LCP Cloud is our flagship software, giving us and our clients instant access to key pension scheme information and important investment metrics. It provides data and analysis quickly and efficiently, meaning we can give better advice and our clients can make decisions more quickly. Having "live" information has never been more important. We have helped dozens of clients make informed, quick (and ultimately profitable) decisions as the Covid-19 pandemic unfolded rapidly over 2020.

LCP Select – context is key

Over 2020, we launched LCP Select, our tool to help clients put manager performance and wider fund metrics into context, and understand whether they're obtaining good value for the fees they pay. The tool provides key statistics on clients' managers alongside peer group data for comparison, ultimately helping our clients make better, more-informed decisions.

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

As a successful, independent firm, focussed on delivering steady reliable growth, we are able to take a long-term view, 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 2020, we have, for example:

- helped clients devise, implement and then monitor policies relating to stewardship matters;
- 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 issues into their security research and portfolio construction;
- worked with investment managers and others to develop specific funds and solutions that we believe are necessary to address important stewardship challenges – eg climate change (**see box 4**);
- discussed what investment portfolios might look like in 5, 10, 20 years if they are to deliver on net-zero 2050 climate targets;
- trained all of our investment staff and partners on stewardship matters, such as ESG and voting, and made this information available to all of our other colleagues (via on-demand video recordings), reflecting the transparent nature of our culture; and
- produced training and education materials for clients.

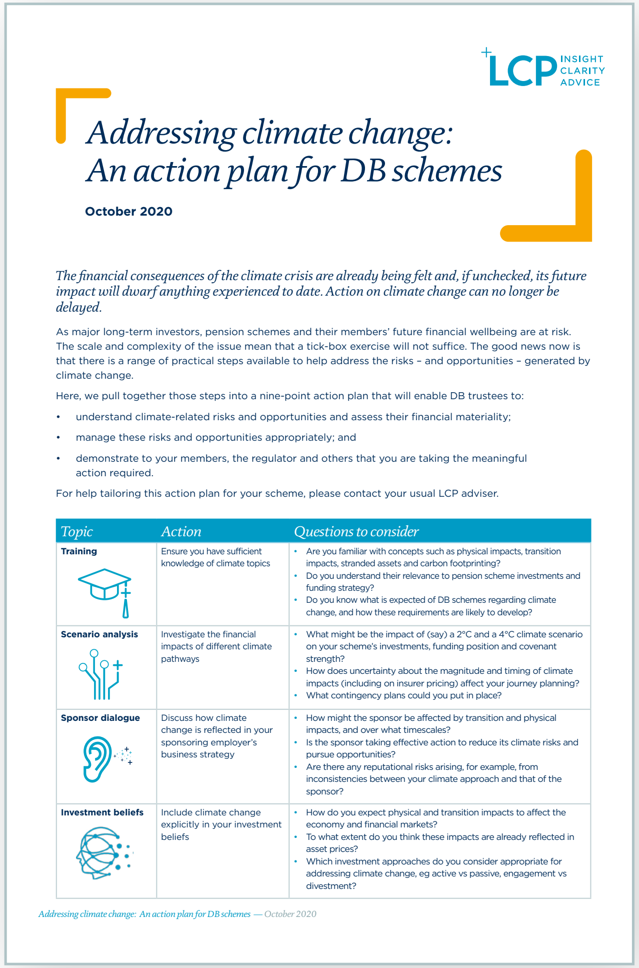
A further example of our work on stewardship is the climate change action plans we published for our DB and DC pension fund clients, as well as pension fund sponsors, in October 2020. These plans provide trustees with specific actions they can consider taking to address the climate risk challenges they and their members face. We had recognised that, while many trustees and sponsors were concerned about the issue, they were unclear on what action they should be taking. The plans provide a series of practical and important steps which will make a meaningful difference.

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. If clients thought this wasn't the case, then they wouldn't stay with us.

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 energy markets and sovereign wealth funds). Our business growth has been very strong for several years, both in absolute terms and relative to our peers, so we think that points to clients believing that we deliver a high-quality service focussed on their best interests.

We also seek feedback from clients directly.



LCP INSIGHT CLARITY ADVICE

Addressing climate change: An action plan for DB schemes

October 2020

The financial consequences of the climate crisis are already being felt and, if unchecked, its future impact will dwarf anything experienced to date. Action on climate change can no longer be delayed.

As major long-term investors, pension schemes and their members' future financial wellbeing are at risk. The scale and complexity of the issue mean that a tick-box exercise will not suffice. The good news now is that there is a range of practical steps available to help address the risks – and opportunities – generated by climate change.

Here, we pull together those steps into a nine-point action plan that will enable DB trustees to:

- understand climate-related risks and opportunities and assess their financial materiality;
- manage these risks and opportunities appropriately; and
- demonstrate to your members, the regulator and others that you are taking the meaningful action required.

For help tailoring this action plan for your scheme, please contact your usual LCP adviser.

Topic	*Action*	*Questions to consider*
Training	Ensure you have sufficient knowledge of climate topics	• Are you familiar with concepts such as physical impacts, transition impacts, stranded assets and carbon footprinting? • Do you understand their relevance to pension scheme investments and funding strategy? • Do you know what is expected of DB schemes regarding climate change, and how these requirements are likely to develop?
Scenario analysis	Investigate the financial impacts of different climate pathways	• What might be the impact of (say) a 2°C and a 4°C climate scenario on your scheme's investments, funding position and covenant strength? • How does uncertainty about the magnitude and timing of climate impacts (including on insurer pricing) affect your journey planning? • What contingency plans could you put in place?
Sponsor dialogue	Discuss how climate change is reflected in your sponsoring employer's business strategy	• How might the sponsor be affected by transition and physical impacts, and over what timescales? • Is the sponsor taking effective action to reduce its climate risks and pursue opportunities? • Are there any reputational risks arising, for example, from inconsistencies between your climate approach and that of the sponsor?
Investment beliefs	Include climate change explicitly in your investment beliefs	• How do you expect physical and transition impacts to affect the economy and financial markets? • To what extent do you think these impacts are already reflected in asset prices? • Which investment approaches do you consider appropriate for addressing climate change, eg active vs passive, engagement vs divestment?

Addressing climate change: An action plan for DB schemes — October 2020

BOX 2: CLIENT CARE AND OUR CLIENT SURVEY

We have several ways to help us ensure that we perform in line with client requirements and measure our clients' satisfaction.

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-specific 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. In Q2 of 2020, we shared our experiences of online client meetings through various internal forums, to help everyone adapt rapidly to new ways of working with our clients.

We held 121 client care meetings in 2020. As well as their qualitative feedback, clients rated us as follows:

- 8.6 out of 10 average satisfaction score (where asked); and
- 9.2 out of 10 average recommendation score (where asked).

Aside from this structured arrangement, we are very keen to receive informal feedback from our clients on an ongoing basis, for example, at the end of a meeting, or over a quick coffee. This really helps us to tailor our service to exactly what our clients want – every client is unique and has their preferred way of working, and our personal and attentive service means we are well placed to deliver that and ensure that what matters to the client is reflected in the delivery of LCP CARES to them described in **box 1**.

As part of our client satisfaction programme, we undertake a triennial client survey. Nearly 400 clients participated in our 2019 client satisfaction survey and we were delighted with the results which echoed those of previous surveys.

Once again, the results our client survey showed the benefit of our clent service programme:

91%

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

86%

Scored 8, 9 or 10 for overall satifaction

8.4/10

Our average satisfaction score

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 in the last two years are outlined below:

- Professional Pensions UK Pensions Awards – Investment Consultancy of the Year 2020 and 2019
- Financial News – Investment Consultant of the Year 2020
- Professional Pensions UK Pensions Awards – Diversity and Inclusion Award 2019
- Pension & Investment Provider Awards – 20 Years of Excellence in Defined Contribution 2019 (Pensions Expert)
- Pension & Investment Provider Awards – Investment Consultant 2019 (Pensions Expert)

Internal oversight

We take conflict of interests 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.

