London Borough of Lambeth Pension Fund

Stewardship Report 2023/2024

Lambeth

Contents

Introduction

Introduction

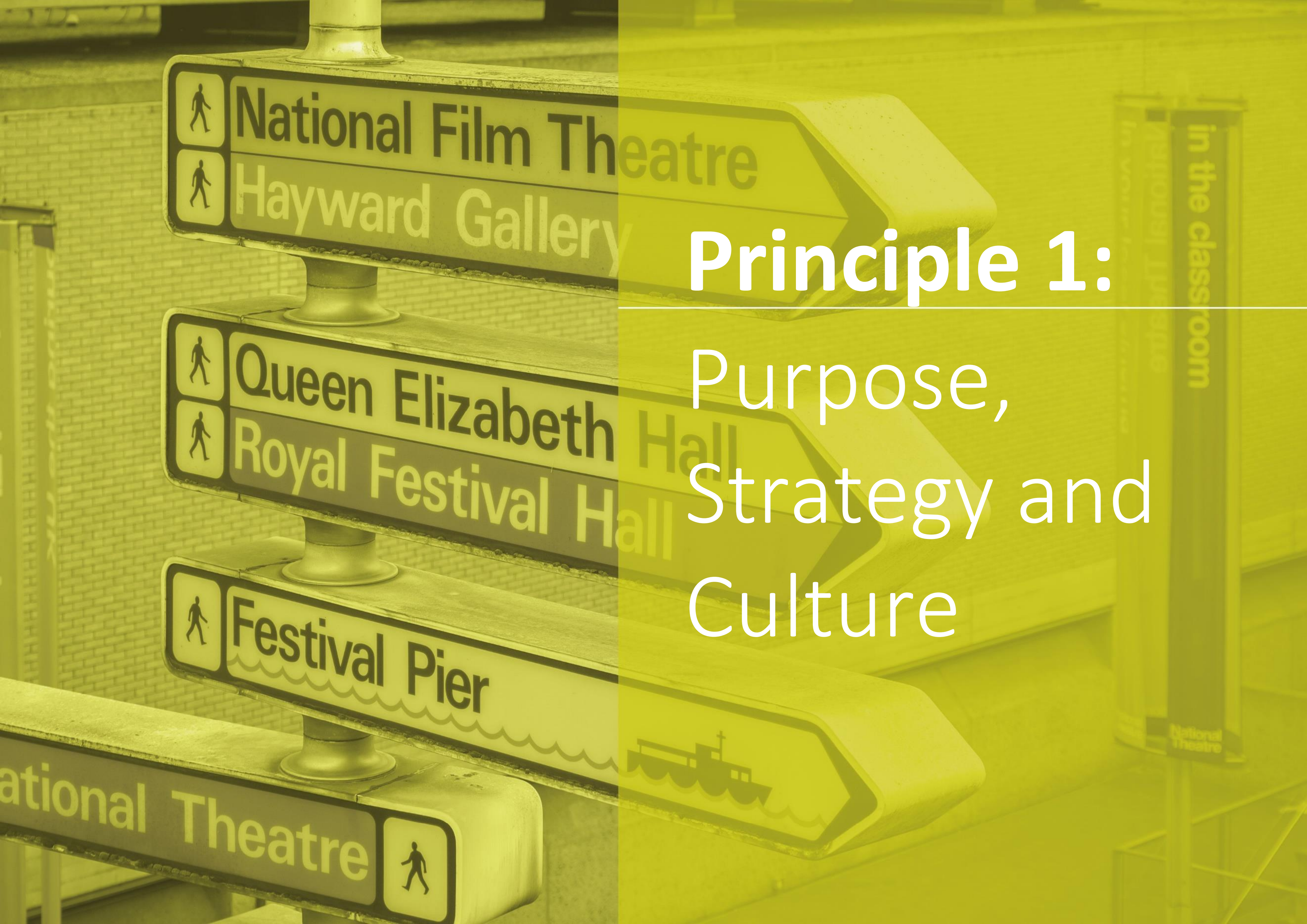
Welcome to the Stewardship Report of the London Borough of Lambeth Pension Fund, covering the year ending 31 March 2024. Investing responsibly in line with the interests of the Fund's members is a key objective for the Fund, to give members confidence that their pension monies are invested sustainably and in ways which are helping make the world a better place. Stewardship can be defined as "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society", and strong stewardship is a cornerstone of the Fund's long-term goal to ensure pension benefits can continue to be paid as and when they fall due.

The London Borough of Lambeth, as administering authority of the Fund, has a responsibility to act as good stewards of the Fund's assets, investing and managing those assets in a way that reflects the investment beliefs of the Pensions Committee, the body of elected representatives responsible for discharging the Council's functions in relation to the Fund, and ultimately ensuring sufficient assets to meet the Fund's liabilities.

This report has been prepared in line with the requirements of the Financial Reporting Council's UK Stewardship Code, which sets out twelve 'apply and explain' principles for evidencing the highest stewardship standards of those investing money on behalf of UK savers and pensioners, and those that support them. It details how the Fund fulfils its stewardship responsibilities on a day-to-day basis, the ambition of the Committee to continually improve the Fund's investment and stewardship processes in the future, and the changes we seek to drive by collaborating with other investors; it also sets out examples of the specific interventions made on behalf of our members in the 2023/24 financial year.

Councillor Martin Bailey

Chair – London Borough of Lambeth Pensions Committee



Principle 1:

Purpose, Strategy and Culture

Principle 1: Purpose, Strategy and Culture

1.1 The purpose of the London Borough of Lambeth Pension Fund is to provide retirement benefits to over 21,000 active, deferred and pensioner members who are or have previously been in paid employment for the London Borough of Lambeth and other participating bodies in the Fund. Administered by the London Borough of Lambeth, the Fund is governed in part by the policies and procedures of the council as prescribed in its constitution but operates as a separate entity as a statutory funded public service pension scheme and, as such, must also adhere to separate rules and regulations specific to the Local Government Pensions Scheme (LGPS).

1.2 Within the LGPS each administering authority is responsible for managing its own Fund on behalf of all Fund employers and beneficiaries. How an authority delegates its LGPS function is largely a matter for each authority, and as most administering authorities are local authorities, they largely operate in accordance with local government law. The specific structure and delegations of authority within the Lambeth Pension Fund is set out elsewhere in this report, but much of the culture of the Fund is influenced by that of Lambeth Council, its elected members, and its officers.

1.3 As set out in the Fund's Investment Strategy Statement (ISS), good stewardship is seen as integral to being a responsible investor in both the financial and ethical sense. Effective stewardship requires not only reliable data, robust internal systems, and resource capacity and integration, but also leadership, a willingness to speak out, transparency and a commitment to developing long-term relationships and collaborations.

1.4 The Fund's ISS sets out the approach taken to stewardship, with an investment strategy that aims to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Fund, underpinned by sound corporate governance and the promotion of corporate responsibility with the managers in which the Fund invests. By engaging with the Fund's managers and other stakeholders, and partnering with other pension funds and investors, the Fund can leverage its power and that of fellow institutional investors to drive change in company behaviour and better meet the interests of the Fund's beneficiaries.

1.5 The Fund's approach to stewardship is driven by a set of investment beliefs which focus on risk, investment strategy, active management, and the integration of Environmental, Social and Corporate Governance (ESG) issues.

a) A long-term approach to investing is appropriate and, moreover, an advantage. Managing risk is a complex and multidimensional task, but no more risk will be taken than is deemed necessary and risk mitigation will be prioritised according to the size of the potential impact. As the funding level of the Fund improves, there will be less of a need to take as much risk with the Fund's strategic asset allocation.

b) The Pensions Committee believes that the most important decision for the Fund is the setting of the strategic asset allocation; having access to long-term income streams that add value to the

Fund; and as the Fund matures, ensure cashflow considerations have a greater impact on the Fund's strategic decision-making.

c) The Committee believes that active managers can add value but that there is a greater opportunity for active managers to add value in less efficient markets. There are also limited passive options in some alternative asset classes, which again provides a greater opportunity for active managers to add value.

d) ESG issues can have a material impact on long-term risk and return outcomes; considering these issues is consistent with the fiduciary duty of the Pensions Committee. The Committee believes in engagement over exclusion and that active ownership helps the realisation of long-term shareholder value. Taking a collaborative approach with other investors can help to achieve wider and more effective outcomes, all the while remaining transparent and accountable to the Fund's members.

1.6 Following a review of its investment beliefs Committee kept them largely unchanged. However, the approach taken to date has seen long-term performance above the required actuarial discount rate and strong improvements to the funding level, whilst addressing ESG concerns in a way that leaves the Fund in a strong position as it continually works to develop and implement more specific ESG policies.

- The Fund's investments achieved a return of approximately 3.9% in the year ending 31 March 2024 against a benchmark of 4.0% and returns of 0.4% in the three-year period and 5.0% in the five-year period (against benchmarks of 4.2% and 5.9% respectively).

- The estimated funding level of the Fund as at 31 March 2024 was 114%, with a surplus of approximately £220m. This represents an improvement on the funding level calculated as part of the 31 March 2022 triennial actuarial valuation, which was 96% with a deficit of £79m.

- The Fund's estimated exposure to fossil fuel investments as at 31 March 2024 was 0.89% of the total Fund.

Principle 2: Governance, Resources, and Incentives

Principle 2: Governance, Resources, and Incentives

2.1 Lambeth Council is the administering authority for the London Borough of Lambeth Pension Fund. Within its constitution, the council has delegated responsibility for the Fund to the Pensions Committee.

2.2 The Fund is governed by the Pensions Committee as the principal decision-making body with responsibility for all Fund matters including governance, investment and funding strategies, accounting, employer and scheme member engagement, communications, and administration. The Pensions Committee delegates the day-to-day running of the Fund to officers; the Corporate Director of Finance and Governance, as the council's Chief Finance Officer responsible for the financial affairs of the council in accordance with Section 151 of the Local Government Act 1972, has overall delegated powers for the management of the Fund, reporting directly to the Chief Executive.

2.3 The Pensions Board sits in an advisory role to the Fund independent of the Pensions Committee, assisting the council in securing compliance with the relevant regulations relating to the administration and governance of the scheme.

2.4 The council's Treasury and Pensions, and Payroll and Pensions Teams are responsible for the day-to-day management and oversight of assets including implementation of the ISS, and the administration of the Fund. Following the creation of the London Collective Investment Vehicle (LCIV) in 2015, the pool company provides investment products, analysis and advice to support implementation of the ISS and the pooling of Fund assets with those of the other London boroughs who are part of the pool.

2.5 There are strict rules around the governance of the Fund as set out by legislation that applies to all LGPS funds; the Fund reports in detail on how it adheres to those rules every year in the Annual Report, as well as publishing all Fund governance policies which are available on the Fund's website at the following link: www.lgpslambeth.org.

2.6 The following sections provide further information on how the Fund is structured, how decisions are made, and how it is governed in a way that makes for effective stewardship of Fund activities. The council's constitution sets out the Terms of Reference for both the Pensions Committee and Pensions Board, as well as the relevant schemes of delegation that dictate the roles and responsibilities of senior officers of the Fund. Although there are Fund-specific policies and procedures in place, the council's policies also apply to the main bodies overseeing Fund operations where not superseded by the Fund's policies.

2.7 For example, the council's health and safety policies, whistleblowing policy and equalities and diversity policies will all apply to the Fund and those who represent it as employees or elected members of the council. The equalities and diversity policy in particular informs the council's Borough Plan and wider ambitions around strengthening equality and diversity and delivering inclusion and ensures those employed by the council and working for the Fund not only represent a wide and diverse workforce but are also passionate about upholding those standards.

2.8 A summary of the main functions and responsible bodies that influence the operation of the Fund is shown in the table opposite, with additional information on the Fund's main internal bodies in the following sections:

Function	Body
Policy and Objective Setting	• London Borough of Lambeth (administering authority) • Pensions Committee (decision making) • Pensions Board (non-decision making)
Implementation	• Treasury and Pensions Team • Payroll and Pensions Team • Fund Employers
External Policy Bodies and Regulators	• LGPS Scheme Advisory Board • The Pensions Regulator
Pooling Vehicle	London CIV Ltd, governed by: • Executive Committee • London CIV Board (including Remuneration & Nomination Committee, Investment Oversight Committee and Compliance Audit & Risk Committee) • Shareholder Committee

LONDON BOROUGH OF LAMBETH

2.9 The London Borough of Lambeth is the administering authority of the Fund and the largest employer. The Council is the supreme political body of the London Borough of Lambeth made up of 63 elected councillors. The Cabinet is the main executive decision-making body of the council comprising 10 Cabinet Member portfolios including the Leader of the Council; the Cabinet Member for Finance and Cost of Living is responsible for the council's Pension Fund.

2.10 The London Borough of Lambeth discharges the council's functions in relation to the Pension Fund through the Pensions Committee. In addition, as the officer responsible for the proper administration of the council's financial affairs (pursuant to Section 151 of the Local Government Act 1972) the Corporate Director of Finance and Governance is authorised to act on behalf of the council in all pensions matters which includes the provision of advice to the Pensions Committee, the administration of actuarial valuations and the implementation of contribution rates as approved by Council and in consultation with the Cabinet Member for Finance.

THE PENSIONS COMMITTEE

2.11 The Pensions Committee is a non-executive decision-making body of the London Borough of Lambeth, responsible for ensuring the Fund is properly operated in accordance with all relevant regulations and best practice as advised by The Pensions Regulator, LGPS Regulations, the Scheme Advisory Board, the Ministry of Housing, Communities and Local Government (MHCLG) and the Chartered Institute of Public Finance and Accountancy (CIPFA) and, ultimately, to ensure the Fund is able to pay pension benefits as and when they fall due.

2.12 The Pensions Committee is made up of 8 members (akin to "trustees"). There are 5 elected members as employer representatives and 3 co-opted scheme member representatives comprising one member of staff of the London Borough of Lambeth, one pensioner member, and one Trade Union member; all have full voting rights.

2.13 The employer representatives, being elected Lambeth councillors, are confirmed and ratified at an annual meeting of full Council, whilst the member representatives are elected by a ballot of members of the Fund or nominated by a Trade Union. Members usually serve a term of at least four years.

2.14 The positions of Chair and Vice-Chair of the Committee are held by councillors appointed by the London Borough of Lambeth, held for a period of two years with each then taking the other's position.

2.15 In May 2022 local elections took place across the UK, including for all London borough councils. Following those elections a new administration took office at Lambeth Council which saw significant changes to membership of the Committee with five new elected members. During the year there was also a new election to the chair in line with rules outlined in paragraph 2.14 above including a nomination to the Trade Union post which had been vacant.

Advisers to the Pensions Committee

2.16 The Fund is supported by a core group of key advisers who assist with its stewardship activities, and during the annual cycle all will usually be invited to relevant Pensions Committee meetings. The Fund's current advisers in relation to its stewardship approach are as follows:

- Investment Advisers – Mercer
- Governance and Risk Advisers – Aon
- Actuarial Advisers – Hymans Robertson
- External Audit – Forvis Mazars
- Internal Audit – PricewaterhouseCoopers (replaced by BDO in the last quarter of 2024)
- Custodian – Northern Trust

THE PENSIONS BOARD

2.17 The Pensions Board is a non-decision-making body operating independently of the Pensions Committee. Its function is to assist the London Borough of Lambeth, in its role as administering authority, to secure compliance with all relevant pension regulations and other legislation relating to the governance and administration of the scheme, any requirements imposed by the Pensions Regulator, and to ensure the effective and efficient governance and administration of the scheme.

2.18 The Pensions Board is made up of 6 members. There are 3 elected members as employer representatives and 3 scheme member representatives comprising one member of staff of the London Borough of Lambeth, one pensioner member, and one Trade Union member; all have full voting rights.

2.19 The employer representatives are confirmed and ratified at an annual meeting of full Council, whilst the member representatives are elected by a ballot of members of the Fund or pensioners of the Fund or nominated by a Trade Union. Members usually serve a term of at least four years.

2.20 The positions of Chair and Vice-Chair are appointed by members of the Board for two years and will rotate between an employer and member representative. At the end of the Chair's tenure, the post will be filled by the Vice-Chair.

2.21 There have been no changes to the Board membership during the year 2023/24 since the two new elected members who joined the Board following the May 2022 UK local elections, as well as a new staff representative due to the resignation of the previous member. However, the Trade Union resigned in April 2024 and by June 2024 the Union had appointed a replacement.

2.22 Throughout 2023/24 the Pensions Board has overseen the governance of the Fund by way of regular updates at meetings and the review of a wide range of matters including the Fund's administrative performance, its risk register, developments and changes to the Fund's investment strategy, and progress made during the 2022 actuarial valuation process. The Board holds the Pensions Committee accountable for its decision-making, and can make recommendations to, and request information from, the Committee, officers, and other stakeholders as part of its role to ensure compliance with regulations and Fund policies.

2.23 In 2022/23 the Board made one specific request; that Fund officers engage with the LCIV on the issue of allegations of human rights abuses against Uyghurs, and to understand the Fund’s exposure to Chinese stocks within the pooled global equity mandates where the underlying companies had been associated with such allegations.

2.24 Requests made by the Board directed to the Pensions Committee are submitted to the Pensions Committee Chair via officers and, depending on the issue, will either be addressed by the Chair at the earliest opportunity or be discussed at the next Committee meeting. Requests made to officers or other stakeholders are responded to at the earliest opportunity between official Board meetings. In respect of the request made above:

- Officers engaged with the LCIV and ascertained that none of the Fund’s investments through the pool were exposed to companies identified as actively using Uyghur forced labour; moreover, the issue of human rights abuses in general had been identified as one of the pool’s main stewardship priorities and it was collaborating with stakeholders to improve its understanding of the key issues on behalf of the Fund and other pool members.

TREASURY AND PENSIONS TEAM

2.25 The Treasury and Pensions Team have responsibility for the day-to-day running of the Fund, primarily from the investment and governance perspective, under delegated authority from the Corporate Director of Finance and Governance and reporting directly to the Deputy Director of Finance. The team is made up of 4 members of staff, employed by the London Borough of Lambeth and based in Brixton.

2.26 Led by the Head of Treasury and Pensions, the team serves the Pensions Committee and works on all issues of governance, finance, and investment, responsible for the monitoring and reporting of stewardship activities undertaken by the Fund (further information on stewardship integration is available under Principle 7 later in this report). The team has a range of backgrounds, the majority having been recruited from the public sector, and have long-standing pension accounting and investment expertise including membership of relevant professional bodies such as CIPFA and ACCA.

PAYROLL AND PENSIONS TEAM

2.27 The Payroll and Pensions Team has responsibility for all matters relating to day-to-day Fund administration and the processing of member benefits, and also works on matters relating to Fund stewardship including drafting and updating Fund specific policies, reporting on administration activity to the Pensions Board, and engaging with the Fund’s members. The team of 9 is led by the Assistant Director of Payroll and Pensions, under delegated authority from the Corporate Director of Finance and Governance and reporting directly to the Director of Finance (Deputy S151 Officer).

2.28 The Team has a range of backgrounds, the majority having been recruited from the public sector with long-standing pensions administration experience and membership of relevant professional bodies. Some members of the team have been recruited internally due to their knowledge of Lambeth’s finance, policy, and administration.

TRAINING AND PERFORMANCE MEASUREMENT

2.29 The Fund maintains a Training Policy which applies to the Pensions Committee, Pensions Board, and all officers involved in the running of the Fund, recognising that effective management, governance and decision-making can only be achieved where those involved have the requisite skills and knowledge to discharge their respective responsibilities. The Policy is aligned with the "Code of Practice on LGPS Knowledge and Skills", and the "Knowledge and Skills Framework for LGPS Committee Members and LGPS Officers", both published by the Charted Institute for Public Finance and Accountancy (CIPFA) in 2021. It is reviewed and updated on an annual basis, and was last approved by the Pensions Committee in July 2024.

2.30 The Policy sets out the minimum expected standards of knowledge, the methods through which training may be delivered, and how progress will be monitored, and incorporates a Training Plan that sets out a suggested programme of internal training sessions to be delivered over the course of the year. These sessions are based on the annual Fund Business Plan such that training aligns with the workplan for the year and is relevant to the business of the Committee. For example, the 2023/24 Plan delivered training on the principles and background of the LGPS in July 2024 given the changes to Committee and Boad membership; on liability driven investment (LDI) because it is a complex asset class, yet it plays a vital role in the Funds overall portfolio and long-term investment objectives.

2.31 In addition, officers regularly undertake a skills audit of the Pensions Committee and Board to identify where members may feel less knowledgeable or confident; this can then be directly addressed through training, either inhouse or externally. Following the comprehensive changes to membership during the year, a skills audit was undertaken in September 2024 based on the CIPFA Knowledge and Skills Framework. As expected, the audit identified a significant loss of knowledge and skills compared to the previous audit undertaken in December 2021, with several areas identified for focus including general Fund governance arrangements, relevant legislation, procurement and contract management, and actuarial methodology and assumptions. Most of the training needs identified could be met through a mix of self-learning, which members are actively encouraged to undertake, or specific training sessions (as in the case of actuarial valuation training which was built into the Training Plan).

2.32 Internal training is resourced either from the Fund's advisors or actuary on a quoted fee basis, from fund managers where specific asset training is required and can be tailored to the unique circumstances of the Lambeth Fund, or from the LCIV who offer training either on an individual Fund basis or for all client Funds in the pool (for example, in November 2022 representatives from the LCIV visited Lambeth to deliver a session on UK affordable housing as an asset class and their proposed fund launch). These sessions are in addition to the numerous external training opportunities and events which are recommended to members at each and every Committee and Board meeting.

2.33 The Fund reports on the training of its Committee and Board members at every meeting in a training log which, in the interests of transparency, clearly identifies which members have attended training over the relevant period.

2.34 In February 2023 the Fund subscribed to the Hymans Robertson LGPS Online Learning Academy (LOLA,) an online modular learning resource for members to develop their skills and knowledge around all aspects of Fund stewardship. The platform contains nine modules on various topics related to the LGPS, from pensions governance and administration to financial markets and product knowledge and allows members to test their knowledge upon completion of the modules. Although Members were encouraged to complete all nine modules before the end of the 2023/24 financial year, a handful did not manage to and this was reported as part of the regular training logs at Committee and Board meetings.