External oversight

Our external regulator, the Institute and Faculty of Actuaries (IFoA), which regulates in its capacity as a Designated Professional Body (DPB), marked us very highly in the last external compliance visit (which assesses our compliance with the IFoA's DPB handbook) 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

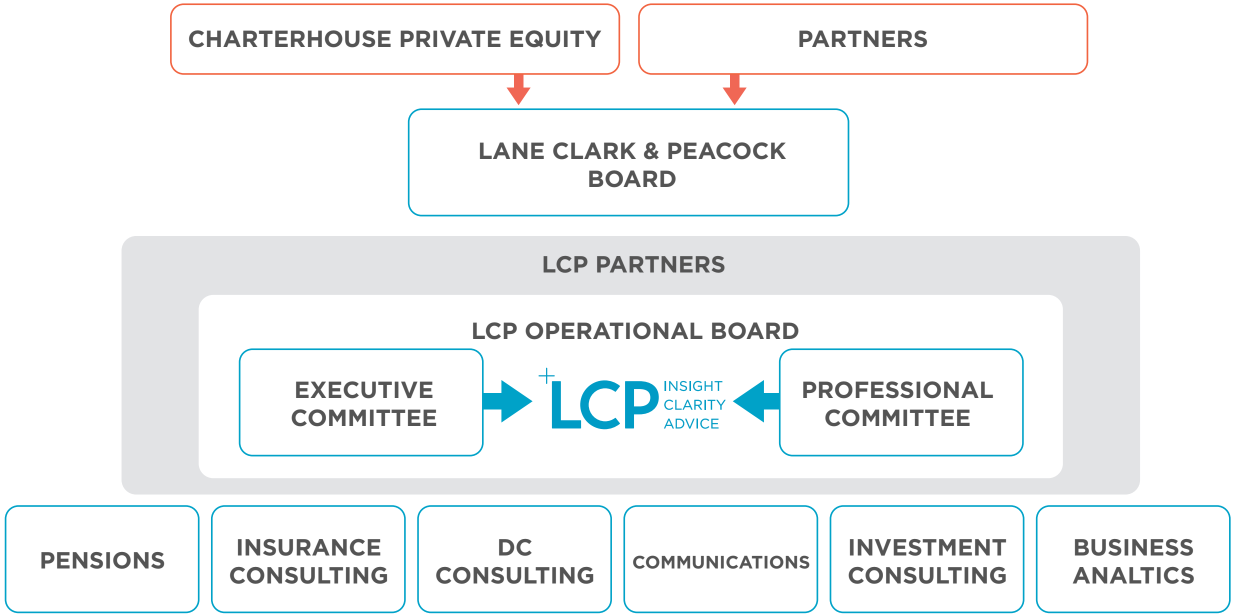
Following the requirements that resulted from the CMA's review of the investment consulting industry in 2018, over 2020, clients started to assess our performance as investment consultants against the investment objectives we agreed with them. We expect these reviews to become common for all our pension trustee investment clients over 2021.

Principle 2

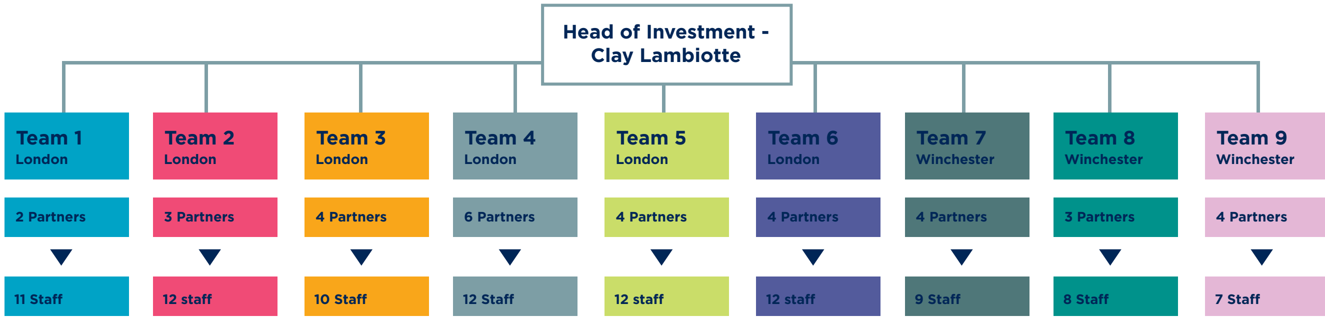
Signatories' governance, workforce, resources and incentives enable them to promote effective stewardship.

OUR GOVERNANCE STRUCTURES AND PROCESSES GIVE US OVERSIGHT AND ACCOUNTABILITY TO PROMOTE EFFECTIVE STEWARDSHIP

The diagram shows how we are structured as a firm as at January 2021. 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.



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.

RI governance structure

Our RI governance structure is shown below. We believe this structure promotes effective oversight and accountability for effective stewardship for a number of reasons.

First, the RI Panel, which oversees our work in this area, has a direct communication line to our ExCo and hence the LCP Board. Our Head of RI meets the RI Panel quarterly for around 90 minutes typically, with additional discussions taking place on an ad hoc basis as necessary. The purpose of these meetings is to report on progress, seek feedback, be challenged on RI priorities for the team and our clients, and agree future plans. An annual RI report is provided to ExCo outlining RI / stewardship activities and progress for the year and plans for the forthcoming 12 months. Approval for RI activity and expenditure is not intermediated through several managerial levels.

Second, the Core RI Team, like all of our teams, includes diversity of age, experience, gender, background and education, ensuring a wide range of ideas and approaches to RI can be generated and considered.

Third, the teams working on individual RI projects are small, focussed, 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 all 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 which was set up in late 2019. It meets two to three times a quarter 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 both our investment 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 rationale for our 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 specialist 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 RI 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.

Executive Committee (ExCo): Ultimate responsibility

↓ ↑

RI Panel: Strategic oversight


Mark Nicoll
Chair


Clay Lambiotte
Head of Investment, ExCo


Bart Huby
Actuarial


Lorraine Porter
Business Development


Erica Beltrami
DC

Core RI Team: Implementation


Paul Gibney
Partner


Claire Jones
Head of Responsible Investment and Partner


Ian Gamon
Partner


Sapna Patel
Consultant


Shyam Gharial
Consultant


Emma Douglas
Consultant


Ada Chan
Associate Consultant


Rebecca Green
Associate Consultant


Thakor Patel
Analyst

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

The quality and accuracy of all of our work is underpinned by our "do, check, review process", that runs throughout the stewardship chain – from strategy and asset allocation through manager selection and monitoring as well as new idea generation.

Covid-19 and its economic and investment implications dominated our thinking and interactions over much of 2020. In order to ensure our clients could exercise good stewardship over their assets, we had to understand the implications of the spread of the virus and interpret the likely and actual responses of governments, central banks and other players to the potential consequences. We did this by holding frequent internal meetings, as well as by talking to fund managers, economists, health experts and others about what was a very fast-moving environment.

As a result, we were able to formulate our revised strategic and asset class views, which were thoroughly debated, tested and vetted. This in turn helped clients understand the likely resilience of their asset allocations, the mitigation strategies they could consider and the opportunities that might appear, allowing for the better allocation of capital over the long-run.

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, which we believe is very thorough. While the pandemic has impacted how we conduct research, it has not affected its accuracy or quality. Over 2020 our manager meetings have largely been conducted via virtual video calls, lasting between one and three hours. We typically 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. This has continued to be the case with the number of meetings, if anything, increasing.

BOX 3: BIENNIAL RESPONSIBLE INVESTMENT SURVEY

We supplement our manager research with the results of our responsible investment surveys of investment managers, which 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 this is an issue we consider important at a firm and industry wide level. The most recent survey, conducted in the second half of 2019 and published in January 2020, was sent to nearly 150 managers and had a 93% response rate.

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. In several cases, action has been taken as a result of the survey and other manager findings. Managers who scored poorly on the survey have found themselves less likely to be put forward against otherwise comparable products in manager selection exercises.

Output from the survey has proven of great interest to clients, and we have been mindful that it is the investment management community that made it possible. As part of our manager engagement work, we therefore offered managers an opportunity to hear the survey findings at a dedicated manager-focussed webinar in January 2020, and have spoken to 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 we had serious concerns, we wrote to managers to communicate our expectations for improvement. Where we have several clients and/or significant assets are invested, we wrote to the managers centrally about these concerns, to encourage remedial action. In other cases, we drafted a letter for the client to send to the manager setting out their specific concerns and we supported the client in asking probing questions about stewardship at a meeting with the manager. For example, if the manager was not a signatory to the Principles for Responsible Investment (PRI), we encouraged them to sign up to demonstrate publicly that they have processes in place to identify, monitor and manage ESG risks.

Managers with these characteristics score highly in our RI assessment

Commitment to RI

Are a signatory or member of relevant codes and initiatives

People

Have senior management accountable for ESG integration

Include ESG as part of investment professionals' job description

Give all relevant staff ESG training

Have specialist staff providing in-depth ESG 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 steps to ensure its quality and robustness

Undertake analysis of ESG risk exposure at the portfolio level for all asset classes

Incorporate systematic consideration of climate-related risk for all asset classes

Voting and engagement

Use voting and engagement as a tool to improve investment performance

Form their own view on voting decisions, exercise all votes, are willing to vote against management and report to investors regularly on voting activity

Have robust policies on issues like climate-related risk, fair pay, boardroom responsibilities and diversity

Can provide evidence of collaborating, as appropriate, with other investors, for example, participating in joint engagement activities

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 now provides our clients with the advice and information they require today 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 (eg low carbon passive equity funds – **see box 10**) or understanding how key events (eg Covid-19) 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 best funds and managers. This includes taking into consideration their stewardship capabilities and ESG credentials.

So, for example, in October 2020, we launched the first of our quarterly papers on the LCP strategic portfolio. We felt that to improve the quality and accuracy with which our new ideas were conveyed to clients it made sense for them to be clearly described and articulated via a short paper describing a well-defined strategic portfolio. The strategic portfolio has stewardship considerations embedded throughout, from the high level strategy described within it, to the selection of asset classes to implement that strategy, along with short thought pieces, some of which articulate the RI credentials of a selected asset class. It is intended as a transparent representation of our best ideas to stimulate debate and challenge conventional thinking. It acts as a framework for our team to identify ideas that are suitable for a particular client; recognising that not everything is relevant for every client.

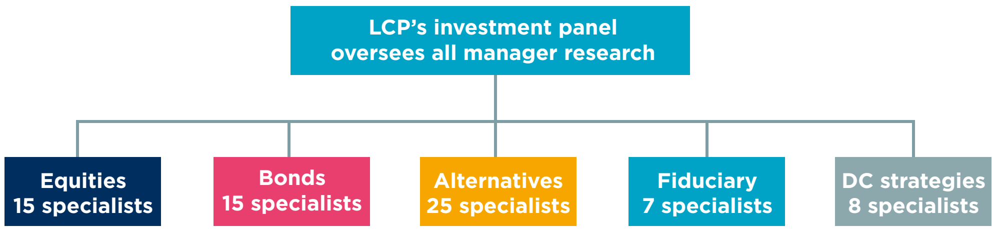
WE APPROPRIATELY RESOURCE OUR STEWARDSHIP ACTIVITIES

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

Our investment department of over 130 people provides advice to a wide range of business clients, including pension scheme trustees, charities, corporate sponsors of institutional pension funds (both DB and DC), insurance companies and sovereign wealth funds, working closely with other departments (eg pensions actuarial) as appropriate.

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 mix of dedicated / mixed duties and responsibilities applies to our RI team as well.



RI RESOURCES

Our Head of RI has focused solely on responsible investment – ESG factors and stewardship – for the last three years. Since March 2020, she has been supported by another individual whose role is primarily focused on RI. In addition, there are a further seven individuals in the core RI team (see page 16) whose roles typically involve around 25% of their time focused on RI issues. Other individuals outside the Core RI team also support our clients on ESG issues and contribute to ESG research and thought leadership.

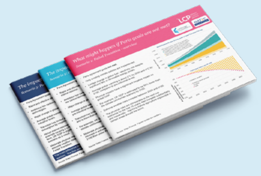
As well as our RI team of staff, our clients have access to several RI resources which are described further under **Principle 5**, in summary:

- Fund-specific RI ratings and assessments from LCP's proprietary research (typically reviewed annually);
- Manager RI ratings and analysis from our biennial survey (**see box 3**);
- ESG "dashboard" facility for providing ESG metrics on investment portfolios based on data under licence from MSCI (**see box 9**); and
- 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).

Looking ahead we expect to expand our RI-related resources further, to increase the depth of our manager researchers' knowledge of ESG, to expand our research into specific ESG and sustainable investment products, and to gain more experience of advising the largest asset owners with market-leading ESG practices.

BOX 4: CLIMATE SCENARIO ANALYSIS

Over 2020, we worked with Ortec Finance, expert providers of investment decision technology and solutions based in Rotterdam, to develop 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.



We launched the scenarios in December 2020. They provide insight for clients into the potential impact on their asset and liabilities of different climate change pathways, help assess the financial materiality of climate change and identify ways in which the impact of these might be mitigated.

We conducted due diligence of the market to establish who would be the best provider for our clients' needs and which climate pathways would be most suitable to model, before forming this partnership and selecting the climate pathways we offer our clients.

The climate scenarios that we have developed with Ortec Finance are delivered via our in-house tools LCP Visualise Pro and LCP Horizon Pro.

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), investment professionals (CFA) or both. As at 31 December 2020 in the investment department there were 45 qualified actuaries (out of 222 firm-wide) and 35 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 while three of the RI team achieved the new CFA ESG certificate in 2020.

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 which lasts up to two hours, led by topic experts with the opportunity to ask questions and engage in discussion. During 2020, these sessions covered nine RI topics lasting approximately four hours. 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.

Like most firms, in light of the coronavirus crisis, we have had to adapt how we deliver training and have found that, for some topics, shorter "bitesize" sessions lasting around 30 minutes work well in current circumstances. Between 1 April 2020 and 31 December 2020, we have run 74 of these bitesize sessions across the firm which people opt into according to their role.

BOX 5: DIVERSITY AND INCLUSION (D&I)

We believe strongly in equality and that is a stance which is articulated and supported from the very top of the firm. We have a dedicated D&I group which is very active in promoting these issues in the firm and beyond.

LCP's D&I Group continues to go from strength to strength and expanded a number of key initiatives during the year including:

- Our partner champion campaign by senior leaders to challenge barriers to D&I, with each individual stepping forward to be a visible advocate and supporter for one of our four networks.
- Our Women's Talent Academy encouraging more women to join investment consultancy. 18 women took part this year with 20% going on to secure and accept an internship at LCP.
- A spotlight on mental health including initiatives for Mental Health Awareness week – this included a virtual fundraising relay for MIND where 335 LCP personnel ran, walked or cycled more than 2750kms; and training 10% of staff and partners as Mental Health first aiders.
- Improving our Stonewall Workplace Index score by 25% from the previous year and as a consequence we ranked 27 places higher.
- Over 200 of our staff engaging with various virtual Pride activities over Pride Month (June 2020).
- Our recent onboarding with LGBT Great which is a consultancy that advises on LGBT inclusion to businesses within the investment and savings sector.
- Panel sessions sharing lived experiences for example on work-life balance, Black talent in professional services and being a senior female in a male dominated profession.
- Training for partners on "inclusion as a strategic driver", tackling areas such as diversity, bias and targeting recruitment practices to better attract talent from under-represented groups.
- Supporting the Diversity Project, including representatives on the CEO Advisory Board, Steering Group and leading the Early Careers workstream.
- Participated in an industry-wide initiative, **Classroom to Boardroom**, to tackle under-representation of Black talent in the investment industry.

LCP Diversity & Inclusion | LCP Women's Network | LGBT+ | LCP Multicultural Network | LCP Wellbeing Network

Our commitment to diversity is demonstrated in several ways. For example, we are actively involved in the Diversity Project which is an industry-wide initiative to improve diversity of all types and to accelerate progress towards an inclusive culture within the investment industry. We have representation on the Advisory Council, Steering Committee, as well as the Gender, Ethnicity and Early Careers workstreams. We lead on the Early Careers workstream whose main project over 2019/20 was setting up and running a successful Investment & Savings Industry Springboard in collaboration with social mobility charity upReach. The Springboard aims to encourage university students from less socio-economically advantaged backgrounds into the investment industry. We have participated in many events as part of this, hosting a week's work experience in August 2020 for eight students, and providing over 15 mentors from LCP as well as speakers for panel discussions for example. We collaborate and share our experiences with other member firms and in turn bring back learnings to LCP – eg understanding how others have implemented a reverse mentoring programme to help shape our own.