2.35 Fund officers, as employees of the London Borough of Lambeth, are subject to the learning, development, and performance management systems in place at the authority. As part of the performance management cycle, officers receive an annual appraisal where individual development and work-specific objectives are discussed and agreed for the year ahead; the appraisals serve to highlight how officers can integrate good stewardship into their day-to-day work activity and build this into annual objectives; for example, by monitoring compliance to regulations through submission of quarterly and annual returns, through regular engagement with the Fund's investment managers, and through regular review of the Fund's investment strategy against its stewardship objectives.

Principle 3:

Conflicts of Interest

Principle 3: Conflicts of Interest

3.1 A conflict of interest is a financial or other interest which is likely to prejudice a person's exercise of functions, although it does not include a financial or other interest arising merely by virtue of a person being a member of the LGPS or the Lambeth Pension Fund.

3.2 By way of example, a conflict of interest may arise when a member of the Pensions Board, in fulfilling their legal duty to assist the administering authority, has at the same time a separate personal interest (financial or otherwise) or other specific responsibility which gives rise to a possible conflict with their statutory role as a member of the Board.

3.3 Actual conflicts of interest are not permitted within the LGPS as it is unlikely these can be managed appropriately to prevent the conflict from having an impact. Members of the Pensions Committee and Board that declare a conflict of interest in relation to a particular matter may not participate in any decision-making or vote on that matter. Anyone with a conflict of interest may not be appointed to the Pensions Board and may be required to resign if they are already a member of the Board. As an additional mitigation against the risk of conflicts of interest, councillors who are members of the Pensions Committee are excluded from serving on the Board, and vice versa.

3.4 Managing conflicts of interest is vital to every pension scheme, and at Lambeth both the Pensions Committee and Pensions Board receive appropriate training on identifying and reporting conflicts of interest and must formally declare at each meeting any potential conflicts per the Lambeth Council Member Code of Conduct.

3.5 Members of the Pensions Committee and Pensions Board are subject to the Member Code of Conduct as stipulated in the constitution of Lambeth Council. The Code of Conduct is set out in accordance with the provisions of the Localism Act (2011), committing members to adhere to several statutory principles as well as the Seven Principles of Public Life (the 'Nolan Principles').

3.6 Officers of the Fund, as employees of Lambeth Council, are subject to the Officers' Code of Conduct as set out in Lambeth Council's constitution and to the terms and conditions of their contracts of employment. As a condition of working for the council, officers are required to declare any relationships, interests, or memberships of other bodies that may give rise to a conflict with their employment by the council and must make an annual declaration to abide by the Code of Conduct.

3.7 In line with the requirements of the Public Service Pensions Act (2013) and the Pension Regulator's Code of Practice, the Pensions Board has adopted a separate Conflicts of Interest Policy which clarifies the definition of a conflict of interest and how conflicts should be managed and monitored. The three-stage approach to managing conflicts of interest includes:

- identifying potential conflicts
- monitoring potential conflicts
- managing potential conflicts

3.8 The Board should cultivate a culture of openness and transparency and in doing so members should identify and evaluate any potential conflicts of interest with the role of the Board itself or with specific items on the Board's work programme. Members will declare any conflict of interests at the start of every Board meeting where they will be recorded on the register of interests together with the appropriate action taken to manage the conflict; this may include a member withdrawing from discussions or resigning from the Board if the conflict is so fundamental that it cannot be managed in any other way.

3.9 The Board's Conflicts of Interest Policy is available at the following link: https://www.lgpslambeth.org/resources/conflicts-of-interest-policy/

3.10 In 2023/24 there were no potential or actual conflicts of interest identified that related to stewardship and which needed managing.

MANAGING POTENTIAL INVESTMENT CONFLICTS

3.11 The Fund's Investment Strategy Statement (ISS) was updated in November 2023 following the completion of the 2022 actuarial valuation, and was expanded to further explain how conflicts are managed in relation to the Fund's stewardship, particularly with regards Fund investments and employers, to include at least the following:

- As an investor in pooled assets, the Fund does not select the underlying companies it invests in. The Pensions Committee, with the assistance of its advisers, appoints asset managers to manage the Fund's assets in various strategies according to the investment strategy, and those managers then select the underlying companies best suited to deliver their strategies' objectives. The Fund does however expect its managers to engage with the underlying companies on its behalf in a way that supports the Fund's strategy and escalate any concerns accordingly.
- In undertaking its stewardship activities, the Fund will act in line with its ISS and will not be influenced by the regulatory actions of scheme employers.

3.12 The Fund is also aware of the policies and processes in place for managing conflicts of interest within the London CIV (LCIV) and monitors adherence to these through the LCIV's reporting framework; where conflicts arise and are of material risk to the Fund, officers will engage with the LCIV to understand the conflict and the processes in place to manage it, reporting it to the Pensions Committee and Board at the earliest opportunity.

Principle 4:

Promoting Well-Functioning Markets

Principle 4: Promoting Well-Functioning Markets

APPROACH TO RISK

4.1 Lambeth Pension Fund recognises that effective risk management is an essential element of good stewardship, and by identifying and managing risks through an effective policy and risk management strategy it is able to minimise the risk of adverse conditions on the Fund, identify and maximise opportunities that may arise, and support innovation and continual development to address market and systemic risks. In its management of risk, the Fund has regards to CIPFA guidance on managing risk in the LGPS and the Pension Regulator's Code of Practice.

4.2 The Fund has adopted a Risk Management Policy and Statement that clearly sets out the risk philosophy of the Fund and its appetite for risk, how risk management is implemented and integrated into the day-to-day activities of the Fund, and the responsibilities for risk management within the Fund. To help identify, analyse, and evaluate risk the Fund maintains a risk register which lists each identified risk relevant to the Fund, the impact of the risk on outcomes and benefits, and the responsible owner of that risk; it then assigns a risk rating to assess the likelihood of a risk occurring and the impact it would have on the Fund. Mitigating actions are suggested and risks monitored on an ongoing basis to determine the effectiveness of those actions, if the desired outcomes have been achieved, and what lessons can be learned for the future assessment and management of risk.

4.3 The risk register is presented to the Pensions Committee at least twice a year and to the Pensions Board quarterly. The Pensions Board provide comment and input to the management of risks and can make recommendations to the Pensions Committee for action. The Pensions Committee have ultimate responsibility for the monitoring of risks and, in its updates to the Committee, officers flag any changes made to the register for new risks, changes to risk ratings, or the successful implementation of mitigating actions.

4.4 As at 31 March 2024 there were one risk in the register identified as 'very likely' to occur with minor to significant impacts.

- The risk highly that was likely to occur was the failure to sign off the Fund's statutory accounts and Annual Report by their respective deadlines. This was rated as very likely given ongoing delays to previous years' audits outside of the Fund's control. Mitigations included close dialogue with the external auditor to ensure the year-end closing of accounts and subsequent audit was carried out as efficiently as possible to prevent any additional delays.

4.5 The register was also updated in the year to increase the risk rating assigned to Pensions Committee and Board members' skills and knowledge not being in line with legislative requirements, given the wholesale changes to membership that took place following the UK local elections in May 2022 and subsequent routine rotation of chair persons. Mitigations against the impact of these changes included induction training for new members, structured training delivered as part of a formal Training Policy and Plan, and the availability of professional advisors to advise where required.

4.6 The Fund's Funding Strategy Statement (FSS) and ISS also address risk as relevant to each statement, including financial, demographic, and regulatory risks as well as investment, solvency, governance and ESG risks. The Fund's overriding approach to mitigating market-wide and systemic risk is to take a balanced approach to risk and return, seeking to maximise returns whilst minimising risk within acceptable parameters, and maintaining a diversified portfolio across many asset classes, managers, and geographies. This diversification across different markets and asset classes also reduces the Fund's exposure to the volatility of listed equities, which as at 31 March 2024 made up approximately 46% of the Fund. The Pension Committee believes that the additional returns that can be generated by equities compensates for the level of risk they add to the Fund, whilst exposure to diversifying assets helps to mitigate this additional risk and promote well-functioning financial markets by reducing concentration risk in the event that a market failure leads to losses in any given asset class.

4.7 Within its investment strategy the Fund also has a 15% allocation to a liability driven investment (LDI) mandate, an approach which recognises market risks such as changing interest and inflation rates and seeks to mitigate their impact on the Fund's liabilities. The Committee recognises that unhedged interest rate and inflation risk represents one of the Fund's largest investment risks, and so maintains an LDI strategy which invests in assets with similar sensitivities to changes in interest rates and inflation as the Fund's liabilities; changes in interest rates and inflation will therefore impact both assets and liability valuations in a similar manner, reducing funding level volatility.

4.8 The Fund recognises that climate change presents a systemic financial risk that must be addressed, and, in January 2022, members of the Pensions Committee voted unanimously to adopt a 2040 net zero target for the Fund, concerned that they could not meet their fiduciary duty to the Fund's members without approaching the climate emergency with urgency and ambition.

4.9 This announcement was in line with the Fund's Responsible Investment Plan agreed in October 2020 and the Committee's longer-term commitment to adopt the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). Activities undertaken to address climate change risk and move towards realising the Fund's net zero ambitions include the following:

- An updated carbon footprinting exercise as at 31 March 2023 was carried out which revealed improvements in the carbon footprint, weighted average carbon intensity and potential emissions from the Fund's listed equities (reducing by 13%, 32% and 100% respectively from the 2020 baseline assessment), although absolute emissions increased by 6% largely due to increased asset values over the period. For the corporate bonds within the Fund's multi asset credit mandates, both absolute emissions and the carbon footprint had reduced since the baseline assessment (by 59% and 20% respectively), although the weighted average carbon intensity increased by 9% and potential emissions by 505%, largely due to manager changes in the underlying portfolios which will be addressed with the managers accordingly.

- The Fund transitioned to a global equity Paris Aligned fund in September 2022 which has annual targets to continually reduce carbon exposure in the fund.

- The Pensions Committee received a presentation from the London CIV (LCIV) setting out their 2040 net zero target, and discussing how the pool might support the Fund's own targets and the work that needs to be done to meet them.

- The Pensions Committee adopted a modestly revised investment strategy following the conclusion of the 2022 actuarial valuation by reviewing the existing strategy and agreeing areas for focus, including responsible investment considerations.

4.10 The Fund's existing investment strategy already incorporates an allocation to sustainable and low carbon funds and recognises the need to incorporate ESG considerations into investment decision-making. The updated strategy was finalised in November 2023 and the interim net zero targets were agreed and approved by the Pensions Committee in January 2024 with a decarbonisation pathway that maps out how the Fund will transition to a low carbon, net zero Fund. This will also enable the creation of the formal Responsible Investment Policy which will bring together several strands from across various policy and strategy documents and expand on them to set out the Fund's overall approach together with its specific targets.