DIVERSITY PROJECT
BUILDING INCLUSION IN INVESTMENTS & SAVINGS

upReach
Transforming Social Mobility

WE INVEST HEAVILY IN OUR SYSTEMS, PROCESSES, RESEARCH AND ANALYSIS

As we've noted, we recognise that the effort we put into research today creates the consulting opportunities of the future, value for clients, and thus a long-term sustainable and profitable business. Our manager and asset class research teams have grown steadily over the years, as the investment environment has developed and as clients' needs have changed. This has been particularly true within the RI and stewardship space. As a result, our RI team has seen a rapid increase in size and resource over the last few years. In the space of three years, we have tripled our spending in this area (as measured by the value of our people's time), a move endorsed by the firm's management and senior investment leaders. We expect that our outlay in this area will continue to grow quickly given what we see as the step change in the perception and acceptance of stewardship from a nice-to-have to something now core to investment practice.

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. We train people regularly on the use of these materials. All new joiners to LCP receive this 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, in the latter part of 2020 our Investment ProfCo (one of the subcommittees referred to under **Principle 1**) asked some of our RI specialists to review how well our views and comments on managers' RI and stewardship capabilities were being incorporated into manager selection exercises. Following that review we made some changes to our manager selection checklist and have provided training on these changes to the investment department.

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, help them in their decision making and allow 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 box 4** on climate scenarios. We can therefore respond quickly and effectively to client comments and suggestions for improving the output and how it is presented.

OUR WORKFORCE IS APPROPRIATELY INCENTIVISED TO DELIVER SERVICES

We are an independent firm. We do not have products to sell. When we advise clients to use a particular asset class, manager or fund, it is because we believe it is in their best interests to do so.

We have the resource within our investment team to research particular options thoroughly and have developed systems and tools to allow our teams to understand how a particular option does – or does not – make sense for their client's specific circumstances.

The incentive for all of us – from junior analysts to senior partners – is to deliver on each client's objectives – eg in terms of funding level improvements for a DB pension scheme – 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 also linked to the profitability of the firm.

WE ENSURE THAT OUR FEES ARE APPROPRIATE FOR THE SERVICES WE PROVIDE

Our aim is to provide transparency and cost certainty for our clients. For any agreed fee, if an overrun is likely, then as soon as this becomes apparent we will seek authority for an additional budget to complete the work.

We operate in a competitive market and would quickly become aware if our fee levels were out of line with the market, for the value delivered.

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 will have received training on this content before using it.

In the case of stewardship, the RI team produces a wide range of materials. This includes:

- general information / educational documents – eg RI Survey report in January 2020 (**see box 3**), report on taking account of member views in investment decisions in April 2020, news alert on proposed climate change requirements for large pension schemes in August 2020;
- topical articles on RI matters – eg thirteen blogs for our website in 2020, three articles for each of our quarterly "Macro, markets and much more" document (**see box 7**);
- topical stewardship questions for manager research teams to ask in their meetings;
- input into manager selection exercises and manager monitoring;
- client webinars on ESG topics (three in 2020 as well as several on market-wide topics such as Covid-19 and RPI reform); and
- client conference sessions (in December 2020) on the use of climate scenario analysis (**see box 4**) and climate-tilted passive equity funds (**see box 10**).

For example, for most of our pension scheme clients, there is a requirement to include an Implementation Statement as part of each scheme report and accounts signed off on or after 1 October 2020. Our RI team considered the relevant regulatory requirements and then produced central material explaining the detail to be included in clients' Statements. Some of the details (eg information relating to voting behaviour) needed to be sourced from investment managers. As explained further in **box 8**, recognising the workloads being placed on managers required to produce this information, we were part of the PLSA group that developed a template for managers to complete with voting information. The RI team was and remains on hand to answer queries, to help with unusual client circumstances and to attend meetings if needed. Given the regulatory nature of the necessary update, while the RI team also oversaw the completion of this work for the first wave of affected clients, our Investment ProfCo is reviewing the production of Implementation Statements from a professional perspective. Since the majority of affected clients have yet to produce their first Implementation Statement, this oversight and support will continue into 2021.

HOW WE AIM TO IMPROVE OUR GOVERNANCE STRUCTURES AND PROCESSES TO BE MORE EFFECTIVE IN SUPPORTING OUR CLIENTS' STEWARDSHIP

We recognise that stewardship is only going to grow in importance for our clients and more broadly. Therefore, we have a number of ongoing initiatives to improve our advice to clients in this area. These include adding resource to our RI team, providing additional training on stewardship to the investment department and strengthening the 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**).

Following changes to the roles and responsibilities of our investment research team in September 2020, we conducted a survey of all researchers about their knowledge and confidence in assessing funds on ESG integration, voting and engagement, and climate approach. This identified some areas where additional training and support would be helpful, which we are now seeking to address (**see Principle 6**).

As data availability improves, we will improve our practices to strengthen our RI research process. Potential improvements we are considering include:

- Quantitative assessment of voting and engagement behaviour, with regular reporting to our clients, to supplement our qualitative assessment of fund managers' stewardship practices;
- Assessing the positive impact of funds (eg contribution to the various UN Sustainable Development Goals) to encourage clients to consider whether and how to use their investments for both financial, environmental and societal benefit;
- Assessing investment managers' alignment with the goals of the Paris Agreement on climate change as standard practice in our research view for a fund. For example, analysing greenhouse gas emissions for a fund's investments and the fund's targets (if any) to reduce this over time; and
- Reporting of "sin" stock exposures at fund-level to improve transparency of these exposures.

The process for collating the voting information required for Implementation Statements as described above worked reasonably well, considering the practical challenges for all parties involved, but we believe it can be improved. We are therefore committed to help streamline this data collection and voting analysis process, gathering information centrally on a quarterly basis, commencing in early 2021 (**see box 8**). We will also be using the project to drive stewardship improvements for our clients by:

- Providing training to clients on the new vote reporting disclosure requirements;
- Being able to incorporate voting data into the quarterly investment monitoring reports we provide to our clients, allowing for more frequent client engagement with managers on the topic; and
- Analysing manager voting behaviour on behalf of our clients, providing them with meaningful insights and helping them improve their manager oversight.

Principle 3

Signatories identify and manage conflicts of interest[2] and put the best interests of clients first.

CONFLICTS OF INTEREST

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. It sets out the principles of how we prevent, manage and disclose to clients any conflict of interest that may potentially arise.

[2]Conflicts of interest may arise from, but are not limited to:

- ownership structure;
- business relationships;
- cross-directorships; and
- client interests diverging from each other.

OUR CONFLICTS POLICY

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 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.

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.

For example:

- 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 conflicts of interest are described in our internal 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 interests 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 provides further details for colleagues.)
- Personal Account dealing (ie buying shares and certain other types of investments) may lead to an actual or perceived conflict of interest between an individual at LCP and a client. Colleagues are required to seek pre-clearance authorisation before transacting in specified securities and are required to disclose holdings of relevant financial assets on request. (Our intranet 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.

OUR CONFLICTS POLICY (CONTINUED)

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

If a colleague wants to raise the issue with someone other than the client partner or departmental head then they a range of alternative options, including raising it with their department's Professional Committee, with our Legal and Compliance team or with our Conflicts and Ethics Committee, as described in our Conflicts of interest policy protocol.

Management

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

In managing conflicts of interest, colleagues must follow clearly laid-out procedures as described in our internal Conflicts of Interest Policy protocol.

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 encourages 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.

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.

EXAMPLE OF HOW WE MANAGE CONFLICTS OF INTEREST

We have provided below an example of how we manage a common type of conflict of interest.

Conflict between two clients' interests – advising trustees and sponsor of a pension scheme

LCP has a significant number of occupational DB pension schemes where both the trustee of the scheme and the corporate sponsor are clients. This is frequently an attractive arrangement for both clients because there can be significant efficiencies from having the same firm advising both parties, for example through using a common member database and computational methodologies. This does however result in the potential for conflicts of interest to arise in the advice provided by LCP, for example when advising on negotiations concerning the amounts of contributions to be paid into the scheme by the corporate sponsor.

We address this situation by having internal guidelines concerning clear separation of the adviser teams for each client (trustee or corporate), with, as a minimum, two partners or senior consultants assigned to each client who are not able to provide any conflicted advice to the other client. We also put in place with both clients a formal conflict management plan (CMP), signed by both clients and also by the lead LCP adviser to each client, so that it is clear to everyone what arrangements are in place to manage any actual or potential conflicts that may arise. The CMP includes details of the scope of the work we have been appointed to do for each party, the extent to which it has been agreed by both parties that LCP is authorised to provide conflicted and / or confidential advice to one or both parties, how advice and information is stored within LCP's systems, and details of which LCP personnel are assigned to work for the trustees and which for the corporate sponsor.

Signatories identify and respond to market-wide and systemic risks[3] to promote a well-functioning financial system.

WE IDENTIFY AND RESPOND TO MARKET-WIDE AND SYSTEMIC RISKS

We identify 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. For example, as a result of close work between members of our investment and actuarial teams, we were quick to spot the potential implications of the consultation by the UK Statistics Authority and HM Treasury on the reference inflation index to use for inflation linked bonds and were able to engage early on the issue with clients. We also listen carefully to what others say – whether clients, competitors or managers to name but a few (**see box 6**) Their different perspectives generate alternative views and therefore another way to identify what we might not otherwise have seen. Having identified these risks, our job is to create ways for us and our clients to understand and manage them. Technology is often at the heart of this.

BOX 6: RPI REFORM

Case study:
RPI reform

The background: Announcements over 2019 suggested that the formula for RPI will be changed from 2030 onwards.

As with most pension schemes, our client used RPI-linked assets to hedge a portion of their CPI-linked liabilities.

This presented a risk of RPI-linked assets falling in value, with no corresponding fall in CPI-linked liabilities.

Our solution/recommendation: Using our in-house technology, LCP Cloud, we were able to quantify the monetary impact of this risk with a click of a button.

We set out our proposals to reshape the client's hedging assets, to largely remove their exposure to RPI changes, whilst maintaining the same overall protection against rising inflation.

The results: Within two weeks, the trustees had reviewed our proposals and restructured their hedging portfolio.

Our recommendations and support in the decision-making process has allowed the Scheme to take decisive action, which has, to date, led to a net funding gain for the Scheme.

[3]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.

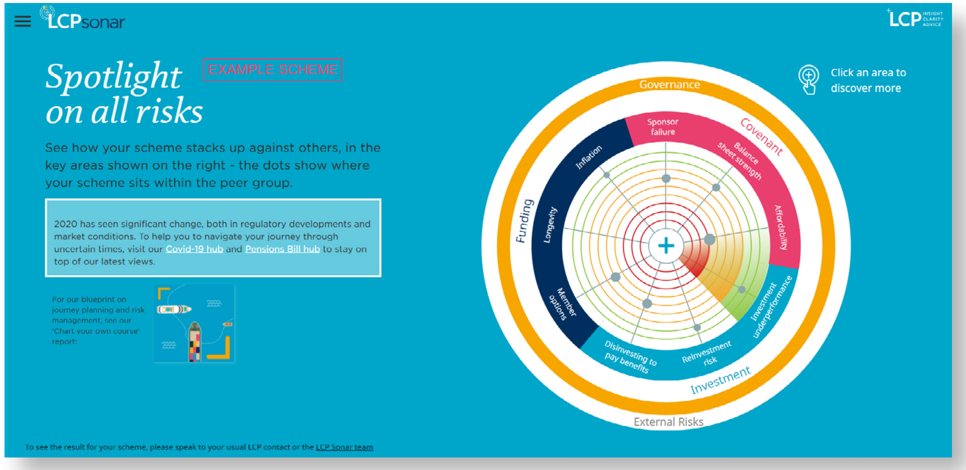
We are also quick to recognise when insights from one area of our business may have implications for others. For example, our energy analytics team combines in-depth knowledge of the energy sector with modelling expertise to support clients with market forecasting, policy impact analysis and more. A focus over 2020 in particular has been on the decarbonisation of the UK energy system and its implications. Our investment team has undertaken analysis to highlight the attractiveness of certain asset classes that will benefit from decarbonisation.

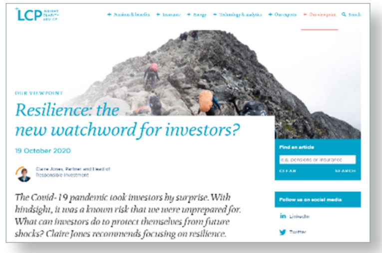
Additionally, we collaborate with others where we feel we could benefit from specialist expertise and input into our advice, for example with climate scenario analysis (**see box 4**).

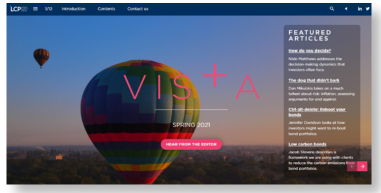
We also devise metrics and measures that highlight how market-wide and systemic risks might be developing, factors which are often crucial to our clients' long-term prospects. For example, during 2020 for our DB pension scheme clients, movements in long-term interest rates and inflation expectations, as well as the general macroeconomic outlook, were key metrics impacting their solvency and ability to pay benefits. For these clients, we have recognised for some time that efficient management of a scheme's risk profile is key to delivering on client objectives. Our Integrated Risk Management (IRM) tool, LCP Sonar, combines our "big picture" insight and analysis of assets and liabilities with an understanding of the strength of covenant offered by the sponsor to the scheme. In response to client questions about how systemic risks such as climate change fit with the tool, we added an outer "external risks" ring (see image below). This recognises that many external influences are potential sources of risk for DB pension schemes. They may cause a combination of the covenant, funding and investment stresses examined in the inner rings of the tool. Our clients can explore material and suggested actions relating to some of these external influences by clicking on the external risks ring.

Of course, we combine our technological offering for clients with a wide range of other communications. This includes:

- articles published in a wide range of periodicals;
- blogs;
- podcasts;
- webinars; and
- conferences.







BOX 7: MACRO, MARKETS AND MORE ANALYSIS

Every quarter we produce our "Macro, markets and much more" analysis for clients which, as its name suggests, in addition to offering macroeconomic and market comment, also provides additional information for example on asset classes, topical issues, ESG and stewardship matters. Our October 2020 edition covered the apparent disconnect between some managers' public statements on climate change and how funds under their management then voted on relevant resolutions at company meetings. It also had articles on the low carbon transition, man-made megatrends and modern slavery, along with suggested questions for clients to ask their investment managers on these topics. We always add in questions for clients to ask their managers to further encourage that dialogue. In producing this document, we listen to views from people outside of our firm, engaging each quarter with a wide and varying range of managers and economists to help produce a rounded and informed view.

WE WORK WITH OTHER STAKEHOLDERS[4] TO PROMOTE CONTINUED IMPROVEMENT OF THE FUNCTIONING OF FINANCIAL MARKETS

We do this in several ways.

In 2020, we conducted 318 formal manager research meetings and reviewed 403 different products with 127 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. In addition to this, our Core RI team spent over 3,300 hours dedicated to specific responsible investment related areas. 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. Of course, in 2020, Covid-19 often dominated the market-related aspects of our discussions with managers: how they managed the transition to home working, how they analysed companies and portfolios in a Covid-impacted world, and how they traded assets where that was necessary.

LCP's manager research in 2020

20,000
Hours dedicated to research

458
Meetings with managers

403
Products under research

9
Key criteria - both investment and operational due diligence

While it hadn't been at the front of people's minds for some time, in the midst of Covid-19 concerns, we re-engaged with managers on their preparations for the end of the Brexit withdrawal agreement, so we could understand from our clients' perspectives whether they had eliminated or mitigated systematic Brexit-related risks. As part of this process, in November 2020 and following on from surveys conducted in previous years, we emailed a questionnaire to over 100 investment managers with whom we have mutual clients. The managers' responses to these questions helped us assess their preparedness for Brexit, including whether they expected to be able to continue providing investment management services to all our mutual clients after the UK transition period ended, irrespective of what deal was made between the EU and the UK. We reviewed their responses and, where necessary, engaged with the manager further to understand their preparations.

More specifically in relation to stewardship, we have on an ongoing basis been discussing with managers how they engage with companies on ESG and market-wide matters, building up a bank of stewardship questions and answers with a view to better understand what makes for good and great stewardship. We wrote to managers in June and October 2020 about the FRC's stewardship principles as they apply to asset managers, highlighting to them what we believe stewardship means both at the investment manager firm level and at the asset class level. As part of our desire to engage with managers and hear their view, on stewardship and other matters, we hold an annual manager forum. We invited over 170 managers to our November 2020 forum, of which 119 attended. Stewardship was one of three key topics discussed.