CONTINUED IMPROVEMENT OF THE FUNCTIONING OF FINANCIAL MARKETS

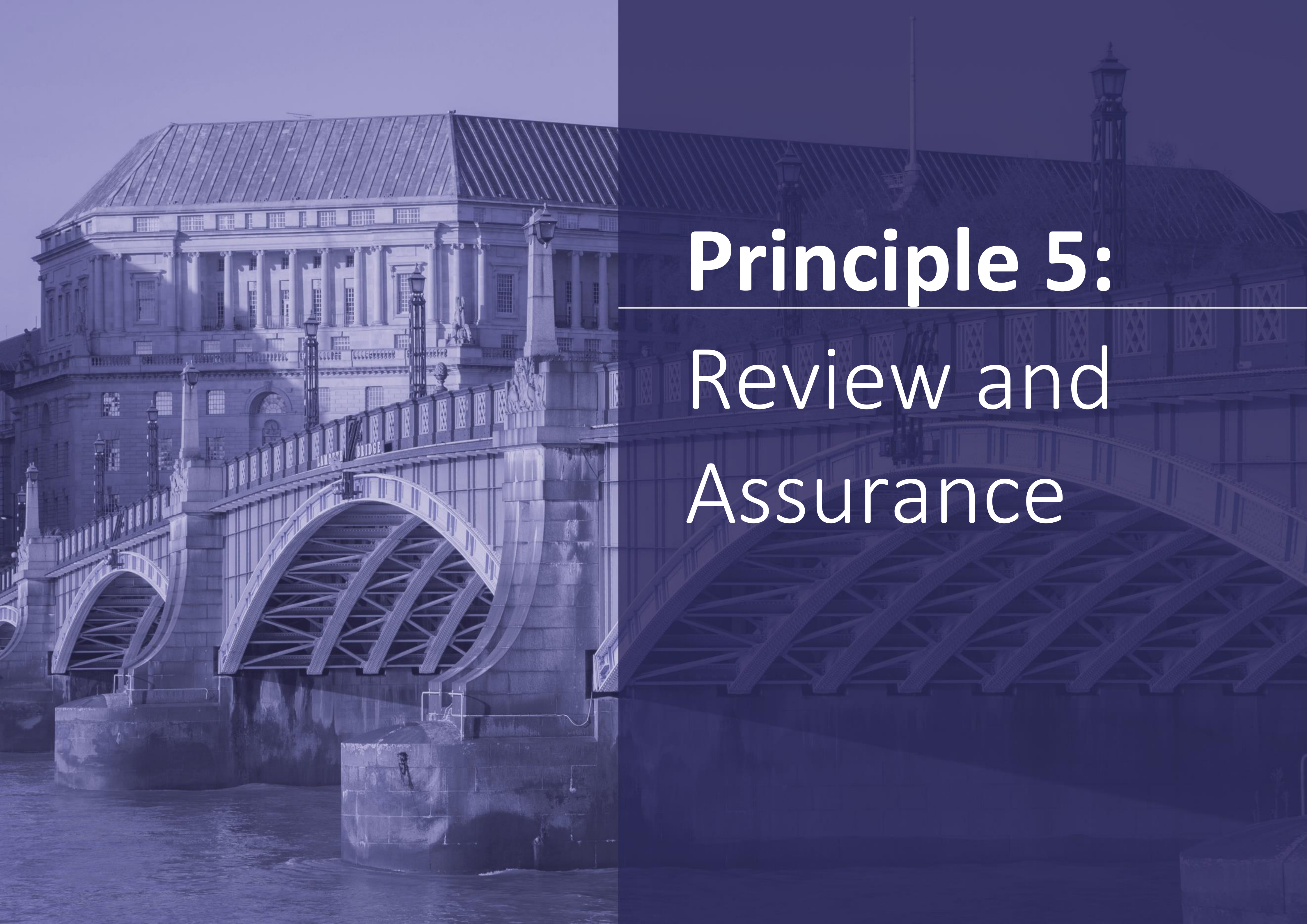
4.11 The Fund has continued to engage throughout 2023/24 with local authority colleagues, regulators, and industry bodies as part of its wider commitment to improving the functioning of financial markets, and as outlined under Principles 9 and 10, including continuing its ongoing membership of the Local Authority Pension Fund Forum (LAPFF) and the Pensions and Lifetime Savings Association (PLSA).

4.12 The Fund is a long-term investor and steward of capital, committed to positive action, collaboration, and leadership in order to promote well-functioning financial markets. The Fund recognises there will always be market-wide and systemic risks in the future, and that the most effective way to identify and respond to these risks is to collaborate and engage with its stakeholders and through industry collaboration. The Fund relies on its risk management processes, and particularly its risk register, to identify and monitor market-wide and systemic risks on an ongoing basis, to be able to respond in a way that reduces risk to the Fund and that also aims to deliver environmental and social benefits at scale. The Fund is committed to increasing its engagement with stakeholders in these matters for the benefit of the Fund and the wider financial markets.

4.13 The Fund is pleased to have submitted a response to the government's consultation on climate change reporting in the LGPS, which sought views on proposals that would require LGPS Funds to have effective governance, strategy, and risk management policies in place to manage climate risk, as well as report on a prescribed set of metrics and targets for the assessment and management of climate risks and opportunities.

4.14 The proposals in the consultation were broadly in line with those of the TCFD framework (which has already been adopted in the private sector but which is not yet mandated in the public sector), with the proposal that Funds should compile an annual Climate Risk Report and publish it alongside (or as part of) the Annual Report.

4.15 The Fund was broadly supportive of the proposals put forward, recognising the value that high quality climate change reporting can have in improving the understanding of the LGPS' approach to this risk and helping to identify opportunities for collaboration and engagement with stakeholders. There was however also a recognition of the limits on such reporting in the early years of adoption due to data quality and availability, though this will improve as the industry and financial markets adapt.



Principle 5:

Review and Assurance

Principle 5: Review and Assurance

5.1 The Fund's suite of policies and procedures are periodically reviewed internally by Fund officers, the Pensions Committee, and the Pensions Board as part of the normal stewardship activity of the Fund and the respective work programmes of the Committee and Board. Those strategies and policies relevant to investment and investment stewardship, such as the ISS and FSS, are formally approved by the Pensions Committee, and will be reviewed at least every three years to align with the triennial actuarial valuation though in practice are reviewed and updated on a more regular basis as appropriate. Such reviews aim to identify and implement any process improvements and reflect any developing initiatives or statutory changes; this may require additional policies and procedures to be drafted. The Fund's latest policies can be accessed on the Fund website at the following link: [https://lgpslambeth.org/resources/.](https://lgpslambeth.org/resources/)

5.2 Going forward the Fund will develop a Responsible Investment Policy which will also include its approach to stewardship, outlining its key stewardship priorities and how the effectiveness of those priorities is measured. As a member of the London CIV (LCIV) pool, the Fund values the importance the LCIV places on stewardship and its recognition of the ambition of its client funds; this drives its commitment to positive action, collaboration and leadership which in turn benefits the Fund.

ASSURANCE

5.3 Effective stewardship is key to ensuring the high quality of service delivery that the Fund's members expect, and the governance structure at the Fund has been created to provide assurance to the Fund's stakeholders and governing bodies of the effectiveness of the Fund's stewardship activities, making use of specialist, skilled and professional advice at every stage of Fund management.

5.4 As a Fund, there are several ways in which assurance is sought in relation to the Fund's stewardship; for example;

- The Fund's Annual Report and financial statements are externally audited; if provided with an unqualified audit opinion, the auditors deem the statements to provide a "true and fair view" of the Fund's financial transactions to have taken place during the year and the year-end balance of assets and liabilities. The Fund's Annual Report for 2022/23 was published in November 2023, ahead of the statutory deadline, in draft format only due to ongoing national delays with public sector audits; the final audit sign off is expected in November 2024. The audit of the Fund's 2023/24 financial statements will be similarly delayed due to issues outside of the Fund's control.

- The Fund commissions external governance reviews to gain assurance on its policies and procedures in place that relate to the administration and governance of the Fund. The most recent review was completed in 2018 which resulted in a comprehensive action plan to address and improve areas of non or partial compliance to The Pension Regulator's (TPR) Code of Practice.

- That action plan has been progressed in the years since, and during 2023/24 several further improvements were made to policies and processes as a result of past internal reviews. In January 2024 the Pensions Committee reviewed and approved several Fund's strategies including investment strategy, training, revised FSS and interim net zero targets which set out the roles and responsibilities of both the administering authority and Fund employers, as well as expected levels of performance and the resources available to support employers. At the same time, the Fund published its updated Funding Strategy Statement which was made more accessible by reducing the size and complexity of the main statement, stripping out several separate policies and instead including them as appendices. Both strategies were consulted on with employers before being formally adopted.

- In early 2023 the Fund's risk register also went through a comprehensive review process and was updated to a new template with each identified risk now incorporating an additional "inherent" risk rating, or an indication of what a worse-case scenario might look like without any mitigation. It was last reviewed in July 2024.

- Finally, the Fund reviewed and amended its Abatement Policy to bring it in line with the latest LGPS Regulations and reflect the actual cost of administering the policy versus the benefits.

- A follow-up external governance review will be commissioned which will also assess the Fund's adoption of the changes required from forthcoming regulations and guidance, including the revised TPR Single Code of Practice and the outcome of the Good Governance Review; in addition, it will include an independent review of the Fund's stewardship policies. By seeking external assurance from an independent third party, the Fund and its stakeholders can be confident of an unbiased and unprejudiced view of the effectiveness of the Fund's stewardship processes.

5.5 When contracts are due for renewal the Fund follows the stringent procurement policies of Lambeth Council as set out in Lambeth's Contract Standing Orders, which includes a policy on responsible procurement to ensure that all high value procurements focus on delivering value for money and achieving additional economic, social and environmental benefits. In addition, where possible, the Fund makes use of external procurement frameworks such as the National LGPS Frameworks which are compliant with the Public Contract Regulations (2015).

5.6 The LCIV also maintains its own assurance controls for the benefit of its clients; all published policies, procedures and reports are required to pass through a formal review and internal assurance process. This ensures that their policies and any internal/external communications are in line with LCIV objectives and what is communicated is fair, clear and accurate. Responsible Investment (RI) policies and reports are drafted by the Responsible Investment Team and reviewed by the Chief Executive Officer, Chief Investment Officer, Governance Team and Executive Team. The Compliance and Risk Team undertake periodic reviews of their RI framework to ensure compliance with regulatory obligations and to identify any risks.

5.7 In 2023 a Responsible Investment survey was designed and issued to pension fund members as part of the Fund's efforts to gauge members' opinions on a range of ESG and stewardship issues. Such issues have been key to the Fund's investment approach in the past; however, with the Pensions Committee finalising an updated investment strategy following the 2022 actuarial valuation, the Committee was keen to gain assurance that members' views are aligned with those currently adopted by the Fund. Equally, the Committee was keen that, going forward, members' views can directly feed into the implementation of the new strategy, the drafting of the Responsible Investment policy, and the general improvement of stewardship reporting. The results of the survey were presented to the Pensions Committee and Pensions Board later in 2023 and shared with Fund beneficiaries.

Principle 6:

Client and Beneficiary Needs

Principle 6: Client and Beneficiary Needs

SCHEME MEMBERSHIP

6.1 The London Borough of Lambeth Pension Fund is part of the Local Government Pension Scheme, a statutory public service scheme providing defined benefits to its members based on their earnings and length of service and is administered by the London Borough of Lambeth on behalf of all 31 employers in the Fund. Benefits are funded by member contributions and investment returns and are guaranteed by statute.

6.2 Membership of the LGPS is open to all public sector employers providing some form of service to the local community and, whilst most members will be local authority employees (and ex-employees), other employers can also join the scheme where they are providing services in place of (or alongside) local authority services, such as academy schools, contractors, housing associations and charities.

6.3 As at 31 March 2024 there were 21,954 members in the Fund across three categories:

- 5,180 active members (representing 24% of membership) who are currently employed by one of the Fund's employers, with an average age of 53 (as at 31 March 2022).
- 8,126 deferred members (representing 37% of membership): these are members who worked for a scheme employer in the past and are entitled to receive a pension from the Fund in the future, with an average age of 54 (as at 31 March 2022).
- 8,648 pensioner members (representing 39% of membership), being members who are currently receiving their pensions, with an average age of 69 (as at 31 March 2022).

6.4 Lambeth Council is the largest employer in the Fund, accounting for 95% of overall membership, or 90% of active membership, 95% of deferred membership and 99% of pensioner members. Most of the other employers in the Fund are academies/education trusts or housing management organisations; further information is available on the Fund's website.

SCHEME ASSETS AND INVESTMENT TIME HORIZON

6.5 As at 31 March 2024 the Fund's assets were invested as set out in the table below.

Asset	Geographical Split	31 March 2024 £000	31 March 2023 £000
Public Market Investments			
Fixed interest securities	UK	252,036	193,332
Global growth equities	Global (including US – 57%, UK – 6%, China – 6%, Japan – 5%)	313,165	269,879
Sustainable equities	Global (including US – 65%, UK – 7%, Switzerland – 6%, Japan – 5%)	331,423	286,363
Emerging market equities	Global (including India – 22%, China – 20%, Taiwan – 13%, South Korea – 9%, Hong Kong – 9%, Brazil – 5%)	167,596	169,759
Multi Asset Credit	Global (US and Europe)	320,874	351,193
Other Pooled Investments	UK	1,052	5,052
Subtotal		**1,386,146**	**1,275,578**
Private Market Investments			
Pooled property	UK – Private Rented Sector	43,787	46,130
Pooled property	Europe – Commercial	105,769	121,088
Private equity	Global (US and Europe)	54,694	60,233
Private Debt	Global (US and Europe)	145,672	133,837
Subtotal		**349,922**	**361,288**
London CIV	UK	150	150
Cash instruments	UK	(26)	32
Subtotal		**124**	**182**
Net current assets		**63,450**	**61,267**
Total Fund assets		**1,799,642**	**1,698,315**

6.6 The Lambeth Pension Fund takes a long-term view with regards its investment and funding strategies, given the long-term nature of the payments due to beneficiaries over a 50+ year time horizon. The Fund's primary investment objective therefore is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due; to achieve this, the Fund must ensure its long-term solvency by adopting a prudent long-term view of not just investment returns but the changing liabilities of the Fund and the forces that will impact on them in the future, investing over the long-term to align with its long-term liabilities. In recognising these variables, the Fund's investment strategy also allows for some flexibility to manage short-term volatility in markets, the different risk/return profiles across asset classes, and the changes to cashflow requirements as the membership profile of the Fund or benefit structure changes.

6.7 During 2023/24 there were no specific instances of the Fund's managers actively acting against the interests of the Fund's investment and stewardship policies. The one area where there continues to be a discrepancy between Fund ambition and manager action is the investment in fossil fuel companies which, although not direct exposure, continues to hover around 1% of the total Fund. Almost all of this exposure is through the multi asset credit portfolios, largely due to their investments in the energy and industrial sectors. Overall exposure fluctuates on a quarter-by-quarter basis, mostly as a result of changing market pricing but occasionally as a result of direct manager action to divest from a particular holding.

6.8 The Fund recognises that, as an individual investor in pooled funds, it has no power to make investment decisions at the underlying company level and that to fully divest from fossil fuels would require drastic changes to the investment strategy. In some cases engagement may be a preferable option instead of divestment, and so the Fund will continue to engage with its managers to ensure those decisions are being taken in line with the Fund's interests.

COMMUNICATION WITH MEMBERS

6.9 Lambeth Pension Fund is committed to delivering value to its members and other stakeholders, ensuring strong lines of communication and readily available information when it is needed and in whatever format or language it is required, in recognition of the culturally rich and diverse client base the Fund serves. It communicates with its members, employers, and other interested parties on a regular basis and sets out how it does this, and how it measures the success of that communication, in its Communication Policy Statement available on the Fund's website at the following link: [https://www.lgpslambeth.org/resources/communications-policy-statement/.](https://www.lgpslambeth.org/resources/communications-policy-statement/)

6.10 The following table provides examples of the types and methods of communication issued to members.

Method of communication	Frequency of issue	Examples of information provided
Annual report	Once a year	Fund's Statement of Accounts, general financial and administrative performance.
Newsletter – active members	Once a year	LGPS news, scam warnings, privacy updates, investment performance, information on transfers.
Newsletter – deferred members	Once a year	Benefit entitlement and calculation, LGPS news, information on transfers, scam warnings, privacy updates.
Newsletter – pensioner member	Once a year	Benefit payment and administration.
Annual Benefit Statements	Once a year	Value of accrued pension.
Actuarial valuation report	Every three years	Funding and liability valuations, contribution rates.
Guides to benefits and factsheets	Updated versions issued as required	Covering, but not limited to, benefit entitlement, disputes, lifetime and annual allowances, beneficiary nomination.
Fund Policies	Updated versions issued as required	Covering, but not limited to, reporting breaches of the law, risk management, disputes, conflicts of interest, data protection, administration, and discretions.

6.11 The Fund's communication objectives not only include being able to resolve member queries and complaints to the customer's satisfaction, but also to educate and explain to existing and prospective members the benefits of the LGPS, to ensure stakeholders have sufficient information to be able to make pensions-related decisions, and to promote the Fund's stewardship activities as a means of reassurance. To that end, the Fund maintains its own website which acts as the first point of reference for information on the Fund, as well as providing a central depositary for all Fund documentation including policies and procedures, funding and investment strategies, and various request forms.

6.12 The website provides a readily accessible route for communicating the Fund's stewardship activities to its beneficiaries and other interested parties, particularly as societal and environmental changes have seen an increased interest from the Fund's members on how their pensions are invested responsibly and ethically. In 2023/24 the Fund website received an average of 623 visits per month (660 in 2022/23), with half of those typically coming via search engine results and just under half from directly typing in the web address or using a saved favourite.

6.13 The Fund also communicates with members via alternative means; benefit statements are issued every year providing an estimate of benefits, whilst newsletters are sent out at least annually to active, deferred and pensioner members setting out useful and topical information relating to the Fund, such as changes to scheme regulations and updates on Fund performance. New members are issued with a scheme guide on joining the Fund, whilst one to one sessions and presentations are available on request.

6.14 There is also a Member Self Service (MSS) online platform where members can register and access details about their personal pension rights and benefits. As at 31 March 2024 there were 4,959 registered users of MSS representing 23% of Fund membership (4,134 as at 31 March 2023 representing 19% of membership); officers encourage all members to use MSS, and links are provided in emails and other communication.

6.15 As part of its engagement with beneficiaries and employers of the Fund, the views of those members and employers are sought for various purposes and reasons; for example:

- When finalising the Funding Strategy Statement, and as required by LGPS Regulations, the views of employers in the Fund are sought through a consultation period where employers and their members can provide feedback on the content of the Statement. Employers are invited to attend an Employers Forum where questions can be raised and answered and, following the end of the consultation period, the FSS is updated where required before being published. The Fund consulted on its updated FSS in February 2024 and also held a virtual Employers Forum; the revised FSS was published on the Fund's website in same time following the conclusion of this exercise.

- Membership of the Pensions Committee and Pensions Board is open to direct member representation through active, pensioner and trade union members; these co-opted roles provide an opportunity for beneficiary representation on the respective panels, offering decision-making authority on the Pensions Committee. In addition, all co-opted members have full voting rights. Where members sit for their full term, or when members resign, an election process is held whereby members are notified of the relevant vacancy, asked to submit expressions of interest, and then vote via ballot paper for those who put themselves forward. This allows for full member engagement in the election process and is fully transparent, with the process being managed independently of the Fund by the Council's Elections Team.

- A Responsible Investment survey was designed in early 2023 to gauge members' views on ESG issues including climate change, engagement vs divestment, and the importance of investment exclusions. The survey was issued in the Summer of 2023 and results were presented to the Pensions Committee later in the year, where they helped inform development of the Fund's Responsible Investment strategy and the implementation of the revised investment strategy.

6.16 To measure the effectiveness of its communication methods the Fund has set several target delivery periods for issuing and responding to certain requests, all much earlier than the statutory timeframes where applicable and as set out in its Communication Policy. Updates on administrative performance in general, including performance indicators, are reported to the Pensions Board every quarter, including the number of complaints received and actions taken to resolve them. Communication objectives are also included in the Fund's annual Business Plan with specific deadlines for certain actions; progress against these actions is reported to Committee and Board.

Principle 7:

Stewardship, Investment and ESG Integration

Principle 7: Stewardship, Investment and ESG Integration

7.1 Lambeth Pension Fund requires its investment managers to integrate all material financial factors including ESG considerations into the decision-making process for all fund investments, and delegates to them responsibility for making individual investment decisions that are in line with those integrated considerations. The Fund's Pensions Committee believes that ESG (including climate change) risks should be considered on an ongoing basis as a priority and that management of those risks is consistent with the Pensions Committee's fiduciary duty as set out in its investment beliefs. ESG considerations are an integral part of the Fund's strategy as a long-term investor, and the Committee receives quarterly ESG updates from its investment adviser by way of ESG ratings for each of the Fund's managers.

7.2 These ratings, on a scale of 1 to 4, are assigned to managers and their strategies according to their integration of ESG into the investment process. The best strategies, rated ESG1, are those the advisers believe to be leaders in integrating ESG and active ownership into their core processes and where ESG is central to idea generation or portfolio construction; the worst, rated ESG4, provide little evidence of any integration of ESG and active ownership into core processes.

7.3 When taken into consideration with traditional alpha ratings assigned to managers by the Fund's advisers, as well as investment performance, the Pensions Committee can form a view of the Fund's managers and engage accordingly, either to seek reassurance from the managers or consider investing elsewhere. In addition, the Committee uses these ESG ratings and considers other ESG factors when procuring new managers to ascertain the extent of ESG integration within a strategy, as part of the wider evaluation process.

7.4 For example, in September 2022 the Fund transferred over £270m of pooled global equities into a Paris Aligned (PA) equivalent strategy operated by the same fund manager, but which is better aligned with the Fund's ESG beliefs and longer-term decarbonisation targets. In agreeing to implement the switch, the Pensions Committee considered the following factors:

- The fund's decarbonisation targets and carbon emissions relative to recognised benchmarks;
- The strategies adopted by the fund to screen stocks that do not meet emissions targets;
- The integration of qualitative stock assessments that align with a transition to a low carbon economy;
- The resources available for overall ESG integration, and the extent of that integration in the portfolio; and
- How ESG factors are reported to investors.