Across the firm, we responded to 31 consultations during 2020, spanning both investment and non-investment matters, as well as contributing to consultation responses through our membership of industry groups. In particular, we responded to consultations on PCRIG's draft climate guidance for pension trustees, the DWP's proposed climate governance and reporting requirements for pension schemes, the future of RPI and the Pension Regulator's DB funding code of practice.

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

THE INDUSTRY INITIATIVES WE HAVE PARTICIPATED IN OVER 2020

There has been a very positive reception to the various industry initiatives we've contributed to this year.

Our Head of RI was a member of the IFoA's Resource and Environment Board from January 2014 until August 2019. During that time, she initiated and was heavily involved in a working party looking at the implications of resource and environment issues for the work of pensions actuaries. This group published six papers and presented at various events between 2017 and 2020, concluding with a pair of reports on climate change scenario analysis which were launched at a fully-booked **webinar** on 1 June 2020.

Our firm is also a member of the Investment Consultant Sustainability Working Group (ICSWG), along with 16 other firms. This was formally launched in September 2020 with the aim of improving sustainability practices across the investment industry. We are represented on the Steering Committee and are taking an active role in three of the five workstreams being run by this Group. The main areas of activity for the three workstreams where we have direct input is described below.

Stewardship:

- Agreement by all members to use the PLSA voting template with managers;
- Production of an engagement reporting template (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 fashion;
- Discussion of the UK Stewardship Code 2020 with the FRC; and
- Discussion of split voting with the Association of Member-Nominated Trustees.

Asset owner:

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

Regulation:

- Formulation of responses to the DWP climate change consultation and the International Financial Reporting Standards (IFRS) Foundation's sustainability reporting consultation;
- Production of a template on investment consultants' climate competencies which has been included as an appendix to the PCRIG climate guidance; and
- Engagement in more focused dialogue with various regulatory bodies.

BOX 8: PLSA WORKING GROUP

We have played a key part – chairing and having a hands-on role – in the work of the PLSA Voting and Implementation Statement Working Group (VISWG).

When the new voting reporting requirements for pension scheme trustees were announced in June 2019, we recognised that obtaining the necessary voting information from investment managers would entail significant work from all involved, particularly since data is needed at fund level and so managers' firmwide reporting would not be sufficient. We felt that a standardised format for managers to provide this information to trustees would be desirable. We therefore approached the PLSA to suggest that they convene an industry-wide working group to produce a reporting template, and this led to the creation of the VISWG. Our Head of DC chaired the group, a member of our RI team was seconded to the PLSA for one day a week for four months to support the group and our Head of RI also actively participated in the group. The group developed a **guide to Implementation Statements** for pension trustees, a template for managers to complete when providing the voting information needed by trustees when preparing Implementation Statements, and guidance for managers and trustees on using the template.

Streamlining will ultimately make reporting more efficient and less costly for both our clients and for asset managers. As part of this initiative, we are seeking feedback from asset managers on the lessons learnt so far – this will help us understand how we can improve our data collection requests, and, given our coordinating role, will also allow us to help asset managers to understand what good vote reporting practice looks like.

Overall, the PLSA's vote reporting template has been well received, with managers generally welcoming the standardised approach and all the major investment

We were represented on PCRIG, an industry group supported by the DWP and the Pensions Regulator established in mid-2019 which published climate guidance for pension scheme trustees in January 2021. Our Head of RI took a lead role in relation to the climate scenario analysis chapter of the guide and commented on drafts of the other chapters.

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

The Covid-19 crisis was unexpected, rapid and widespread. While we, like others, did not identify it ahead of time, we were quick to respond to it by:

- Finding out from managers quickly what actions they had taken to mitigate the effects of the coronavirus and the resulting economic lockdown on client assets;
- Using our technology and the tools we have developed (eg LCP Visualise) to quickly assess the impact of the virus on both assets and liabilities for clients;
- Considering whether clients should take action in response to the crisis and what those steps should be; and
- Communicating to clients what we thought their updated position was and what action(s) if any, we recommended.

As part of our initial work, we produced a Covid-19 "checklist" for clients to consider, in a similar manner to what we had done in the aftermath of the Brexit referendum vote. We also upped the frequency of client communications – both via materials and information as well as meetings – to make sure they remained up-to-date in what was a fast-moving situation as well as to reassure them that we were doing everything we could to navigate through what was – and still is – a difficult and stressful time for all. From April 2020, we produced monthly reports covering markets, asset class valuations, the economic outlook and policy response to Covid-19. We also incorporated Covid-19 into our five-year scenario modelling to help clients better understand the specific risks their schemes are facing.

We have also impressed on clients – for example, through our quarterly macroeconomic updates (**see box 7**) – the expectation that, in the long term, climate change is likely to be much more significant than Covid-19 for the proper functioning of financial markets and used the opportunity to encourage them to engage with their managers to better understand their approach to addressing climate-related challenges and opportunities. We are seeing increasing engagement from clients on climate change, with over 200 people attending our climate webinar in October 2020 and approximately 50 clients so far considering switching their passive equity allocation to track a climate-tilted index (**see box 10**).

LCP INSIGHT CLARITY ADVICE

Navigating uncertain times: An action plan for trustees

Updated for The Pensions Regulator (TPR) latest guidance
27 March 2020

Governance

Covenant

Investment

Funding

The Covid-19 pandemic shows how unanticipated risks can throw even the best laid plans off track. The effects on DB Schemes will be very wide ranging.

All schemes will need to start by considering what contingency plans are in place to make sure their admin keeps on running and their members get paid.

Next, we recommend trustees work through a structured plan of actions that considers all angles, which is why we have put this document together.

Conditions remain volatile and you will want to ensure you have the most accurate information available. Online tools such as LCP Visualise can provide the latest funding position.

We suggest an immediate priority is to make sure your **Governance** structures are robust, not least to make sure you continue to pay members' benefits when due.

Covenant is then the next priority as this is an area where current events will have very significant impacts on the strength of many sponsoring employers.

Your view on covenant will then shape your approach on **Investment** and **Funding** issues. In addition there are a number of other considerations to work through in these areas.

We find ourselves in uncertain times where the situation will develop much further over coming weeks and months.

In all decisions, as ever, it is important to be proportionate, keep long term goals in mind and follow your processes – pension schemes by their nature are long-term.

For further details of what the implications could be for your scheme, please contact the partner who normally advises you.

Governance

Area	*Action*
Board operations	• Check that appropriate measures are in place to ensure trustee business continues efficiently, and that channels of communication are working effectively between all stakeholders including boards, investment committees, sponsoring employers, advisers, administrators, and asset managers. TPR emphasises the need to continue to document all decisions.
Adviser and asset manager capability	• Understand the business continuity plans of your advisers and asset managers (including any insurance policies) – ours can be found here: LCP business continuity plans - and critically of your administrators so that member service levels are optimised, given the circumstances. This approach is also in line with the Regulator's guidance.
Member communications	• Consider engaging with your members to provide reassurance that the trustees are taking appropriate steps to enable them to continue to manage the scheme effectively.
Sponsor engagement	• Discuss developments with the sponsor to understand the impact Covid-19 is having on its business operations and outlook. If the effect on funding and/or covenant has been significant, consider whether to seek additional support for the pension scheme – for example additional contingent support.

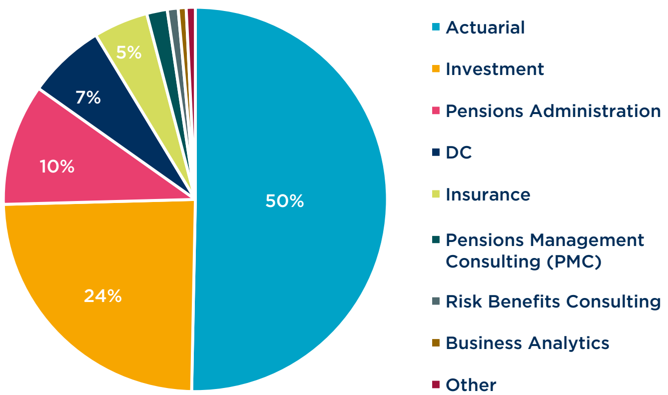
Principle 5

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

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.