7.5 As at 31 March 2024 none of the Fund's investment managers/strategies were rated ESG4 by the Fund's adviser; three were rated at ESG3, eight were rated

ESG2, and one was rated ESG1. In 2022 further context was added to these ratings by benchmarking the managers' scores against other managers in the same asset class, to demonstrate what measures of ESG and stewardship integration differ across asset classes by virtue of the type of assets that make up a strategy. As at 31 March 2024 all of the Fund's analysed strategies (comprising 84% of the Fund's investments) had an ESG rating equal to, or above, the average score for their respective asset classes. The Fund will continue to work to improve the ongoing quality and range of ESG reporting of Fund investments, such that the Pensions Committee is better able to carry out its stewardship responsibilities, particularly with regards to the transition of assets into more sustainable asset classes that meet the Fund's 2040 net zero target.

7.6 The Fund has committed to reducing climate change risk by eliminating fossil fuel exposure from the Fund's portfolio, and considers this a priority issue when procuring any new managers. The Pensions Committee expects to continuously review further opportunities, across all asset classes, to reduce the Fund's reliance on sensitive assets by considering the potential financial impacts of both the transition to a low-carbon economy and the physical impacts of different climate outcomes. The Pensions Committee expects its investment managers to include information on how fossil fuel exposure is being managed within their respective portfolios as part of regular reporting to the Fund, and this information is reported to both the Pensions Committee and Board on a quarterly basis as a means of monitoring progress towards fossil fuel reduction.

7.7 The Fund recognises the importance of responsible investment principles as an integral part of any pension fund's investment strategy, and the increasing relevance of RI and ESG factors as material interests to the Fund's stakeholders. The Fund aims to improve its integration of RI and ESG considerations into its stewardship activities and its decision-making throughout the investment value chain, improving the transparency of Fund performance in this area through regular, high-quality disclosure. The Pensions Committee has agreed to formally adopt the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and has instructed officers to compile an initial report using the TCFD framework, analysing the Fund's governance, risk management, strategy, and metrics and targets in relation to climate risks and opportunities. The Fund aims to produce its first report soon after the Ministry of Housing, Communities and Local Government gives concrete guidance.

Principle 8:

Monitoring Managers and Service Providers

Principle 8: Monitoring Managers and Service Providers

8.1 Lambeth Pension Fund believes that effective monitoring of its managers and service providers is an essential aspect of good stewardship activity and adopts several methods of monitoring its providers to ensure services have been delivered as expected.

MONITORING OF MANAGERS

8.2 The Fund monitors its managers through regular in-person and virtual meetings and calls, engagement at conferences, attendance at performance update webinars and calls, and through its advisers and the London CIV (LCIV). The Fund receives quarterly performance updates from its investment advisers summarising financial performance against a wider market backdrop as well as a measure of the managers' progress towards integrating ESG factors into their core processes. These reports are reported at both Pensions Committee and Pensions Board. Managers are invited to Pensions Committee meetings where there are particular areas of concern that the Committee wish to escalate, or otherwise periodically to ensure strong ongoing monitoring of the Fund's asset managers by its decision-makers.

8.3 The LCIV prepares quarterly performance and voting reports for its clients as well as monthly capital statements, which allows for effective monitoring of managers' engagement, voting, and wider ESG activity in line with the Fund's policies. In 2021 the LCIV appointed Federated Hermes EOS to assist with voting and engagement activity for its listed equity and fixed income funds, supporting the LCIV in their dialogue with companies within the pool. As that relationship continues to develop the Fund would expect to see improvements in the reporting of engagement activity feed through to client funds, which will be reported at Pensions Committee and Board meetings going forward.

8.4 In January 2024 the LCIV issued its Annual Review outlining the engagement, voting and public policy work carried out by Hermes EOS on behalf of the pool and client Funds during 2023; this included actively engaging with 831 companies on 1,609 environmental, social, governance, strategy, risk and communication issues and objectives. Governance issues accounted for 15% of engagements (with executive remuneration being the subject of half of those governance engagements); environmental issues accounted for 51% (climate change being the subject of 75% of those engagements); and social issues accounted for a further 26% (human rights being the overwhelmingly common engagement theme).

8.5 The LCIV also carries out annual due diligence updates on its funds, assessing managers against eight criteria on a Red, Amber, Green (RAG) basis. As a result of these reviews, funds may be moved onto enhanced monitoring when performance and risk is not aligned with expectations, where concerns arise due to resourcing and wider business risks, or where commitment to responsible investment falters. Alternatively, if the review identifies persistent variances in performance or highlights significant shortcomings, funds may be placed on watch status and face more rigorous and regular evaluation.

8.6 In what was another difficult year overall for the Fund's investment performance where, disappointingly, only three managers performed above their benchmark, while another three were at break-even; although concerns were raised at Pensions Committee during the year about the performance of the Fund's pooled global equity strategies, these seem to have turned around.

8.7 The Fund raised its concerns with the LCIV given the trajectory towards longer-term underperformance, and due diligence reviews carried out by the LCIV acknowledged those performance concerns but were supportive of the managers' general investment processes and ability to recoup losses. The Fund will continue to monitor the performance of these managers in 2024/25 and consider alternatives should performance continue to fall short of expectations.

8.8 The LCIV holds monthly business update meetings with client Funds to update on pooling progress and any new pool developments, as well as 'meet the manager' sessions which give clients the opportunity to engage directly with managers. Officers also maintain regular dialogue with the LCIV on all aspects of Fund management. A quarterly update is presented to the Pensions Committee and Pensions Board summarising performance information as well as service delivery, mandate development and wider pooling updates.

8.9 The LCIV periodically presents at Pensions Committee meetings which ensures regular face-to-face interaction with the LCIV client servicing team. Representatives last presented to the Committee in January 2024, updating members on specific investment items as well as developments within the team, including information on the LCIV's People Strategy, on issues around recruitment and retention, and on the issue of diversity at the senior levels of the organisation.

8.10 The Chair of the Pensions Committee and Fund officers met with the of the LCIV in July 2024 to discuss LCIV Housing Fund.

MONITORING OF SERVICE PROVIDERS

8.11 The Fund has established a list of 7 strategic objectives for its investment advisers, Mercer, in compliance with the Competition and Markets Authority 2019 Order, "The Investment Consultancy and Fiduciary Management Market Investigation Order". The objectives are aligned with the Fund's primary objective to be able to pay member benefits as and when they fall due and include a requirement to consider the responsible investment responsibilities of the Fund and to assist in determining and delivering an appropriate investment strategy.

8.12 The objectives will be reviewed and amended, if necessary, after any significant changes to the Fund's investment strategy or objectives, and at least every three years. The Fund monitors adherence to the objectives and engages in client feedback meetings with Mercer where officers can flag concerns but also highlight areas of the relationship that are working well, as well as identifying any future needs and how they might best be met. In 2023/24 the Fund's advisers continued to meet the Fund's needs.

8.13 The Fund also engages in service reviews with other stakeholders as relevant, including its actuary and custodian, which are typically carried out by another colleague within those organisations to remove any obstacles to honest and transparent appraisals (i.e. avoiding the main relationship managers that the Fund works with). Again, these stakeholders continued to meet the Fund's needs during 2023/24 and there were no concerns with the services they provided.

Principle 9: Engagement

Principle 9: Engagement

9.1 The Fund believes that effective management of financially material environmental, social and governance risks will support the Fund's long-term approach to protect and enhance the value of the Fund's assets. The Investment Strategy Statement includes the requirement that its investment managers integrate all material financial factors, as well as corporate governance and ESG considerations, into the decision-making process for all its investments. The Fund expects its managers to follow best practice and use their influence as major institutional investors and long-term stewards of capital to promote best practice in the investee companies and markets to which the Fund is exposed and shares the Fund's policies with managers and the London CIV (LCIV) so that those expectations are clear.

9.2 The Fund's officers regularly engage and meet with Fund stakeholders, including the LCIV and investment managers, for regular updates on investment performance, new fund developments, or strategy changes, which are reported to the Pensions Committee as relevant. The Fund has also instructed its external advisers Mercer to engage with its investment managers on its behalf, and this requirement is embedded within specific strategic objectives for its advisers which include aligning its services with the overall objectives of the Fund, considering the Fund's responsible investment requirements in supporting the Fund, and assisting with the monitoring of the Fund's chosen investment strategy.

9.3 The advisers report to the Pensions Committee at least quarterly on manager performance which includes business updates and comments on assurances sought from asset managers regarding issues of concern. For example, in March 2024 the advisors appraised Committee that one of the fund managers had informed the advisor of two enhancements to their Global Alpha strategy. One was regarding changes to their scouting network, and the other is a refinement of its investment guidelines. The plans also included additional risk controls around their three growth profiles to ensure that if any of the profiles exceeds 45% of total portfolio weight, it will trigger an independent review by their Investment Risk and Analytics team. Additionally, if a rapid change of 10% were to occur to any one profile over any rolling 12-month period, then this will also trigger an engagement with the Investment Risk Committee. This was due to lessons learnt from a challenging time in 2022, and the advisor is pleased with the follow-through on the implementation of these remedial measures.

9.4 The LCIV engages directly with issuers and investment managers on the Fund's behalf for those assets which the Fund has pooled, recognising that at the macro-level it must consider top-down global risks and client priorities and, from a bottom-up perspective, recognise the micro-risks of individual assets and the social and financial materiality of those risks. The Fund's policies and beliefs align with those of the LCIV so that the Fund is confident when the LCIV engages on its behalf, it does so in a manner which is consistent with the Fund's own policies and objectives. Examples of engagement activities over the year, which are reported quarterly to Pensions Committee and Pensions Board, include the following:

- During the quarter ending 31 December 2023 the LCIV continued to monitor RBC Sustainable Equity Exclusion Fund tightly, particularly in light of the broader performance concerns they had highlighted in their previous annual report and quarterly notes. The 2024 annual investment due diligence of the investment manager was brought forward by a few months and was conducted in February 2024. In January 2024, the LCIV communicated to Lambeth Pension Fund and other investors in the Sub-fund that the fee schedule had been renegotiated with the underlying investment manager, RBC Global Asset Management. As a result of these negotiations, the annual management fee payable by the Sub-fund had declined by c.4 basis points. The reduced fees were applied with effect from the 1st of January 2024.

- During the quarter ended 30 June 2023, The Baille Gifford Global Alpha Growth Paris Aligned Fund performed in line with the benchmark over the quarter thus further extending a period of performance stabilisation. The LCIV were encouraged by this, particularly considering the market environment which remained challenging for stock picking. Against this backdrop, the Sub-fund had avoided further drawdowns in relative performance in the last 12 months. The LCIV continued to have frequent interactions with the investment manager and in June met in person with the lead portfolio manager of the Sub-fund. Observations and findings from this meeting as well as from the annual investment due diligence (IDD) the LCIV performed in Q1 were captured in their 'Monitoring Status' report. The submission of this report to the London CIV Investment Committee was delayed till early August. An investors' update was scheduled for the end of the same month. As communicated in the LCIV letter to investors on 29 June 2023, the LCIV agreed a new fee schedule with the investment manager of the Sub-fund. Under the new terms, the Sub-fund achieves a saving of 6.1% per annum on the management fees paid to Baillie Gifford. The reduced fees were applied from the 1st of April 2023.

- During the quarter ending 31 December 2022 the LCIV reported that PIMCO, one of the Fund's multi asset credit managers, had held a call with HSBC focussing on gaps in their lending policies around climate change, alignment with net zero, human rights, and natural capital. PIMCO encouraged HSBC to clarify their approach to engaging clients on transition progress, including setting clear criteria for assessing that progress, and recommended more explicit reference to net zero in their policies, particularly in setting out time-bound expectations or specific net zero targets. HSBC committed to review their lending policies, with updates expected throughout 2023.

- During the quarter ended 31 March 2024, The JP Morgan Emerging Market Equity Fund suffered another disappointing quarter. Performance is expected to be lumpy due to the investment manager's style, but the extent of underperformance is concerning. That said, the investment manager's style bias has been key to medium term weakness in performance and stock selection has suffered as a consequence. Overall, portfolio's earnings are still above the benchmark, an encouraging sign that can be key to a reversal of the recent derating of the portfolio. The LCIV have placed the manager/fund under 'normal' monitoring status. The LCIV informed investors including the Lambeth Pension Fund that individual monitoring scores for 'performance' and 'value for money' were moved to 'Amber' after the most recent investment due diligence (IDD) in Q3 2023. The next IDD is scheduled for Q3 2024, and performance will be a key monitoring item until then, with scope for further action if the performance gap deepens before then.

- The Committee were informed that during the quarter ended 31 March 2024, M&G met with Tesco to encourage the British multinational food retailer to enhance disclosure around the key drivers for nature loss, to take positive actions towards regenerative agriculture practices and to publicly disclose the actions they are taking to reduce the risk of modern slavery in their supply chain. The company confirmed they are focusing on their agricultural footprint, in particular water health, pollinators and soil health.

- The Fund engaged with the LCIV throughout 2023/24 to develop and launch a new LCIV All Maturities Buy & Maintain Credit Fund. Several Seed Investor Group (SIG) meetings were held with interested client Funds to scope and progress the development of the mandate and committee will be voting on circa £85 million allocation.

- The Lambeth Fund was one of a small group of Funds to participate in the LCIV's Cost Transparency Working Group, reviewing areas such as the LCIV's assessment of value reports, Cost Transparency Initiative (CTI) reporting, and cost benchmarking.

- Officers engage with all asset managers on a regular basis, whether in person, by email or virtually, to carry out due diligence on ongoing performance and adherence to agreed policies but also to network, build connections, and establish possible future working relationships. Over the course of the year members of the Pensions Committee and Board as well as Fund officers engaged with a wide variety of fund managers across a range of asset classes. This engagement with the wider investment community allows the Fund to develop its knowledge of alternative strategies whilst sharing the Lambeth Fund's priorities.

9.5 The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF is the UK's leading collaborative shareholder engagement group encompassing over 80 local authority pension funds and 7 investment pools from across the country with combined assets of £350 billion. On the Fund's behalf, the Forum engages directly with company chairs and boards to affect change at investee companies, challenges regulators, and delivers reforms that advance corporate responsibility and responsible investment. The LAPFF's quarterly engagement reports are presented to the Pensions Committee and Board at every meeting.

Principle 10: Collaboration

Principle 10: Collaboration

10.1 Lambeth Pension Fund recognises the value in engagement with partner organisations and other stakeholders, whether with other LGPS funds, service providers, industry bodies or regulators, and is committed to actively engaging and collaborating with those partners. This includes working collaboratively with likeminded pension funds, particularly those in London, and the London CIV (LCIV) on issues related to climate change and ESG, particularly as the Fund focuses on decarbonisation and engagement as opposed to divestment, and in developing mandates that meet the needs of multiple boroughs.

10.2 The Fund has a strong history of collaborating with partner London boroughs, particularly in regard to joint procurements of asset managers to achieve cost savings and efficiencies. As part of the Project Monument pool of five boroughs in 2018, we collaborated to procure two private debt managers, Churchill and Permira, at a time when the LCIV was not in a position to launch such a fund. In 2020 the Fund worked with the London Borough of Islington Pension Fund in a joint procurement exercise to appoint M&G as a multi asset credit manager, where the strategy of both Funds could be aligned, and savings achieved through cost sharing.

10.3 More recently, during 2023/24 the Fund engaged with the LCIV throughout to develop and launch a new LCIV All Maturities Buy & Maintain Credit Fund. This was to cater for a number of like investors who wanted a different fund to the LCIV's existing short and long duration only funds. This fund will be launched in October 2024

10.4 At senior officer level the Section 151 Officer of the Council, with overall delegated powers for the management of the pension fund, is a member of the Society of London Treasurers (SLT). SLT is a group made up of Section 151 officers from all 32 London boroughs, the City of London, and the Greater London Authority (GLA) Group, and aims to represent the interests of London in key local government financial matters, including pension fund related matters, meeting up to eight times a year.

10.5 Fund officers also collaborate via a formal regional network of Pension Managers, the London Pension Officers Forum (LPOF), which is a longstanding arrangement providing opportunities for networking and knowledge sharing that meets up to six times a year and invites fund managers and the LCIV to present at meetings. This is of particular benefit for the day-to-day management of the Fund and for assisting officers to secure compliance with the Regulations; for example, in sharing responses to consultations, sharing training sessions, and discussing potential joint procurement opportunities.

10.6 The Fund maintains a strong relationship with the LCIV and has to date been involved in several Seed Investor Groups (SIGs), working with the pool and other boroughs to generate ideas and proposals for new mandates from early-stage development through to fund launch. During 2022/23 the Fund collaborated with the LCIV in the development of a UK Housing Fund, an impact fund specifically investing in affordable and transitional housing which for some years had been a priority for the Fund. As we engaged with the LCIV through the process, we were able to actively provide input into the design and objectives of the fund including the type of housing provision, sector allocations, and target return, as well as negotiating other concessions around fund composition and future possible amendments to investment restrictions.

10.7 The fund was successfully launched in Q1 2023 with a first close in March 2023, and Lambeth was the first Fund to commit. The investment in the strategy will diversify the Fund's existing allocations in European property and private rented accommodation, whilst seeking to achieve measurable societal and environmental impact benefits.

10.8 The LCIV also collaborates with a wide range of initiatives and pensions bodies on behalf of the Fund, as well as working with other pools, by collaborating in a significant number of joint initiatives and working groups, advocating for collaboration and the greater power and efficiency that comes from a combined voice. Some of the groups and initiatives that the LCIV are part of include the following:

- Asset Owner Diversity Charter: an asset owner led initiative set up to develop a formal set of actions for the investment industry to commit to, in order to improve diversity across the industry. The LCIV has contributed to consultations with investment managers to assess the scale of the issue before setting targets.

- Pensions for Purpose: a collaborative initiative of impact investment managers, social enterprises and other industry bodies with the goal of improving understanding of impact investment. As an affiliate, the LCIV participates in thought leadership discussions to enhance and share knowledge of impact investing.

- The TNFD Forum: a consultative network consisting of a wide range of institutions from across the globe who support the objectives of, and contribute to ongoing guidance on, the Taskforce on Nature-related Financial Disclosures. The LCIV's membership of this forum is part of its commitment to address biodiversity as a key stewardship theme.

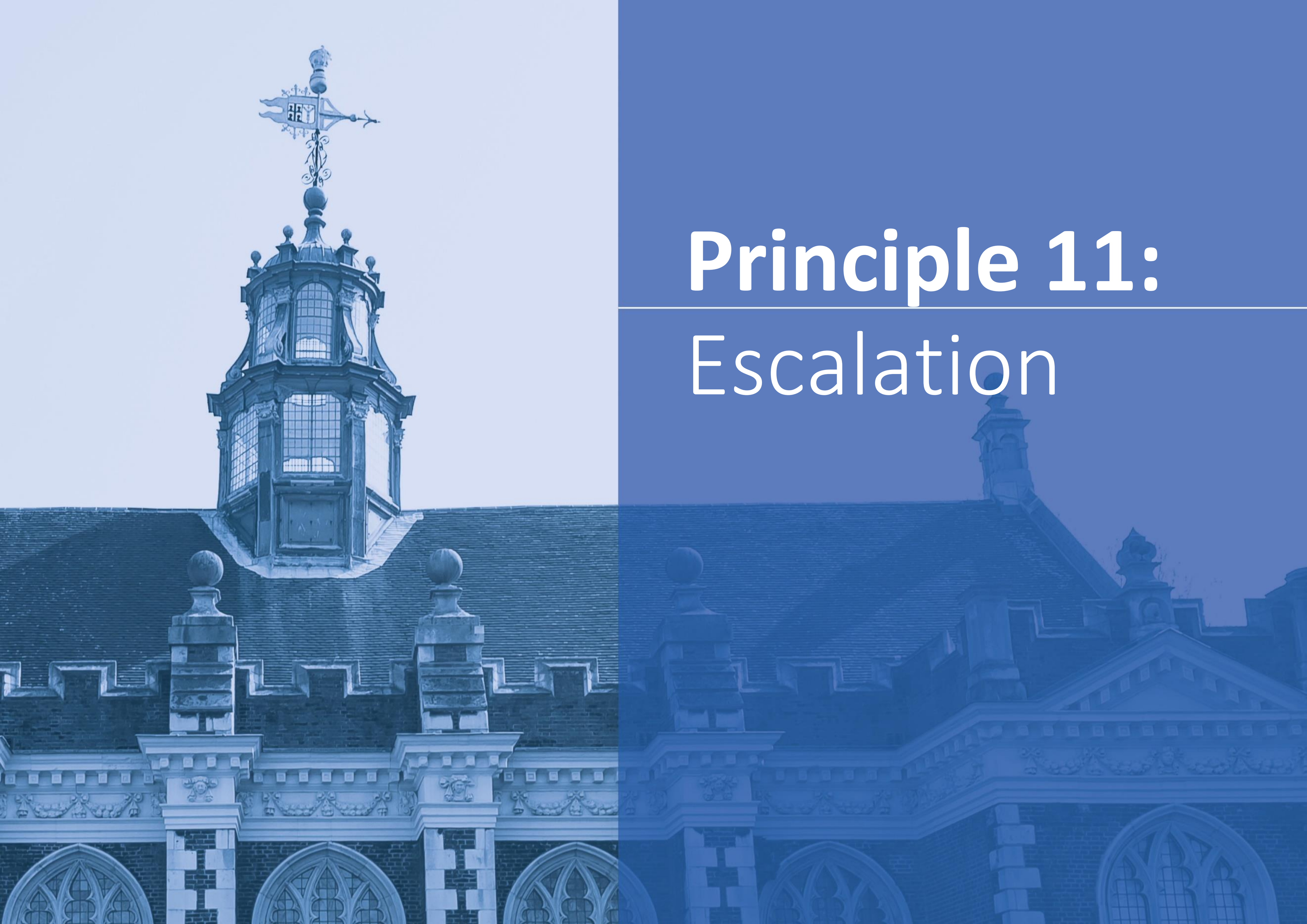
10.9 The Fund also encourages its managers outside of the LCIV to collaborate with wider industry initiatives and emerging themes that support Fund objectives. For example:

- Insight, the Fund's Liability Driven Investment (LDI) manager, is an investor member of the Institutional Investors Group on Climate Change (IIGCC) and has a seat on their Bondholder Stewardship Working Group which was launched in December 2022. The manager has actively participated in several IIGCC initiatives focussing on developing guidance on net zero stewardship and bondholder stewardship in particular, where there is an absence of specific best practice disclosure and engagement guidance. Insight is providing verbal and written input into engagement advice that the group will publish in 2023.