LCP REVENUE BY DEPARTMENT



OUR SERVICES SUPPORT OUR CLIENTS' STEWARDSHIP

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

We 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. The findings from these meetings are discussed subsequently by all of 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, 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 specialist RI team. They 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**).

When the UK Stewardship Code 2020 was first published, it was apparent that there had been a step change in the way that stewardship was now to be considered, with a move away from a narrow focus on UK-listed equities to something much more widely drawn. It was a move we welcomed but one which we recognised posed significant challenges for both us and for our clients. We therefore worked through each of the 12 principles for asset owners and asset managers (and the six for service providers) to understand what support would be needed by our clients as asset owners in order to be able to meet the requirements of the Code, noting areas where we thought that current client practice was consistent with the Code, those areas where change would be needed and how we could help with this.

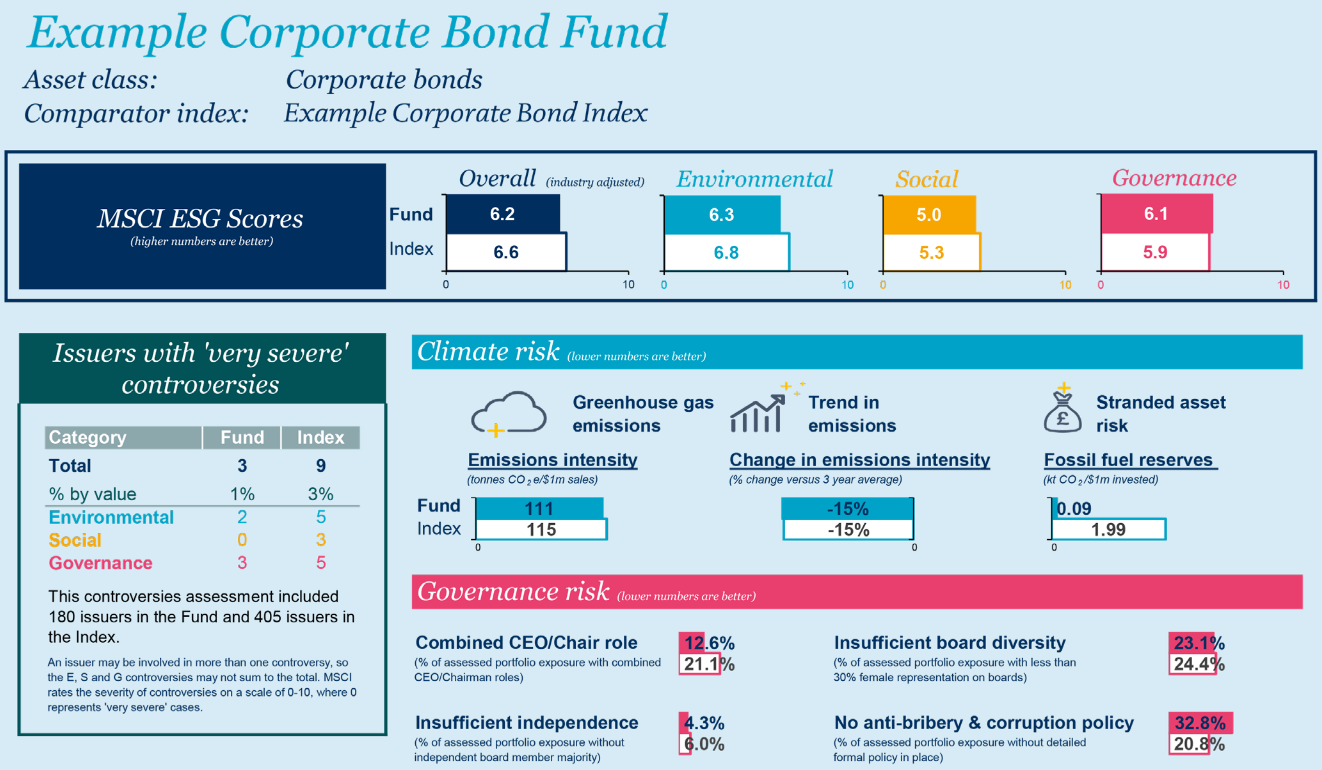
As a result of this, we devised a set of actions to improve our own practices, those of our clients and managers. For example, with regard to the latter, we wrote to managers in June 2020 setting out our expectations for them for their effective stewardship, noting that we were keen that investment managers employed by our clients embraced this change in stewardship aimed at creating long-term value for beneficiaries. Principles 9, 11 and 12 expect asset owners to set expectations for asset managers in relation to engaging with issuers, escalating stewardship activities where necessary, and exercising rights and responsibilities on their behalf. To assist with this, we developed our expectations for asset managers, differentiated by asset class, which we shared with managers in October 2020. We have included a link to these expectations **here**.

We best support our clients' stewardship in several ways:

- working with them to agree appropriate ESG, voting and engagement policies and incorporate suitable wording into their Statement of Investment Principles to reflect these, as required by law;
- working with them to produce, as and when required, their annual Implementation Statement (see commentary under **Principle 2** and **Principle 4**);
- helping them to monitor and assess their managers' stewardship policies and the implementation and effectiveness of these;
- helping them incorporate RI / stewardship criteria into their manager selection exercises by ensuring that:
  - our research process asks good stewardship questions of managers, that 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;
- developing tools and services that clients can use to improve their stewardship, for example:
  - an ESG "dashboard" (**see box 9**), launched in mid-2020, that provides an at-a-glance picture of how a fund compares with a relevant index across a range of ESG metrics (eg carbon emissions intensity), which allows clients to discuss with a manager the rationale for a particular approach in an insightful way;
  - the development during 2020, in collaboration with a major fund manager, of an index-tracking low carbon equity fund range (**see box 10**);

BOX 9: ESG DASHBOARD

We can provide our clients with a dashboard which compares their fund with a relevant index across a range of ESG metrics, using ESG data provided by MSCI. The dashboard is available for funds with listed equity or corporate bond holdings, for use in manager selection and monitoring.



See notes page for further explanation of the metrics shown.
Coverage: Holdings representing 64%, 66% and 66% of the fund value respectively have ESG scores, emissions intensity data and controversies assessments in the MSCI database. The corresponding figures for the Index are 91%, 87% and 89%.
Coverage for individual metrics can be lower.
Source: Certain information ©2020 MSCI ESG Research LLC. Reproduced by permission. Fund and index weight holdings as at 31 Mar 2020. Other data as held on the MSCI database at 23 Jul 2020.

- 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;
- climate change scenario analysis (**see box 4**);
- a strategic portfolio, launched in October 2020, which incorporates our latest investment ideas, and how these can be brought together to build a complete portfolio, including ESG and stewardship.

- 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 (**see box 7**), various blogs and DB and DC climate action plans – and running roundtables and webinars on topical issues.

Relative to peers we believe we are in line with best practice and were one of the first consultancies to integrate ESG into our manager research grades for all asset classes. This is a fast-moving area and we are working hard to evolve our services to ensure we continue to meet and anticipate client needs. Our focus is on RI services that are provided as standard to all of our clients and help to drive improvements in RI practices across the asset owner community.

BOX 10: CLIMATE-TILTED EQUITY FUND

Background

For many of our clients, equities are a natural place to take a first step into climate aware investing. The challenge in this space is selecting the "right" fund given the range of options available; you'd be hard-pressed to find a large investment manager that hasn't jumped on the bandwagon and launched a fund featuring the acronym "ESG" or "climate" in the past few years.

Our approach

Equity funds in this area often cast a wide net, focusing not just on climate risk but on other ESG issues as well. This often results in a somewhat confused approach - managers relying on factors which are difficult to quantify, open to various interpretations, and for which high quality data may not be available.

When we reviewed this space in 2019, none of the passive funds in the market ticked all our requirements. Our preference for climate investing is to "tilt" within sectors based on robust climate-related data. This limits the distortion of the portfolio relative to a traditional equity index, helping to ensure that tracking error is relatively modest. We also wanted a simple, transparent index construction, a tax-efficient fund vehicle and market-leading stewardship practices.

As an independent consultancy, we're not tied to working with a particular fund manager. We therefore ran a competitive tender process, reviewed submissions from 10 managers with relevant expertise, and selected one to work with us to design an innovative low carbon equity fund that reflects our view of "best in class". The manager has retained control of the design decisions and is solely responsible for its launch, operation and ongoing review.