- In 2020 Churchill (Nuveen), one of the Fund's private debt managers, launched a targeted initiative asking the companies in its portfolio to produce reporting aligned with the Task Force on Climate-Related Financial Disclosures (TCFD), and to strengthen board and management oversight and accountability for climate risk, which saw a 90% success rate across 72 global companies. In 2022 it launched its "Climate Risk 2.0" initiative which builds on its initial work by raising expectations of companies and requesting more information on company risk management, incentive structures and business strategies related to a low carbon transition.

- Permira is another of the Fund's private debt managers which has been making efforts to work with their direct lending portfolio companies to improve environmental, social and governance (ESG) reporting. From 2022 the manager has issued a survey to all portfolio companies requesting data on at least 25 key performance indicators relating to ESG factors as well as asking if companies have set scienced-based emission reduction targets and/or made a commitment to net zero. 54% of the companies across the Permira funds have an ESG or sustainability policy in place, up from 50% in 2021, with a further 30% planning to produce one in the next 12-24 months. Whilst companies are not screened with reference to the indicators, it allows the manager to better manage ESG-related risks and opportunities within their portfolios.

10.10 In 2023/24, the Fund as part of a continuous effort, to review and development its Responsible Investment Strategy, will consider what opportunities exist to not only meaningfully collaborate with groups and initiatives that support the Fund's RI and stewardship goals, but which also provide the opportunity to learn and improve RI and stewardship activities.



Principle 11:

Escalation

Principle 11: Escalation

11.1 The Fund expects its investment managers, and the London CIV (LCIV), to undertake appropriate monitoring of current investments with regards to their policies and practices on all issues which could present a material financial risk to the long-term performance of the Fund, including environmental, social and corporate governance factors. Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage.

11.2 Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other parties as required and permitted by the relevant legal and regulatory codes. The Fund also expects its investment managers to escalate any stewardship activities on its behalf, in line with best practice but particularly in line with any applicable recommendations of the Fund, when company dialogue is too slow or unresponsive, or when there are concerns that require ongoing dialogue and a change in approach by the underlying company.

11.3 The Fund monitors its investment managers' engagement activities through regular reports and discussion, including those occasions when managers have escalated their approach when required. Examples during 2022/23 include the following:

- Following the announcement of the UK government's mini budget on 23 September 2022, gilt yields soared to 10-year highs in a short space of time which saw unprecedented volatility in gilt markets. Given the volatility and the changing situation on a day-by-day basis, the Fund's LDI investment manager, Insight, contacted Fund officers and maintained an increased level of dialogue over an extended period of time as it sought to manage the Fund's assets against a backdrop of falling prices. Pre-planned deleveraging events were escalated and brought forward in response to increased leverage within the portfolio due to reduced asset values, and several additional deleveraging events were to follow in the subsequent days and weeks. Through this enhanced dialogue with the manager and the actions taken to reduce leverage within the portfolio, officers were able to communicate the impact of the gilts crisis to the Pensions Committee and assuage any fears of having to sell assets to meet collateral calls.

- In the quarter ending 31 December 2022 the LCIV noted that Baillie Gifford had decided to sell its holdings in Ubisoft, the French videogame company, as a result of reputational damage following a 2021 misconduct crisis which raised concerns about company culture and employee practices. In addition, the manager was of the view that a recent share acquisition favoured the company founders rather than the shareholders and so raised concerns around conflicts of interest. The combination of these governance issues led the manager to question the culture and leadership of the company and, ultimately, they decided to exit the position entirely.

- In October 2022 the LCIV concluded its process to add a second manager to its multi asset credit fund and to realign capital in the fund equally across both managers. Concerns over strategy specific risks (including staff turnover, performance, and asset allocation) led to the initial discussions to add a second manager to the portfolio in an effort to diversify the fund, reduce overall risk, and improve performance. The Pensions Committee agreed to the addition of the second manager to the fund at its meeting in July 2021, which was implemented by the LCIV over the following fifteen months.

Principle 12:

Exercising Rights and Responsibilities

Principle 12: Exercising Rights and Responsibilities

12.1 The Lambeth Pension Fund is a long-term active investor that takes seriously its role in fostering and promoting higher standards of stewardship and believes that good stewardship can enhance and protect the long-term interests of the Fund and its ultimate beneficiaries.

12.2 The Fund has a commitment to actively exercising the ownership rights attached to its investments, reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests and recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees, other stakeholders, and wider society.

12.3 Voting rights give shareholders both the opportunity and responsibility to participate in the stewardship of companies, and the Fund delegates these rights and responsibilities to its investment managers where applicable. There are of course different expectations for managers depending on the asset class, fund, and geography, noting that engagement can be more challenging for pooled funds, alternative assets such as those in private markets and fixed income, and those in emerging markets; however, the Fund's policy on the exercise of its rights, as set out in its ISS, allows for flexibility in its expectations with due consideration for the particular circumstances of each manager and/or asset class.

12.4 As a minimum all managers are required to integrate all material financial factors, as well as ESG and ethical considerations, into its decision-making processes for all investments, and to use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed. Managers are expected to engage with investee companies on areas related to ESG issues and to exercise voting rights with regards to ESG factors in a manner that will most favourably impact the Fund, that is aligned with the Fund's own objectives, and which also reflects an understanding of local and international best practice. The Fund also expects its managers to provide reports and updates on their engagement activities with company management, to follow-up on engagement activity where companies have promised action, and to take meaningful remedial action where companies do not engage or respond to engagement.

12.5 The Fund's investments through the London CIV (LCIV), which account for 57% of the Fund and include investments in global, sustainable and emerging market equities and multi asset credit, are covered by the voting guidelines of the LCIV which have been agreed by the Shareholder Committee and updated in 2022. The LCIV's investment managers are expected to vote on all proxies considering the impact of ESG factors to ensure shareholder value is maximised, and to vote with reference to guidelines issued by the Local Authority Pension Fund Forum as far as is practically possible to do so (or explain why not).

12.6 The LCIV incorporates its own investment beliefs and priority themes into its voting guidelines which are then used in conjunction with the voting guidelines of its stewardship partner, Hermes EOS, in the specific voting decision-making. These themes are based on four pillars of stakeholder capitalism, being People, Planet, Principles of Governance, and Prosperity, and form the basis on which the LCIV's voting guidelines have been formed; therefore, voting decisions will be made with reference to these priorities. If companies are consistently unreceptive to engagement with the LCIV or its partners, it will consider voting to oppose relevant board members or resolutions. The Fund receives quarterly voting reports from the LCIV for its listed equity holdings which are monitored and reviewed by officers as part of regular stewardship monitoring activity.

12.7 In 2023/24 there were 2,658 separate proposals voted on across the Fund's three listed equity managers invested through the LCIV; examples of voting activity undertaken by Hermes EOS on behalf of the Fund that demonstrates activity in line with the Fund's stewardship goals include the following:

- Between January to December 2023 Hermes EOS voted against the shareholder proposals for Microsoft to report on gender-based compensation and benefits inequities, on government take-down requests, and the risks of weapons development. These proposals were either too prescriptive or raised concerns about the potential abuse of the shareholder proposal process by the filers.

- Between January to December 2023 Hermes EOS voted in favour of all items, in line with UniCredit (Italy) management's recommendations. The LCIV were especially supportive of the bank's move to adopt a one-tier governance model, as we believe this is much more in line with global investor expectations. Whilst they commented that the maximum number of 19 board members is still too high, they applauded the reduction of this limit from 24 earlier in the year.

- Between January to December 2023 the LCIV recommended that Hermes EOS vote against Cisco (US) executive officers' compensation plan and against the re-election of the chair of the compensation committee due to the short-term vesting of long-term incentive plans, the recurrent use of one-time equity awards and the overall misalignment between pay and performance.

12.8 In 2022 the LCIV collaborated with PIRC (Pensions and Investment Research Consultants) and its stewardship partner Hermes EOS to understand how it could escalate engagement with Amazon regarding tax transparency. The LCIV signed a joined statement to the Securities and Exchange Commission (SEC) in support of tax transparency and the Global Reporting Initiative Tax Standard, and also voted for 12 shareholder proposals (against management recommendations) seeking actions across a range of environmental, social and governance themes; these included proposals for Amazon to publish a tax transparency report, to commission a third party report to assess the company's human rights due diligence process, and to report on efforts to reduce plastic waste.

12.9 Whilst none of the shareholder proposals passed, 5 achieved over 40% in favour which the LCIV hopes will generate positive momentum towards better practices. The LCIV, in conjunction with its partners, will continue to engage on the subject of tax, and has asked its stewardship partner to expand their tax engagement activities.

12.10 For private market funds, the manager selection exercise provides the opportunity to carry out appropriate due diligence to review a manager's stewardship policies and ensure they are of a sufficiently high standard and aligned to the Fund's own policies. Where contracts, Private Placement Memorandums or Limited Partnership Agreements are red flagged during the due diligence process, the Fund reserves the right to seek further information or clarity from the manager and may, in exceptional circumstances, request changes to the documentation. Where this is not possible, the Fund will often enter into Side Letter agreements with a manager, where specific or one-off amendments can be agreed without prejudice to the existing documentation; for example, to set out specific fee arrangements, most favoured nation rights, or freedom of information details.

12.11 Exercise of the Fund's rights for private market investments is delegated to the investment managers but, as with public market funds, the expectation is that managers will engage with their investee companies, drive improvements in ESG and stewardship activities, and provide regular reporting back to the Fund on its activities. Updates on this engagement activity is fed back to the Pensions Committee and Pensions Board via officers, whilst the Fund's adviser, Mercer, continues to provide quarterly scoring of managers' ESG integration into their investment processes.

12.12 Where the opportunity is provided, the Fund also seeks to exercise its rights by sitting on the investment and advisory panels or committees of the managers in which it invests. The Fund has a position on the Limited Partner Advisory Committee of Permira Credit Solutions V Fund (PCS5), one of the Fund's private debt managers, which provides an opportunity to meet with the senior investment team of the portfolio, receive the latest portfolio updates, and the direct opportunity to feed back to the manager any concerns. Similarly, the Fund also has a place on the Unitholder Advisory Committee (UAC) for its property investments with Invesco and uses this position to directly engage with the manager at UAC meetings.

12.13 The Fund recognises that more needs to be done to develop its approach to exercising its rights and responsibilities, particularly with regards the reporting of voting and engagement for scrutiny by the Pensions Committee and Pensions Board and the public disclosure of such information for its members' benefit. At the aggregate level, with the LCIV's appointment of Hermes EOS, there continued to be improvement at the pool level over the course of 2023/24 in terms of the reporting of voting and engagement activity undertaken on behalf of client funds. The Fund will work with its advisers, fund managers and the LCIV going forward to refine and improve how it reports voting and engagement activity as part of its overall approach to stewardship.

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