Outcome

Our chosen investment manager announced the resulting fund range in March 2021: six regional funds, a developed markets fund and an all-world fund. The funds are available to UK pension schemes, regardless of whether they are advised by LCP. We will not benefit financially from scheme trustees choosing these funds rather than others that are available.

The funds meet the criteria we set at the outset and also incorporate a decarbonisation strategy that aims to achieve carbon neutrality by 2050. The tracking error relative to traditional equity funds is expected to be around 0.75% pa so that our clients have protection from climate transition risks whilst, in normal market conditions, expecting to experience broadly similar returns to those they otherwise would have obtained.

One of the advantages of our independence (we don't offer any investment products ourselves) is our freedom to negotiate hard on fees. During this exercise we were able to negotiate standard fee rates that are attractive to even our largest clients - making it hard for sceptics to put off making the transition.

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, every three years we carry out a client survey in which all of clients are encouraged to participate. This gives clients the opportunity to provide feedback on all of our services, including investment-related ones. Please **see box 2** for the headline results.

As described in **box 2**, we also run one-to-one client-specific client care meetings (121 in 2020) 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.

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 with clients face-to-face, 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 particular circumstances as well as developments in the broader market environment.

We will typically 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 March 2020 following the coronavirus outbreak, we proactively approached clients. In many cases, as a result of the crisis, we have adapted how we communicate with clients. The most obvious change to begin with was the move to the online world, with video calls replacing face-to-face interactions. For many, this was, if not a new, then certainly an unfamiliar world. We often found that shorter, more frequent meetings worked best and that it paid to simplify presentation materials and messages.

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 August 2020 DWP climate risk consultation, 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 will use 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 and stewardship**. As detailed in **box 7**, each quarter we produce our "Macro, markets and much more" analysis for clients.

In February 2020, we launched our Investment Uncut podcast series about investing. Our LCP hosts are joined by internal and external guests each week to discuss issues that impact investment markets. Whilst our first season focussed on investment-specific topics such as asset classes, macroeconomics, ESG and strategic allocation, our second season has covered a broader set of areas, including diversity issues and group think. By 31 December 2020, we had nearly 10,000 listens.

Much 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 combines our consulting approach with intuitively easy to use technology and real-time analysis. It provides 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 other are only occasional users.

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.

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 of the reasons 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. Our client survey has provided us with very valuable insights over the years about what our clients think and would like. For example, one of the insights we have gained from this is that sometimes, it is the little things that matter a lot. So, for example, simply making a quick call to a client to let them know that everything is on track for a forthcoming meeting. Findings like this led to our creating LCP CARES (**see box 1**), our service standard and promise that everyone at all levels will strive to go the extra mile. **See box 2** for information on our client care programme.

As a further example, we have found that while clients understand the seriousness of climate change, the conversation often did not seem to lead to significant action. This led to us doing two things. First, following feedback from client teams, we recognised that while the message remained the same – this matters for both regulatory and real investment world reasons – the emphasis on those elements of the message needed to be refined for particular types of client and audience. Second, even when clients "got it" they often weren't clear on what meaningful action they could take to address the issue. We tended to agree that the available products and services often fell short of what was needed, which led us to redouble our development efforts to deliver the climate change scenarios modelling option (**see box 4**) and the carbon-tilted equity fund referenced in **box 10**.

And as previously noted, 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 do and how we develop our services. A good example of this is our ESG dashboard (**see box 9**) development where we proactively sought client comments on early versions which we then incorporated into later iterations of the design.

WE EVALUATE OUR COMMUNICATION WITH CLIENTS AND HOW EFFECTIVE IT IS

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

- first by seeking feedback from a broad range of parties and clients, 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 and 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, both investment and in wider fields (**see page 14**).

Principle 6

Signatories review their policies and assure their processes.

WE REVIEW OUR POLICIES AND ACTIVITIES TO ENSURE WE SUPPORT CLIENTS' EFFECTIVE STEWARDSHIP

We have reviewed our policies and activities by:

- seeking feedback from a broad range of parties, including our RI Panel and Stewardship Group, as well as clients, and identifying where there are consistent comments or themes which would suggest changes are needed;
- running sessions for small groups of clients focussed on key issues and adjusting what we do depending upon the feedback;
- being receptive to comments as part of our regular meetings with clients;
- sharing feedback internally through a range of different groups and meetings, comparing and contrasting the reaction of clients to reports and 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 who want to explore it further;
- looking at what is happening in the wider world.

More specifically, in relation to RI and stewardship, the quarterly and more frequent meetings of our RI Panel and Stewardship Group (respectively), described under **Principle 2,** provide a forum for us to review the effectiveness of our activities, with input from senior members of the business who are less closely involved in the day to day implementation of those activities 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 heavily committed to a way of thinking or doing things. Both groups act as a sounding board for new ideas and activities; the RI Panel provides 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.

Each year we review the membership and terms of reference of the RI Panel to ensure the right people are involved and their objectives remain appropriate. The objectives include providing strategic oversight to support LCP in providing market-leading services for our clients on stewardship and fulfilling our commitments as a signatory of the PRI and UK Stewardship Code. The RI Panel reports at least annually to ExCo to help it fulfil its responsibility for ensuring LCP meets these commitments.

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 is asked for an explanation, and, if appropriate, corrective action is taken. Processes themselves are reviewed using the outcome of these monitoring reviews.
- Manager research – the RI team recently reviewed a sample of RI comments from recent research notes to ensure they were of appropriate quality and length for our clients' needs, with particular focus on the voting and engagement section. They are now working with each asset class research group to implement recommendations for improvement, starting with tailored training for each group.
- Manager selections – as outlined under **Principle 2**, we recently reviewed a sample of client advice files to ensure that stewardship has been considered as part of the selection process and that due weight is given to the issues in a manner consistent with the client's needs.
- Implementation Statements - as these have only recently become a requirement, our Investment ProfCo is overseeing a review of Implementation Statements from a professional perspective, liaising with our RI team to ensure that any findings are incorporated into our templates for the future benefit of clients.

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, including 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 will often subsequently 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:

- The new Implementation Statement requirements for pension trustees have increased the focus on implementation of trustees' voting and engagement policies, hence the importance of the voting and engagement part of our fund-level RI assessments. At the start of 2020, we amended the structure of our internal template used to record researchers' views following a research meeting. This strengthened our research process to cover voting and engagement in more detail. 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 are now further enhancing our research process to better capture the RI characteristics of managers and funds. As noted previously, recognising that RI is important and will only become more so, but that it has only recently become mainstream, we canvassed our researchers in September 2020 to find out what aspects of RI they found challenging and what materials would help them address the gaps in their knowledge. We carried out the survey across all of our researchers and all asset classes. We are in the process of addressing the gaps identified, some of which appear common across research areas with others being more specific. In doing so, we will incorporate the findings from our review of a sample of RI comments from recent research notes. Likely actions include:
  - Bringing together our existing support material for each asset class (eg suggested questions for research meetings, engagement expectations) into one place, to make it easier for researchers to find;
  - Providing additional training sessions on topics that appeared multiple times in responses, for example watching a recorded talk and then discussing the implications for their research in small groups;
  - Suggesting reading material for other topics that appeared less frequently in responses;
  - Developing more specific RI grading criteria for each asset class; and
  - Providing central access to managers' voting reports, as collected to support trustees' Implementation Statements.
- We produced additional client material during 2020 on climate change, focussing on the potential financial consequences of the issue. While that was the right approach for most clients, it didn't work for everyone. Feedback told us that for some, an emphasis on the regulatory aspects of the issue were likely to be more effective in generating action. We therefore produced an alternative presentation with that emphasis;
- Our recent review of files for manager selection exercises led us to make changes to our checklist to ensure that client teams check clients' specific RI and stewardship policies and explicitly address those needs in the documents submitted to clients;
- We are working closely with managers to improve the quality of the reports they provide to clients with reference to voting, as outlined in **box 8**;
- To try and make the stewardship reporting process as efficient as possible, we are developing a centralised system to request voting data from managers and collate their responses, thus enabling them to report once for each fund, for all of our mutual clients;
- As part of the Implementation Statement process, we plan to work with clients to help them develop principles that they can use to identify the "most significant" votes, as is required for these statements, as well as helping them to plan their longer-term stewardship activities, for example, by identifying themes that they should prioritise.

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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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